INTESA SANPAOLO BANK
Slovenia

2021 Annual Report

Bank of INTESA SANPAOLO

ANNUAL REPORT 2021

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Business Report 2021

Management overview

1. MANAGEMENT BOARD'S FOREWORD

This year represents the conclusion of our strategic business transformation cycle. In this period, we reached many important milestones that we can be proud of. The achievements in the field, which stand out by their nature the most because they are linked to the current topic of digital transformation of banks and the wider Slovenian society, relate to the modernisation of our bank's online and mobile banking. Today, we enable potential and existing customers to perform most banking services remotely, from opening a new account and starting the process of applying for a mortgage through our website to getting a consumer loan or making an investment into mutual funds directly in our mobile bank. We placed digitalisation at the top of our priorities long ago, not just to become a technological innovator but also a market leader and a trend-setter. In the future, banking transactions will increasingly take place in the digital environment. We are delighted that our digital channels have been recognised for the second year in a row as one of the best in the Slovenian banking industry.

However, digitalisation encompasses more than just online and mobile banking. The transformation and automation of business processes also contribute to a positive user experience. Speed, as the consequence of these positive changes, is also one of the key competitive advantages that ensures future success. We have managed to achieve both of these goals as part of revamping our business strategy with the aim to become a lightweight national innovator.

The last two years have been extraordinarily challenging for the banking industry. During the pandemic, it was important to ensure / facilitate the Bank's continuous operations and fully perform financial services, in order to support local corporates and to enable financial security for our citizens. The banking industry also went through new acquisitions that will drastically alter the banking landscape in Slovenia. The process of consolidation, which has been ongoing for several years, is sure to continue in the coming years and will make the competition even more intense. The environment of low interest rates and excess liquidity in the banking sector will also be challenging for achieving banks' business goals.

In such an economic and market environment, the art of success lies in constant adaptation to market conditions, in a quick response to changes and, most significantly, in the determination not to lose sight of our purpose and goals. In fact, we were able to take advantage of many business opportunities, which resulted in growth of market shares in all business segments.

In retail banking, we successfully took advantage of current trends and achieved stable growth in lending activities for individuals and, in particular, in housing loans, where the increase of the total volume was about 12% compared to the previous year. We have also recorded an increase in consumer loans compared to the previous year, despite some restrictions put in place by the regulator.

I am delighted to see that finally the long-term efforts of our investment advisory, in which we responsibly inform and educate our clients about alternative forms of savings and investments, have finally brought results. Consequently, we marked an extraordinary yearly growth of investments in Eurizon mutual funds of more than 40%, especially in the form of savings plans last year. Slovenian savers realised the importance of a wise approach to saving, which helps them maintain the value of their assets.

We can also be proud of last year's success in the area of corporate banking. Even though epidemiological conditions have interfered with our business, we nevertheless managed to maintain a high level of collaboration with companies and to attain yearly growth of loans in the medium-sized and large corporate sector that far exceeds the Slovenian average. The market share in the segment of corporate clients has been steadily increasing in the period of the last three years and thus positions our bank among the top corporate lending institutions in Slovenia.

Based on growth in all business segments, in combination with our continued efforts to maintain strict cost discipline, the efficient management of credit risk and asset quality improvements culminated in a net profit increase of 38% compared to 2021.

This result could be only ensured by a dedicated and at the same time professional and responsible team of colleagues.

A new three-year business cycle is ahead of us, and we have prepared a new business plan with new milestones. It represents the evolution of what we started with the transformation initiated in 2018, with the focus on further digitalisation, usage of new sales channels and improvements of our product offer as well as operational efficiency with process optimisation. This shall lead to further improvement in customer experience and high levels of their satisfaction.

In addition, a significant portion of the Bank's products and services in the future will also reflect ESG aspects and support the commitments of private individuals and the corporate segment towards sustainability. The group and our bank want to be the impact bank on the market, leveraging the financing projects that enable environmental, social and governmental aspects.

2. CHAIRMAN OF THE SUPERVISORY BOARD FOREWORD

In 2021, Banka Intesa Sanpaolo d.d. successfully achieved significant milestones in its mission to establish itself as a solid and reliable credit institution as well as a leading presence in the Slovenian banking industry.

At the end of the year, all the Bank's main business-performance indicators highlighted a consistent and proven capacity to capture the favourable trends that emerged in the context of the post-pandemic economic recovery. Thanks to an enlarged range of products to customers, the volumes of loans, deposits and assets under management realised by the Bank expanded firmly, eventually leading to a robust increase of its main sources of income and to an enhancement of its net income result.

All in all, alongside an improvement of the outcome of its core activities, the Bank succeeded in raising its overall business-sustainability profile. Instrumental to this goal was the implementation of an effective de-risking policy of the key credit portfolios of the Bank. In 2021, the Bank's gross non-performing loans levels exhibited a marked reduction, both in absolute values and in relative terms. Gross cash NPLs dwindled by 39.5%, from EUR 54 million to EUR 33 million, bringing the underlying NPL ratio down to 1.5%, from 2.6% recorded in the previous year. Within its mandate, the Supervisory Board constantly reviewed, stimulated and appreciated the Management's pursuance of the strategic objective of the betterment of the credit quality of the Bank.

In parallel to the above, the economic results obtained over the course of the year denoted an overall balanced income generation structure. In adherence to a commitment towards a constant reinforcement and calibration of its business model, in 2021 the Bank's share of fee and commission revenues rose to 47.7% of the total revenues, up from 44.1% in the previous year. Notably, such an outcome ensued from both the positive response to the new financial services that were offered to retail and Wealth Management customers and from the larger volumes of lending activity stemming from the traditional lines of business of the Bank.

Among the latter, loans to small businesses, SMEs and to domestic corporates particularly stood out, evidencing a double-digit growth of the respective lending volumes. Mortgage volumes also posted an excellent growth performance, on a two-digit basis, confirming that as one of the pillars of the Bank's operations. On the whole, thanks to these notable business performances, Banka Intesa Sanpaolo d.d. reasserted its distinctive position in the Slovenian banking industry.

The foregoing accomplishments eventually paved the way for the building up of robust liquidity and capital ratios, comfortably exceeding the main regulatory requirements and the general expectations attached to a leading market participant.

All the above leads to the conclusion that in 2021 the Bank has advanced in terms of quality of operations, responsiveness to new customer needs and ability to meet the challenges of a rapidly evolving business environment. In this framework, the organisational changes introduced during the year have intertwined with the diligence and the professionalism of the Bank's personnel, adding a contributive human capital dimension to the list of success factors that Banka Intesa Sanpaolo d.d. can rely upon.

At a time when unprecedented challenges are surfacing on the level-playing fields where Banka Intesa Sanpaolo d.d. is acting, from the management of climate-change risks to the introduction of new demanding regulatory requirements, the Supervisory Board appreciates the progress evidenced by the Bank's results in 2021 and expresses confidence in its capability to confront them.

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 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. A prerequisite and one of the important milestones of the transformation was the move to the financial centre of the country by opening a new business centre in Ljubljana in 2019, with which the Bank consolidates its visibility and position in the centre of the Slovenian economy.

The Bank operates in accordance with their values and principles, defined in various internal acts, like the Code of Ethics. The Bank also introduced principles of diversity and inclusiveness in 2021, which will represent a very important pillar of the corporate culture in the future. As a company, it is aware that its operation goes beyond just meeting the financial needs of individuals but also has a significant impact on the wider community. By consistently adhering to the written principles and with active involvement of employees in different internal initiatives, it increases the coherence 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 perform their duties successfully and directs them to acquire additional skills.

Ownership structure of Intesa Sanpaolo Bank

	Equity holding in per cent	
Shareholders	**31. 12. 2021**	**31. 12. 2020**
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.

3. BODIES OF CORPORATE GOVERNANCE

Supervisory Board

The Supervisory Board of Banka Intesa Sanpaolo d.d. is composed of seven members: four are representatives of Privredna banka Zagreb d.d., and the remaining three are representatives of Intesa Sanpaolo banking group.

In 2021, the composition of the Supervisory Board changed. On 8 June 2021, at the Annual General Shareholders Meeting, the Shareholders Assembly of Banka Intesa Sanpaolo d.d. was informed that Mr Uroš Čufer resigned from his position as Member and Chairman of the Supervisory Board, and that Mr Emanuele Collini resigned as well. On the same day, Mr Giancarlo Miranda and Mr Antonio Bergalio were elected as members of the Supervisory Board. Mr Giancarlo Miranda was appointed as Chairman of the Supervisory Board.

Members of the Supervisory Board

as at 31 December 2021:	
Giancarlo Miranda	*Chairman*
Alessio Cioni	*Deputy Chairman*
Antonio Bergalio	*Member*
Amina Carnabuci	*Member*
Miroslav Halužan	*Member*
Andrea Pavlović	*Member*
Andrea Tondo	*Member*

Management Board

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

In 2021, Ms Irena Džaković resigned from her position as Member of the Management Board, and starting on 1 January 2022, she is not a Member of the Management Board anymore.

Members of the Bank's Management Board

as at 31 December 2021:	
Jozef Kausich	*President*
Irena Džaković	*Member*
Ivan Ivičić	*Member*
Drago Kavšek	*Member*

4. ECONOMIC AND BANKING ENVIRONMENT

The covid-19 pandemic, combined with severe restrictive measures, affected economic activity in 2020. However, measures to limit its negative effects on the population and the economy prevented a major drop in activity and allowed it to recover faster. Strict measures to curb the spread of coronavirus in 2020 caused a sharp decline in economic activity at the global level and in Slovenia, especially in the second quarter. In the further waves of the epidemic, the impact on activity was smaller due to the gradual adaptation of businesses and consumers to the new situation and the greater focus of restrictive measures on service activities. The recovery in activities related to international trade (manufacturing and transport) also continued.

During 2021, as the epidemic situation improved, services also began to recover more visibly. Following the outbreak, a number of measures have been taken at the national level and within the ECB and the European Commission to limit the negative effects of the epidemic on the population and the economy and to speed up recovery. The measures significantly mitigated the loss of income of the economy and the population due to the pandemic and provided companies with liquidity and support in dealing with the negative consequences. The bank was also actively involved in providing moratoriums to private individuals and the corporate segment as one of the top priorities during pandemic.

Recovery measures had a key impact in 2021, as they in particular support some service activities that are not yet able to operate normally due to restrictions. However, companies that are back in business without restrictions are recovering quickly. Adapting measures to epidemic and economic conditions remains an important part of supporting further recovery.

After a deep decline in economic activity in 2020 (4.2%), the recovery of activities involved in international trade, which began in the second half of 2020, continued in 2021. Investments in equipment and machinery and imports and exports continued to increase. With the gradual easing of restrictive measures, trade activity strengthened, and since the second quarter, the recovery has also been recorded in catering and accommodation services, gambling and sports, cultural, entertainment and personal activities, which is related to the recovery of private consumption. As a result, year-on-year GDP growth was 6.1%.

In 2021, the labour market situation improved. Many years of favourable labour market developments were interrupted by the first wave of the epidemic in the spring of 2020; employment fell and unemployment rose sharply, but the deterioration of the situation quickly subsided with the adoption of intervention measures to preserve jobs. Government measures continued to mitigate the negative effects of the labour market pandemic in 2021. Employment has risen to historically high levels. The highest year-on-year growth in employment was recorded in hotels and restaurants. At the end of December 2021, 65,969 unemployed persons were registered, which means that the number of unemployed decreased by 12.6% year on year.

Consumer prices rose in 2021, with year-on-year growth reaching 4.9% (compared to 1.1% deflation in 2020). Higher energy prices and supply chain problems contributed the most to inflation. Year-on-year growth in petroleum prices slowed slightly at the end of the year, but was still around 30%. Heat prices rose rapidly, while food prices rose significantly year on year (by 4%). Year-on-year growth in service prices was 1.5%.

The public finance position improved in 2021, with indebtedness remaining lower than in the euro area. Revenue growth is the result of a recovery in economic activity, especially domestic demand and more favourable labour market conditions. In 2021, the growth of tax revenues and revenues from social contributions in particular increased. In addition to lower expenditure growth than in 2020, the structure of this growth is also different.

In 2021, banks strengthened lending to households, mainly by increasing housing loans. The contraction in consumer lending slowed in the last quarter. The volume of loans to non-financial corporations also increased. The quality of banks' portfolios, measured by the share of non-performing exposures, improved in 2021. Household deposits increased in the first half of 2021, then their growth slowed. In addition to the improved income categories, the relatively high profit of banks in 2021 was significantly contributed to by the net release of impairments and provisions. The capitalisation of the banking system remains good and liquidity is high.

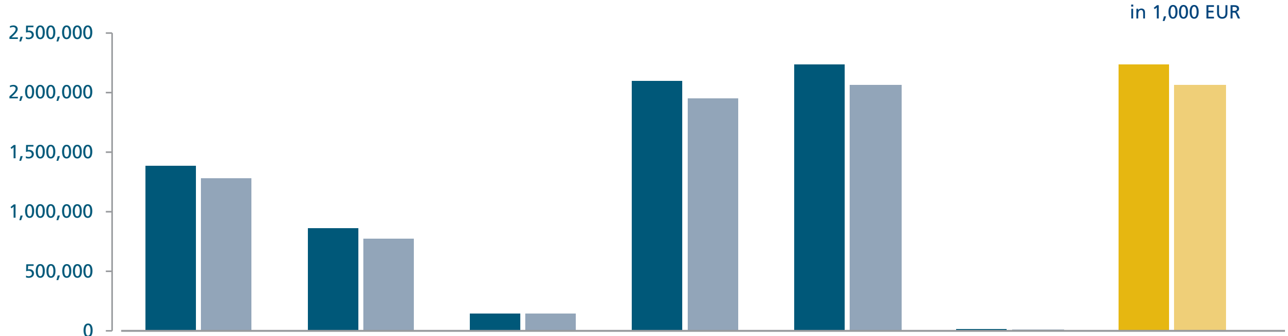
5. AN OVERVIEW OF THE BANK'S OPERATIONS IN 2021

5.1 LENDING OPERATIONS

Gross loans by Intesa Sanpaolo Bank to the non-banking sector increased by EUR 163.1 million in 2021 or 7.9% compared to 2020. The Bank's market share in lending to the non-banking sector grew by 19 basis points in 2021, thus achieving 8.7%.

In terms of currency, most loans are in domestic currency (99.9%), while long-term loans prevail in terms of maturity (93.3%).

An overview of gross lending to the non-banking sector



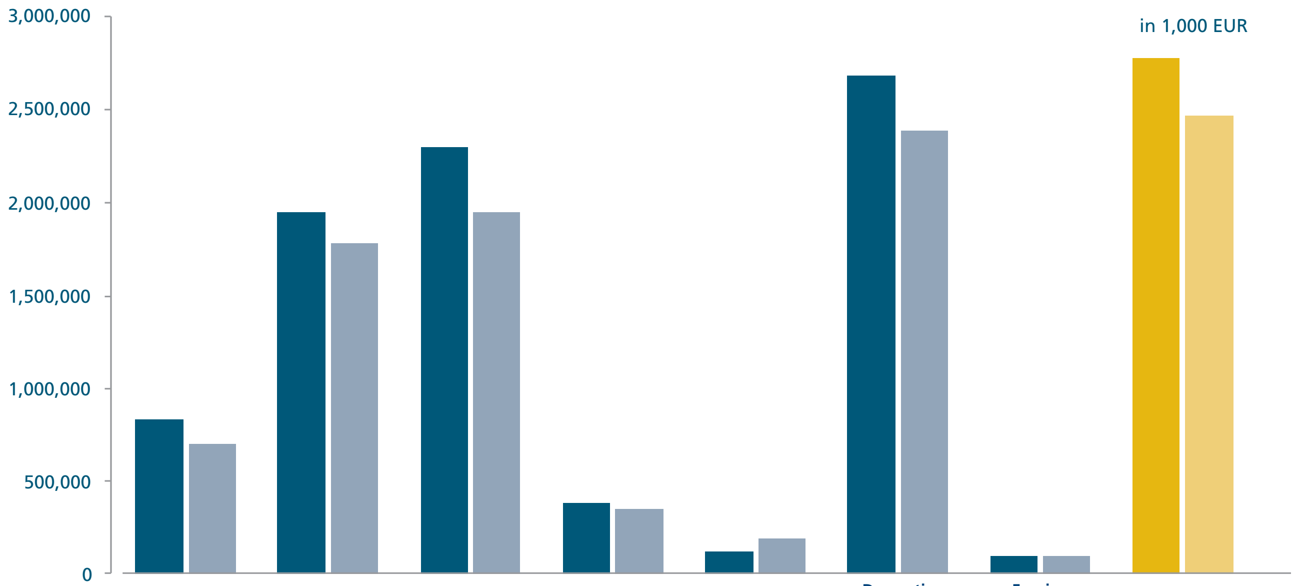
	Legal entities	Households	Short - term	Long - term	Domestic currency	Foreign currency	TOTAL
2021	1,374,143	857,714	148,453	2,083,404	2,229,241	2,616	**2,231,858**
2020	1,282,656	786,074	145,427	1,923,302	2,065,463	3,266	**2,068,729**

Loans to the corporate sector amounted to EUR 1,374.1 million or 61.6%, representing the largest portion of loans to the non-banking sector. Development of total legal entities market volume is relatively stable with small growth. The market share in the segment of corporate clients has been steadily increasing in the period of last three years, thus positioning our bank among top corporate lending institutions in Slovenia. In 2021, market share increased to 9.8%.

Lending to households (private individuals and sole proprietors) reached EUR 857.7 million or 38.4% of total lending to the non-banking sector. Lending to this customer segment increased by EUR 71.6 million or 9.1% on a yearly basis. As in 2021, households mostly borrowed on a long-term basis, while borrowing in foreign currency remained on a low level. Most of long-term loans are mortgage loans. In 2021, the Bank increased its market share in the segment of private individuals and sole proprietors, which amounts to 7.4%.

5.2 DEPOSITS

An overview of deposits and loans from the non-banking sector



	Legal entities	Households	Sight	Short - term	Long - term	Domestic currency	Foreign currency	TOTAL
2021	840,135	1,948,824	2,302,117	370,459	116,383	2,690,315	98,645	**2,788,959**
2020	698,585	1,784,699	1,945,673	347,516	190,093	2,397,615	85,668	**2,483,283**

In 2021, the Bank increased deposits and loans received from the non-banking sector by 12.3% or EUR 305.7 million. Market share increased by 26 basis points and stabilised at 7.5%, market share of household deposits increased by 23 basis points and amounted to 7.9% at the end of 2021 and market share of deposits by legal entities improved by 35 basis points and amounted to 6.8%.

The sight deposits account for 82.5% share of total deposits and loans received from the non-banking sector. They are followed by short-term deposits (13.3%) and long-term deposits (4.2%). In terms of currency, deposits in domestic currency prevail with a 96.5% share. With respect to the previous year, demand deposits increased by 18.3% in 2021. Short-term deposits grew by 6.6%, while long-term deposits decreased by 38.8%.

The volume of the deposits placed by legal persons increased by 20.3% (by EUR 141.6 million) comparing with 2020. Also in 2021, the deposit structure in terms of currency was dominated by deposits denominated in euro.

Household deposits accounted for 69.9% of all non-bank deposits and at the end of 2021 totalled EUR 1,948.8 million, i.e. EUR 164.1 million more year-on-year. Household deposits were mainly denominated in local currency.

5.3 OTHER SERVICES

5.3.1 Digital banking and card business

The Bank is successfully responding to the challenges and opportunities of an increasingly digitalised business environment and continues to introduce innovative solutions for clients. In 2021, it presented an even wider range of services in the field of digital business, with an emphasis on advisory services. The excellence of the new digital banking was also confirmed by an independent survey, where Banka Intesa Sanpaolo was singled out for the second year in a row as the bank with the best user experience among Slovenian banks and some global players present on the market.

Clients have the opportunity to complete the consumer loan process through online and mobile banking, arrange all types of savings and operate payments with instalments related to credit cards. In addition to new, simple processes of concluding services and products, the Bank enables clients to sign documents for all other products or services remotely via mobile and online banking.

In the field of card operations, the Bank upgraded its offer in the online and mobile bank with the possibility of activating a new card and the possibility of viewing the PIN code for holders of activated cards.

5.3.2 Marketing and sale of mutual investment funds

The year 2021 was very successful for the Bank in the field of mutual fund marketing. The historical good result was conditioned by favourable and stable market conditions - almost zero interest rates on deposits, high inflation in the second half of 2021 and the introduction of fees on deposits for individuals.

The Bank ended 2021 with more than EUR 36 million in payments to Eurizon's investment funds. In addition to one-off payments, the Super Combination offer (a combination of a deposit with a higher interest rate and at the same time payments into mutual funds without entry fee) and savings plans (monthly payments into mutual funds) contributed to successful marketing. There were more than 2,300 newly concluded savings plans, so that the Bank has a total of around 8,600 savings plans.

According to the expert selection of the magazine Moje Finance, Eurizon won the first place among management companies in a ten-year period, and in 2021 Eurizon funds also won awards for the best mutual funds in Slovenia. As many as four were rated with five stars. In 2021, the Bank expanded its offer with the following funds:
- Eurizon F Top European Research – R (equity fund),
- Eurizon F Equity USA – R (equity fund),
- Eurizon F Bond Emerging Markets – R (bond fund),
- Eurizon F Global Bond – R (bond fund).

In cooperation with Eurizon, the Bank launched a financial literacy project with a set of educational content, through which key investment concepts are presented to clients in an understandable way.

In December 2021, the Bank upgraded its online and mobile banking, which enables clients to review investments, purchase and sell mutual fund units, conclude a savings plan and conclude an advisory service. The Bank also continued to offer investment advisory services. At the end of 2021, almost 4,700 investment services contracts were concluded.

5.3.3 Leasing

In line with the market trends, the new volume of leasing contracts is increasing, mostly focusing on commercial vehicles, followed by passenger cars and other equipment, while vessels and real estate remain marginal with a decreasing trend. We are focusing on all segments of legal entities and small businesses. Leasing also complements the product portfolio for the corporate segment.

Despite the fact that the Covid outbreak substantially negatively impacted the leasing market, the Bank was able, through additional commercial activities, to increase new volume production by 67% compared to 2020.

5.3.4 Open-ended mutual pension funds

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

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

The Moj Steber fund consists of three sub-funds:
- Moj Steber Dynamic, intended for insured persons aged 40 or less,
- Moj Steber Balanced, intended for insured persons aged between 40 and 55, and
- Moj Steber Guaranteed, intended for insured persons aged 55 or more.

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

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

Due to the extraordinary additional liquidity and economic incentives for faster recovery in the face of the Covid-19 pandemic, provided by central banks and governments around the world, in 2021, capital market prices rose. The unchanged volume of bond purchases by central banks also increased the prices of debt securities for most of the year. With rising inflation, prices of debt securities have begun to fall in the last months of 2021. All three sub-funds completed the year with positive results.

As at 31 December 2021, Moj Steber Guaranteed sub-fund disclosed total assets amounting to EUR 48.2 million. The value of the unit amounted to EUR 9.82 as at 31 December 2021 and increased within a year.

5.3.5 Depositary banking

Banka Intesa Sanpaolo d.d. was the first bank in Slovenia that provided 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 timely settlement of client obligations and ensuring that solely those obligations are settled that are consistent and permissible with the provisions of prospectuses and legislation.

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

In 2021, the Bank further consolidated its position among the top three custodian banks in Slovenia. The Bank performs depositary services for mutual funds (UCITS) and alternative investment funds (AIF), pension funds and internal funds with insurance companies. At the end of 2021, the volume of assets under custody totalled close to EUR 1 billion.

6. THE BANK'S ORGANIC GROWTH AND DEVELOPMENT

6.1 BUSINESS PLAN 2022-2025

The new business plan and related strategic initiatives will upgrade efforts from recent years, when the Bank managed to successfully transform itself into a leaner and more responsive organisation and maintain the reputation of nationwide innovator, introducing effective and simple to use solutions for customers and setting some new trends in banking. The new business strategy represents further evolution of digitalisation and process optimisation and reengineering to reduce waste and reduce costs, maintaining high added value for the customers. By 2025, the Bank will be intensively focusing on key business segments and introduce technological solutions to continue to efficiently respond to the challenges of the market, which also include changing customer habits. The business strategic orientation will be directed towards affluent customers, for whom the Bank will prepare new products and services, also in cooperation with external partners. The bank will leverage particularly on advisory services and an improved offer related to assets under management and ESG products and services, which are becoming more and more important.

The bank will focus on comprehensive professional financial consulting in branches and remotely through the extended functionality of the call centre, on the availability of a wide range of remote services in a simple way and on fast approval procedures to reduce the response time towards customer needs and expectations. The Bank will also further identify sales opportunities and strengthen cross- and up-selling between business segments.

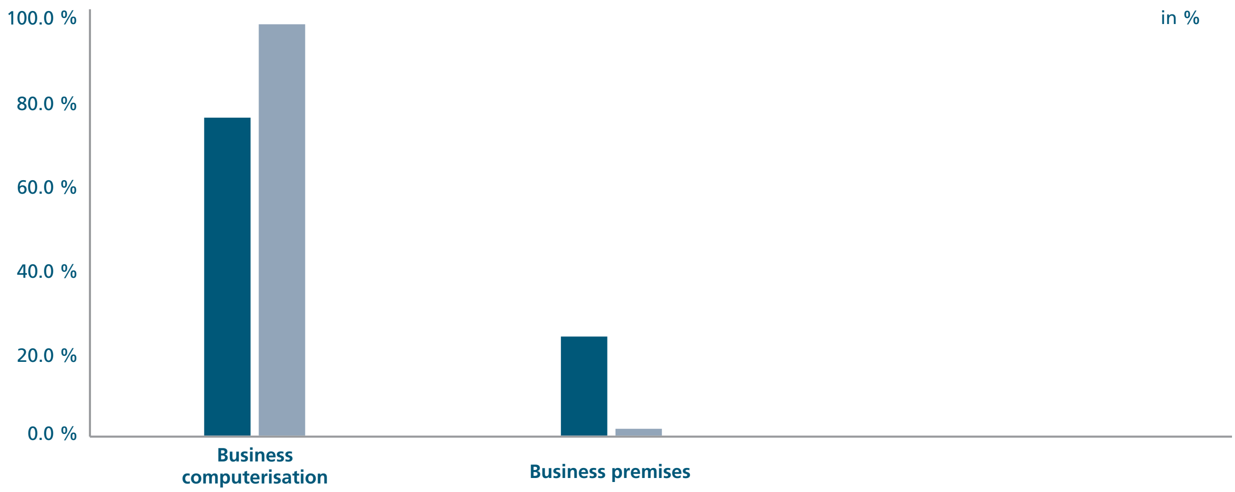
The Bank would like to maintain the positive trend of growth in key business segments to additionally strengthen its position on the Slovenian market. Growth will be also based on synergies coming from the Group level – in terms of commercial solutions and also in terms of sharing of competencies and knowledge. A significant part of the new business plan represents efforts related to further increase of data quality, also by strengthening of the internal data warehouse, which will provide accurate and consistent data to all stakeholders, internal and external – and inputs for accurate business analytics that will allow for proper business decisioning based on market development.

Internally, the main challenge will be to further develop the new way of working, which will combine smart working from other locations with presence in the offices, which also gives employees more freedom in managing their time and reconciling private obligations.

6.2 CAPITAL INVESTMENTS

In 2021, the bank continued its long-term development programme and invested EUR 2.5 million in total in the computerisation of business operations, commercial premises and other equipment. The bank's capital investments in 2021 were higher by EUR 0.4 million compared to the previous year.

Structure of capital investments in 2021



	Business computerisation	Business premises
2021	76.2%	23.8%
2020	98.5%	1.5%

The majority of investments (EUR 1.9 million or 76.2%) was allocated to business computerisation. Increasingly strict 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 0.6 million or 23.8% of all investments. In the bank's business premises and branches, it provided the necessary equipment and performed various minor maintenance works

6.3 INFORMATION TECHNOLOGY AND TECHNOLOGICAL DEVELOPMENT

In accordance with the Business Strategy and in line with the overall strategy of Group, the Bank regularly reviews its ICT Strategy to ensure the development and maintenance of the ICT infrastructure is in line with the business requirements. This ensures that the Bank focuses its resources and optimises the work processes according to the actual needs of its business strategy.

With the advent of digital banking, the digital ICT enabled technologies are at the core of all of the banking services and support our customers directly through digital banking channels or indirectly by providing support to our employees in performing their functions.

Our bank has a rich history and extensive experience in developing forward looking ICT technologies and developing digital channels. Additionally, in the last few years the digital banking landscape has changed significantly because of the market forces (such as third-party providers) and the changing regulatory landscape.

The Business Strategy defines a number of strategic initiatives and goals - based on those, the ICT strategy is built around the following main strategic objectives:
- Business & IT alignment: the ICT department will strive to align its development and operations initiatives in a way to enable the highest possible growth in operating profit and balance
- Transparency & Cost efficiency: ensure ICT expenditures are clear and well justified and the Cost/Income ratio is maximised
- Faster delivery within the same quality standard: simplification of processes when and where possible while maintaining regulatory compliance and the highest levels of reliability, security and transparency
- High IT service reliability, with special focus on customer experience

In 2021, the bank continued to implement its information technology strategy in the following key areas:
- optimisation and digitisation of processes
- introduction of new mobile and online banking
- updating public APIs and upgrading security
- consolidation and optimisation of internal processes in the field of IT in accordance with modern guidelines of lean development.

In the area of **business process optimisation,** the bank continued to renovate business processes:
- in loans segment, implementation of the automatic rapid approval of mortgage loans, rapid approval of credit cards, approval of contractual overdrafts and consumer credit with insurance with the insurance company, which significantly contributes to higher efficiency and speed of procedures in terms of approval
- in management of credit limits
- in management of exposure of groups of companies
- with a new product in the field of guarantees and investment advice
- automatisation in the areas of investment insurance and internal documentary processes in order to improve data quality.

In the field of **e-commerce,** the Bank continued to upgrade its solutions for digital channels (websites, online banking, mobile banking and e-commerce in branches) with new functionalities. Great emphasis was placed on the field of investment consulting, with the support and optimisation of solutions for concluding contracts in branches. Development continues in the direction of integration and providing synergies to further increase the user experience of digital channels.

In the **regulatory area,** the Bank further upgraded technological support and internal processes in the field of personal data protection, met regulatory reporting requirements, upgraded change management processes, continued to audit business processes and established a solution for managing the technology infrastructure database.

The Bank introduced a data management solution (DG tool) and thus provides better control and management of data. The application provides key data for process management and reporting in a structured form. Each piece of data has a specific owner, a description, a calculation rule and possible controls that are performed on the data.

In the field of **information security,** the Bank continued to update the solution for unified management of user rights and continued to invest in the detection and management of threats and in upgrading hardware and software for effective control of cyber threats. In accordance with the plan for the protection of information resources, the Bank introduced a system of external contractor control through BitSight OSINT resources for greater security and better transparency over security requirements for external contractors.

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

In line with the process of continuous improvement, the Bank has introduced a tool for automatic audit of security controls in Oracle databases (Pete Finnigan Audit Tool). Improvement activities will continue in 2022.

In accordance with the security integration plan, the Bank started establishing a system of control over access of privileged users. It will include the most critical users in the CyberArk Privileged Access Management control system. Integration began in the last quarter of 2021 and will be completed in early 2022.

In the field of **physical security,** the investments were intended to upgrade existing security systems and improve video surveillance systems, as a continuation of upgrades from previous years. The Bank introduced the video surveillance system monitoring through a log collection system. Reports and warnings on the operation of systems and cameras are generated, as well as reports on the use and access to data protected by the Personal Data Protection Act.

7. RISK APPETITE STRATEGY

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

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

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

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

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

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

8. ACTIVITIES IN THE FIELD OF SUSTAINABLE DEVELOPMENT

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

In 2021, the Bank took important steps towards integrating the ESG principles into its operations, thus following the direction of the Intesa Sanpaolo Group, which wants to play a global leading role in this area. The Bank has established a working group that will in the future actively deal with environmental, social and management challenges posed by the new ESG guidelines and regulatory requirements.

8.1 RESPONSIBILITY TOWARDS EMPLOYEES

8.1.1 Basic data and HR guidelines

The transformation of human capital is one of the strategic pillars of the Bank. In 2021, the Bank continued its activities to change the company's culture. The company has strengthened its dialogue with employees and implemented organisational changes in order to achieve strategic goals.

On 31 December 2021, Intesa Sanpaolo Bank employed 678 active employees. 75% of the Bank's employees are women.

In 2021, the Bank recorded a 15% turnover of employees, which is mainly due to the personnel transformation program and changes resulting from the introduction of new business models, and consequently the transformed organisational structure. The Bank also continued to transform its work processes and organisation with the aim of making its operations even more productive and efficient, both internally and externally.

The main transformational changes were executed in the following areas:

CFO Division

- New CFO, due to expiry of the CFO's term of office and alignment of the organisational structure of the Accounting Department to the group's target model.

CRO Division

- Organisational structure of the Credit Department and Credit Management Department has been aligned to the group's target model.

CTO Division

- The Business Processes Department was fully merged with the ICT Application Architecture & Demand Management Office. The change was a result of the optimal work organisation and merger of similar activities and processes, in line with the group's target model. The organizational structure of the Back Office and Payments Department was aligned with the group's target mode (merger of two offices)

8.1.2 Employee relations

New network incentive system

In 2021, the Bank and the Group set up a new annual incentive system for the network population. The new annual incentive system NIM (Network Incentive Model) has replaced the existing GPS system. With the introduction of the new system, the Bank ensured even greater transparency and clearer and more objective feedback to its employees.

D&I Principles

The Bank adopted new D&I Principles in 2021. The goal of this Inclusion policy is to create a working environment based on plurality, respect and harmony. The Bank commits to creating an environment where people with different qualities, beliefs and opinions can come together to generate value, where everyone feels free to express themselves and everyone's talent and qualities are acknowledged and rewarded with the same opportunities for professional growth and remuneration.

Flexible work
Also in 2021, the Bank organised work processes in a way that most employees who do not work directly with customers had the opportunity to work from home. The work was organised in accordance with the current situation related to the covid-19 pandemic. In January 2021, the Bank officially introduced "Work from Home"with an internal policy in order to ensure optimal work processes that are at the same time cost-effective and enable employees to balance their work and private life. In crisis-related situations, such as the covid-19 pandemic, "work from home"ensures that employees stay healthy, are operational and that they be productive in terms of ensuring the company's continuous operations.

Strengthening the position of control functions
The Bank is in the process of adapting to the new conditions and needs and the number of activities and requirements, and is thus adjusting the number of employees. The Bank has successfully completed JST's staffing requirements, mainly related to control functions.

Training and development of employee knowledge and competencies
Systematic training is the foundation of the development of the Bank's employees. In 2021, 17,370 hours of training were completed, averaging 25.6 hours per employee. The majority of trainings (73.8%) were internal. 79.4% of internal trainings were conducted by internal trainers, either live or through an online learning portal, with most of the trainings focusing on knowledge of internal procedures and rules.

The Bank paid a lot of attention in particular to regulatory mandatory topics in the field of personal data protection, information and general security and the prevention of corruption. It has provided ongoing training for investment services marketers and insurance agents.

In cooperation with the Intesa Sanpaolo Group, the Bank organised a development training for branch managers called GYMS (Growing Your Managerial Skills). The inclusion of ESG (Environmental, Social and Managerial) aspects in business is becoming increasingly important at the level of the whole banking Group, therefore employees from the business network were involved in the project "Approaching ESG & climate-change risk for lending operations".

Job Systemisation
In 2021, the Bank focused strongly on renewing its job systematisation. Activities related to job classification and job descriptions, which define job tasks, complexity, requirements, working conditions and individual responsibilities, started and will be formalised in 2022.

The new job systematisation will focus on the internal organisation of the Bank, allowing for operational efficiency in the future and transparent remuneration, incentive and career development of employees, based on clearly defined conditions and criteria. The job systemisation will also take into account the market benchmark and the business and HR strategy of the Bank.

8.2 RESPONSIBILITY TOWARDS CUSTOMERS

The year 2021 was the last of the period of implementation of the Bank's strategic plan from 2018. During that period, the Bank has further expanded its focus from being mainly a local bank to the whole of Slovenia and became a national innovator that successfully operates with a network of branches and modern, digital solutions for customers and strengthens its position throughout the country.

As part of the transformation, the Bank made a number of technological and organisational improvements to increase the efficiency of internal processes and reduce operational risks due to automation and input data control, thus increasing its responsiveness to customer expectations and providing appropriate technological solutions to changing customer habits. In the end, all efforts are reflected in high customer satisfaction, which recognises all the effects or benefits of the implemented improvements. The Bank will continue its focus on process efficiency and has already started the second phase of projects to be implemented in the next strategic period.

In 2021, the Bank completed most of the project activities from its 2018 business strategy. In addition to renovating processes for better responsiveness, the Bank ensures compliance with regulatory requirements, business compliance and a high level of security of all business channels. Clients receive (digital) solutions that, in addition to the possibility of comprehensive financial management, meet the highest security standards and provide the highest level of protection in business and online transactions. In 2021, the Bank expanded its range of services available at every step through digital channels with investment services related to mutual funds and savings plans. It expanded the offer of mutual funds and consequently recorded significant sales growth in this area.

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

In accordance with the applicable measures related to the global pandemic, the Bank succeeded to operate uninterruptedly and thus had a significant impact on the social security of citizens. The Bank has implemented the measures to prevent the spread of infections in its day-to-day operations. The Bank also introduced regular internal monitoring and made ongoing decisions to protect employees and customers. In this way, it successfully managed the situation in the branches and ensured uninterrupted operations and the availability of financial services for clients.

8.3 CORPORATE SOCIAL RESPONSIBILITY

The Bank is actively involved in the local environment; it has a significant influence as one of the largest companies. In 2021, the Bank focused on a limited number of donations with an impact, based primarily on the internal policy and in accordance with the guidelines of the Intesa Sanpaolo Group. Donations were aimed primarily at resolving the social problems of individuals and families in the local communities. With a donation to the NGO Safe on the Internet, the Bank once again responded to current challenges related to the increased use of online channels for communication and virtual cooperation, which also poses certain security risks for users.

In 2021, the Bank revived internal charitable activities. Employees of the Bank, in cooperation with the partner organization Slovenian food bank (Sibahe), collected more than 150 kilograms of food for children from socially disadvantaged families in the run-up to the holidays in December.

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

8.4 RESPONSIBILITY TOWARDS CLIMATE AND ENVIRONMENT

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

In order to effectively manage its exposure to climate and environmental risks, the Bank conducts regular preliminary analyses to measure, monitor and manage the extent of these risks. It follows the methodology used by the Bank of Slovenia in 2020 in its report on the status of climate risks in the Slovenian financial sector. From the beginning of 2022, the Bank will also participate in the procedures for calculating the Green Assets Ratio and other KPIs that credit institutions must disclose. The results of these calculations will be included in the consolidated statement of non-financial operations, published annually by the parent bank Intesa Sanpaolo S.p.A. The results of the consolidated calculations as per 31. 12. 2021 are summarised in the following table:

	Total environmentally sustainable assets (in ths EUR)	KPI (GAR)	% coverage (over total assets)
Green Asset Ratio (GAR) - stock	257,457	10.59%	7.41%

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

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

9. TERRITORIAL CHART OF COMMERCIAL UNITS

RETAIL NETWORK (SMALL BUSINESS and INDIVIDUALS)

RETAIL NETWORK **WEST REGION**

- **KOPER** BRANCH
- **IZOLA** BRANCH
- **MARKOVEC** BRANCH
- **LUCIJA** BRANCH
- **OLMO** BRANCH
- **PIRAN** BRANCH
- **ANKARAN** BRANCH
- **SEŽANA** BRANCH
- **KOZINA** BRANCH
- **TOLMIN** BRANCH
- **NOVA GORICA** BRANCH
- **AJDOVŠČINA** BRANCH

RETAIL NETWORK **CENTRAL REGION**

- **POSTOJNA** BRANCH
- **LJUBLJANA CENTER** BRANCH
- **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

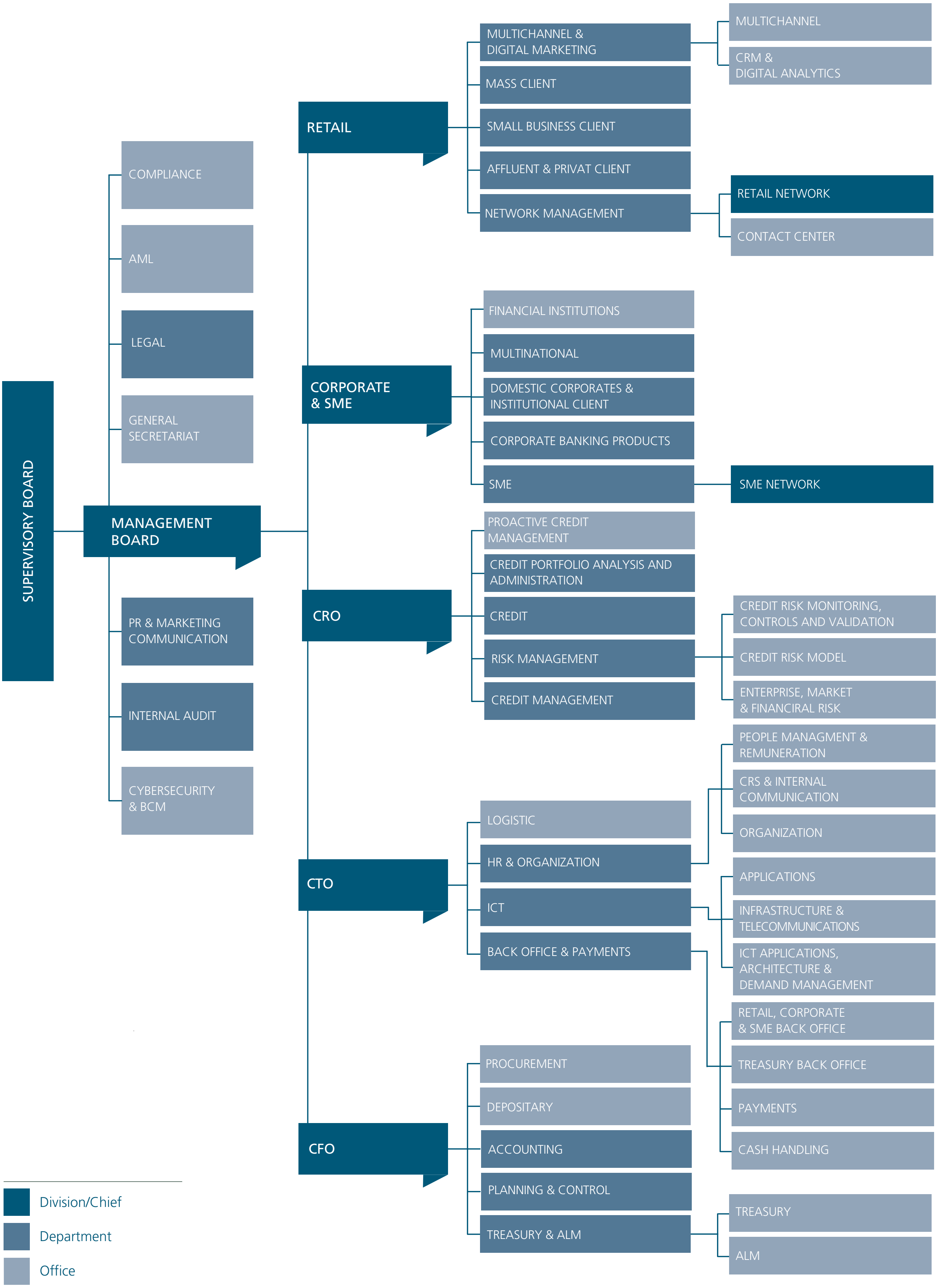
RETAIL NETWORK **EAST REGION**

- **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
- **ŠENTJUR** BRANCH

SME NETWORK

- WEST REGION
- CENTRAL REGION
- EAST REGION

10. INTERNAL ORGANISATION CHART



11. THE CORPORATE GOVERNANCE STATEMENT

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

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

CORPORATE GOVERNANCE STATEMENT

The corporate governance statement is an integral part of the annual report for 2021, and it is available on the website of the company http://www.intesasanpaolobank.si/.

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

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

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

2. Deviations from corporate governance codes

Regarding 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. Of very high importance for its operations, also with regard to governance of the company, are the following internal acts:
- Code of Ethics of Banka Intesa Sanpaolo d.d. (http://www.intesasanpaolobank.si)
- Code of Conduct in Banka Intesa Sanpaolo d.d.

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

With the aim of ensuring appropriate financial reporting procedures, Banka Intesa Sanpaolo d.d. pursues the Rules of procedure on accounting and accounting policies of the group. Accounting control in the broader sense is provided through the system of internal controls. It shall encompass adequate and effective internal controls as well as their implementation and monitoring. The internal controls system covers all significant risks to which the Bank is exposed and includes checking of administrative and accounting procedures, verification of bank´ s compliance with applicable legislation, standards, codes and internal rules and verification of information security. The descriptions of business processes, including control activities for major areas of the Bank's business, namely landing, accepting deposits, current accounts and trading business, are laid down. The processes related to financial reporting or composition of financial statements (daily and monthly closing of the general ledger) are also set out.
The principal identified risks in this area are managed with an appropriate system of authorisations, delimitation of duties, compliance with the accounting rules, documenting of all business events, the custody system, posting on the day of a business event, inbuilt control mechanisms in source applications and archiving pursuant to the laws and internal regulations.
With an efficient controlling mechanism in the area of accounting reporting, the Bank ensures:
- a reliable decision-making and operational support system,
- accurate, complete and timely accounting data and the resulting accounting and other reports of the Bank, and
- compliance with legal and other requirements.

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

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

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

4. The data on principal shareholders

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

The ownership structure of Banka Intesa Sanpaolo d.d.

Equity holding in per cent

Shareholders	31.12.2021	31.12.2020
Privredna banka Zagreb d.d.	51.0%	51.0%
Intesa Sanpaolo S.P.A.	48.1%	48.1%
Minority shareholders	0.9%	0.9%

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

As at 31.12.2021, no security issued by Banka Intesa Sanpaolo d.d. gives any special controlling rights.

6. The data on restrictions on voting rights

In relation to the shares issued by Banka Intesa Sanpaolo d.d., as at 31.12.2021, there are no restrictions on voting rights.

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

In accordance with the provisions laid down in the articles of association of Banka Intesa Sanpaolo d.d., in the text in force as of 31.12.2021, the members of the supervisory board are elected by simple majority and discharged by the general meeting of shareholders with a two-thirds vote of the represented share capital. The management board is appointed and dismissed by the supervisory board with a simple majority of votes. The general meeting of shareholders decides on amendments to the articles of association with a two-thirds vote of the represented share capital.

8. Information on authorisations to the members of management

The members of management do not have any special authorisations.

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

In accordance with the provisions of the Companies Act (ZGD-1), the general meeting of shareholders is the ultimate body of the company. The shareholders exercise their management rights in matters of the company at the general meeting of shareholders of the company, where they pass fundamental and statutory resolutions. Convening the general meeting of shareholders is regulated by the articles of association of the company in accordance with effective legislation. The general meeting of shareholders is convened by the management board on its own initiative, at the request of the supervisory board or at the request of the shareholders of the company that represent at least 5% of the share capital of the company. The management board convenes the general meeting of shareholders of the company no less than one month before the meeting. The right to attend the general meeting of shareholders of the company is granted to all the shareholders registered in the shareholder's register as shareholders of the company at the end of the seventh day prior to the general meeting of shareholders as well as to their proxies and authorised persons, and those 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 8 June 2021, the shareholders were notified of the annual report of the company for the financial year 2020ž, the opinion of the independent auditor to the annual report, the report of the supervisory board to the annual report and remuneration of the members of the supervisory board in 2020. With regard to the remuneration of the management board, the shareholders authorised the Supervisory Board to decide on paying out the 2020 Performance Bonuses to those employees whose professional activities have a significant impact on the risk profile of the Bank as identified by Banka Intesa Sanpaolo d.d., including the members of the management board, taking into consideration all applicable regulations and internal acts. The shareholders gave discharge to the management board and to the supervisory board and passed the resolution on the distribution of the accumulated profit (the profit available for distribution from the profit of the financial year 2020 was allocated to Other Reserves). At the general meeting of shareholders held on 14 December 2021, the shareholders passed the resolution on the distribution of Other Reserves obtained from the profit available for distribution of Banka Intesa Sanpaolo d.d. for the financial year 2019 and 2020. The remaining portion of the Other Reserves from Retained Profit 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: four are representatives of Privredna banka Zagreb d.d., and the remaining three are representatives of Intesa Sanpaolo banking group.

In 2021, the composition of the Supervisory Board changed. On 8 June 2021, at the Annual General Shareholders Meeting, the Shareholders Assembly of Banka Intesa Sanpaolo d.d. was informed that Mr Uroš Čufer resigned from his position as Member and Chairman of the Supervisory Board, and that Mr Emanuele Collini resigned as well. On the same day, Mr Giancarlo Miranda and Mr Antonio Bergalio were elected as members of the Supervisory Board. Mr Giancarlo Miranda was appointed as Chairman of the Supervisory Board.

The members of the Supervisory board as of 31.12.2021 are:

Giancarlo Miranda	*chairman*
Alessio Cioni	*deputy chairman*
Antonio Bergalio	*member*
Amina Carnabuci	*member*
Miroslav Halužan	*member*
Andrea Pavlović	*member*
Andrea Tondo	*member*

There were four committees of the Supervisory Board at the Bank at the end of 2021: The Audit Committee, the Risk Committee, the Nomination Committee and the Remuneration Committee.

Audit Committee
The members of the Audit Committee as of 31.12.2021 are:

Amina Carnabuci	*Chairman*
Andrea Bergalio	*member*
Andrea Tondo	*member*

Risk Committee
The members of the Risk Committee as of 31.12.2021 are:

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

Nomination Committee
The members of the Nomination Committee as of 31.12.2021 are:

Giancarlo Miranda	*Chairman*
Alessio Cioni	*member*
Miroslav Halužan	*member*

Remuneration Committee
The members of the Remuneration Committee as of 31.12.2021 are:

Miroslav Halužan	*Chairman*
Antonio Bergalio	*member*
Alessio Cioni	*member*

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

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

When selecting and recommending the candidates, the Nomination Committee shall ensure the aim of achieving diversity within the Management Body, including the appropriate representation of both genders, is being followed as much as possible.
To contribute to appropriate representation of both genders, the Nomination Committee shall take into consideration the following quotas of underrepresented genders:
- Supervisory Board: 1/5 of the total composition, but at least 1 representative of the underrepresented gender;
- Management Board: at least 1 representative of the underrepresented gender.

The Management Board

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

In 2021, Ms Irena Džaković resigned from her position as Member of the Management Board, and starting on 1 January 2022, she is not a Member of the Management Board anymore.

Members of the Bank's Management Board as of 31.12.2021:

Jozef Kausich	*President*
Irena Džaković	*Member*
Ivan Ivičić	*Member*
Drago Kavšek	*Member*

Koper, 23 February 2022

Supervisory board
of Banka Intesa Sanpaolo d. d.

Management board
of Banka Intesa Sanpaolo d. d.

12. REPORT ON THE RELATIONS WITH CONTROLLING COMPANY

Pursuant to Article 545 of the Companies Act-1, the company's management submitted a report on relations with the controlling company, in which it found that Banka Intesa Sanpaolo d.d,, on the basis of circumstances known to the management at the time of the legal transaction with the parent company and its affiliates, was not disadvantaged, and in 2021 no legal transaction was performed or no act was committed or abandoned that would cause damage to the company or that this would be due to the influence of the parent company.

13. NEW CIRCUMSTANCES AFTER BALANCE SHEET DATE

The only post balance sheet event relates to the Law on the Limitation and Distribution of Currency Risk between Creditors and Borrowers in Swiss Francs

The National Assembly of Slovenia, as the holder of legislative power in the Republic of Slovenia, adopted the Law on the Limitation and Distribution of Currency Risk between Creditors and Borrowers in Swiss Francs (CHF law) on 2 February 2022.

The CHF law regulates relations between creditors, retail borrowers (as consumers) and guarantors (surety) who entered into a loan agreement between 28 June 2004 and 31 December 2010:

- denominated in Swiss francs (CHF) or
- with a currency clause in Swiss francs (CHF).

The CHF law applies retroactively to all retail loan agreements regardless of:

- the current balance of the loan (the loan was repaid in total or not),
- whether the agreement has been terminated
- whether the claim was assigned to the purchaser.

The CHF law requires to the commercial banks to cover borrowers' losses in cases where instalment or total amount deviates from the initial repayment plan by more than 10% (currency cap) due to the change in the CHF exchange rate.

Slovenian banks will lodge a petition/application for the review of the constitutionality of the Law due to breach of:

- principle of non-retroactivity (Art. 155 of the Constitution)
- the constitutional right/principle of the "rule of law"
- the constitutional right of the access to the court (Para. 4 Art 15 and 23.) and of the Treaty of the European convention of human rights - Right to a fair trial (Article 6).
- the constitutional principle of equality (Art. 14 of the Constitution) and breach of the prohibition of discrimination set in Art. 14 in the Treaty of the European convention of human rights,
- the constitutional right of the property (Art. 33 and 67.) and Art. 1 of the Treaty of the European convention of human rights
- the constitutional right of free enterprises and breach of the Treaty of the functioning of the EU - Prohibition on restricting the movement of capital (Art. 63) and Freedom to provide services within the Union (Art. 63).
- Breach of the constitutional right "Finality of Legal Decisions".

Financial impact for the Bank is shown in Note 47.

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14. REPORT OF THE SUPERVISORY BOARD

REPORT OF THE SUPERVISORY BOARD ON THE EXAMINATION OF THE ANNUAL REPORT FOR THE FINANCIAL YEAR 2021

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 2021,
- 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

REPORT

1. The way and scope of verification of the management of the Bank during the financial year 2021

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 2021, the Supervisory Board of the Bank met six times at ordinary meetings and nine times at extraordinary meetings in which it examined:

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

and voted:

- on proposed business deals where, due to being in excess of the limit on exposure determined for a particular customer, the Supervisory Board of the Bank has to grant its prior approval,
- on giving consent to the disclosures for the Bank for 2021 and to the quarterldisclosures, ICAAP and ILAAP Package, Risk Management Strategy 2021, and

- on other matters of interest.

The Supervisory Board:

- gave prior approval to the budget for the financial year 2021 and started the budget process and the relevant business-strategy assessment for 2022;
- monitored and assessed on a regular basis the compliance with the Bank's business policy for 2021 and the fulfilment of the goals set out within the policy framework;
- monitored the main effects on the bank's activities and credit portfolios of the Covid-19 pandemic;
- monitored the NPL reduction trends;
- gave its consent to the target values for the NPL ratios 2021 – 2023 and to the revised plan;
- adopted the annual Recovery Plan of the Parent Company for Banka Intesa Sanpaolo d.d. in part containing the measures which shall be used by the Bank to restore its own financial position in the event of a significant deterioration;
- examined and approved the annual report of the Internal Audit Department for 2020 and discussed the annual plan of the Internal Audit Assignments for the year 2021 and gave consent to the 2021 Audit Plan and Multi-Year Audit Plan;
- approved the updated Compliance Policy;
- examined the annual report on the carrying out of internal control and the measures that arise from the regulations from the field of the fight against money laundering and terrorist financing, and the implementation of restrictive measures for 2020 and the semi-annual report for the first half of 2021;
- examined the annual report of the Compliance Office for 2020 with the action plan for 2021 and the semi-annual report for the first half of 2021;
- verified the activities and reviewed the findings of the Internal Audit Department during the current year;
- approved the organizational changes;
- took note of the resignation of the Head of Risk Management Department and takeover of the position and of the appointment of new CFO;
- proposed to the AGM to appoint a new statutory auditor ERNST & YOUNG d.o.o., Slovenia for the period 2021-2029;
- took note of the resignation notice of the former Chairman of the Supervisory Board and one Member of the Supervisory Board and proposed to the Bank's shareholders to elect new members of the Supervisory Board;
- decided on composition changes within Audit Committee, Risk Committee, Remuneration Committee and Nomination Committee;
- assessed the collective suitability of the Management Board and Supervisory Board;
- approved the Guidelines on Remuneration, Incentive and Identification of Staff that have a material impact on the Risk Profile of Intesa Sanpaolo Group; the Risk Takers List as of 31 December 2020 and as of 1 January 2021; the 2020

Performance Scorecards, Performance Bonus proposals and 2021 Goal Settings for the Members of the Management Board and the Heads of Control Functions;

- took note of the minutes of the committees of the Supervisory Board;
- took note of the Report of Banka Slovenije Findings of the review of operations in the AML area;
- 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 the Tableau the Bord;
- monitored the breach of large exposure limits;
- monitored the high-level plan on the activities of the Risk Management function;
- acknowledged the the JST remarks on human resources in control functions and monitored the ensuing bank action plan;
- took note of Banka Slovenije official communications and monitored the implementation of its recommendations;
- addressed other issues in accordance with powers conferred upon it under law and the Articles of Association.

In 2021, the composition of the Supervisory Board changed. On 8 June 2021, at the Annual General Shareholders Meeting, the Shareholders Assembly of Banka Intesa Sanpaolo d.d. was informed that Mr Uroš Čufer resigned from his position as Member and Chairman of the Supervisory Board, and that Mr Emanuele Collini resigned as well. On the same day, Mr Giancarlo Miranda and Mr Antonio Bergalio were elected as members of the Supervisory Board. Mr Giancarlo Miranda was appointed as Chairman of the Supervisory Board.

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 2021. The Supervisory Board` s committees met regularly and discussed the topics within their respective competences and responsibilities.

The materials for the meetings were forwarded to the members of the Supervisory Board in compliance with the Rules of Procedures governing the discharging of the functions of the Supervisory Board and those functions were discharged in line with the aforementioned enactment. 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 sessions it held, so as to be able to monitor with due attention throughout the financial year the Bank's operations and its risk profile, alongside with (?)the internal audit function, and to supervise the running of the Bank. In February 2022 the members of the Supervisory Board examined the extensive report on the performance and the results posted by the Bank in 2021, arising from the audited accounting statements.

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

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

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

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

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 2021

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

approves and adopts

The Annual Report of Banka Intesa Sanpaolo d.d. for the Financial Year 2021.

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

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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 2021

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

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

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

- that the presentations made in the Report on Related Party Transactions for the year ended 31 December 2021, 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 2021, 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 2021 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 2021 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 2021.

The Report on the Relations of Banka Intesa Sanpaolo d.d. with Controlling Company and its Affiliates, dates 23rd February 2022 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, 25 February 2022

Chairman of the Supervisory Board

Giancarlo Miranda

Independent auditory report

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This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Banka Intesa Sanpaolo d.d.

Opinion

We have audited the financial statements of Banka Intesa Sanpaolo d.d. ("the Bank") which comprise the statement of financial position as at 31 December 2021, the income statement, the statement of other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2021 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

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

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

Key audit matter

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

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

Credit risk and impairment of loans and advances to customers including impact of COVID-19 pandemic

The carrying amount of loans and advances to customers as of 31 December 2021 amounts to EUR 2.186 million or 63% of the total assets of the Bank. Impairment allowances on Loans and advances to customers represent management's best estimate of the expected credit losses within the loan portfolios at the reporting date. For defaulted loans that are considered to be individually significant the impairment assessment is based on the knowledge of each individual debtor, taking into consideration the fair value of the related collateral as well as expected recovery based on going concern principle. Related impairment allowances are determined on an individual basis by means of a discounted cash flows forecasts containing high level of complexity and subjectivity. Stage 3 gross balance	We understood and evaluated the impairment assessment processes for loans as well as the processes for identifying default events within the loan portfolios, including design and operating effectiveness of controls relevant to our audit. In addition to analytical procedures, we tested a sample of performing loans with characteristics that might imply a default event had occurred to assess whether default event had been identified by management and therefore whether there was a requirement to calculate an impairment provision using Stage 3 methodology. For a selected sample of non-performing loans where impairment allowance is assessed on individual basis, we assessed the models, assumptions and data underlying the impairment identification and

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of loans and advances to customers at 31 December 2021 is EUR 32.9 million and total provisions are EUR 23.7 million (51,2% 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 2021 is EUR 2.2 billion and total provisions EUR 22.5 million.

Additional credit impairment provisions in the total amount of EUR 3.9 million were established in 2021 on basis of management overlays due to uncertainty over resolution of the Covid-19 pandemic and subsequent recovery of the economy by application of additional adjustment to PD estimates and staging.

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.

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 Covid 19 impacts in calculation of collective provisions. We engaged credit risk specialists to review forward looking information ("FLI") and input parameters used and to assess if Covid-19 impact was adequately reflected on the PD and the FLI. We also reviewed Bank's management overlays and assessed their adequacy including assumptions and judgements used.

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

Other matter

The financial statements for the financial year ending 31 December 2020 were audited by another auditor who issued an unmodified opinion on those statements on 25 March 2021.

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.

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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, audit committee and the supervisory board for the financial statements

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

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

The audit committee and the supervisory board are responsible for overseeing the Bank's financial reporting process. The supervisory board is responsible 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

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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;

We communicate with the audit committee and the supervisory board 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 the audit committee and the supervisory board 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 the audit committee and the supervisory board, 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 one year. Janez Uranič and Nena Cvetkovska are certified auditors, responsible for the audit in the name of Ernst & Young d.o.o.

Consistence with Additional Report to Audit Committee

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

Non-audit Services

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

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

Ljubljana, 23 February 2022

Janez Uranič
Direktor, pooblaščeni revizor
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

Nena Cvetkovska
Pooblaščena revizorka

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

Statement of management's responsibilities

The Management Board approved the Bank's financial statements, the applied accounting policies and the 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 2021. 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 that may give rise to a potential material liability in this respect.

Koper, 23 February 2022

President
Jozef Kausich

Member
Drago Kavšek

Financial statements

1. INCOME STATEMENT

(in thousands of euros)

	Notes	For the year ended 31 December	
		2021	2020
Interest income calculated using effective interest rate	4	39,847	38,630
Other interest income	4	144	115
Interest expenses	4	(4,054)	(2,497)
Net interest income		**35,937**	**36,248**
Dividend income	5	118	128
Fee and commission income	6	39,523	35,293
Fee and commission expenses	6	(10,506)	(10,095)
Net fee and commission income		**29,017**	**25,198**
Net gains or losses on financial assets and liabilities not measured at fair value through profit or loss	7	820	2,419
Net gains or losses on financial assets and liabilities held for trading	8	1,066	785
Net gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	9	378	976
Net gains or losses from hedge accounting	10	98	(1,323)
Net exchange differences		(383)	(103)
Net gains and losses on derecognition of non-financial assets	11	1,146	37
Other operating income	12a	1,393	1,350
Other operating expenses	12b	(525)	(326)
Administrative expenses	13	(40,825)	(40,244)
Cash contributions to resolution funds and deposit guarantee schemes		(2,585)	(2,765)
Depreciation and amortisation	14	(4,710)	(4,249)
Net modification gains or losses		(708)	71
Provisions	15,36	(352)	1,652
Impairments	16,25,26,31	659	(3,904)
Profit or loss from non-current assets and disposal groups classified as held for sale, not qualifying as discontinued operations	17	1,018	(403)
Total profit or loss before tax		**21,562**	**15,547**
Tax expense	18	(3,853)	(2,710)
Total profit or loss after tax		**17,709**	**12,837**
Basic earnings per share	19	33,39	24,20
Diluted earnings per share		33,39	24,20

The accompanying notes on pages 54 to 149 are an integral part of these financial statements.

2. STATEMENT OF OTHER COMPREHENSIVE INCOME

(in thousands of euros)

	For the year ended 31 December	
	2021	**2020**
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAX	**17,709**	**12,837**
OTHER COMPREHENSIVE INCOME AFTER TAX	**(935)**	**2,159**
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**(426)**	**3,022**
Revaluation of properties	(617)	3,520
Actuarial gains on defined benefit pensions plans	(37)	(9)
Fair value changes of equity instruments measured at fair value through other comprehensive income	132	221
Income tax relating to items that will not be reclassified to profit or loss	96	(710)
ITEMS THAT ARE OR MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS	**(509)**	**(863)**
Debt instruments at fair value through other comprehensive income	**(628)**	**(1,066)**
- fair value gain on debt instrument at FVOCI	(2,520)	2,346
- realised gain on FVOCI financial assets transferred to profit or loss	1,892	(3,412)
Income tax relating to items that may be reclassified to profit or loss	119	203
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX	**16,774**	**14,996**

3. STATEMENT OF FINANCIAL POSITION

(in thousands of euros)

	Notes	As at 31 December	
		2021	2020
ASSETS			
Cash, cash balances at central banks and other demand deposits at banks	20	881,289	532,774
Financial assets held for trading	21	347	174
Non-trading financial assets mandatorily at fair value through profit or loss	22	3,782	3,918
Financial assets at fair value through other comprehensive income	23	235,559	270,882
Derivatives - hedge accounting	21	547	21
Financial assets at amortised cost:		2,301,829	2,071,984
-loans to banks	24	107,843	47,064
-loans to customers	25	2,185,555	2,014,185
-other financial assets	26	8,431	10,735
Fair value changes of the hedged items in portfolio hedge of interest rate risk		4,523	10,241
Tangible assets		31,847	35,053
- Property, plant and equipment	28	30,267	33,333
- Investment property	29	1,580	1,720
Intangible assets	30	6,860	6,520
Tax assets		-	942
Other assets	31	4,050	6,287
Non-current assets classified as held for sale	29	1,940	6,558
Total assets		**3,472,573**	**2,945,354**
LIABILITIES			
Financial liabilities held for trading (derivatives)	21	324	170
Financial liabilities measured at amortised cost:		3,117,568	2,585,723
- deposits from banks and central banks	32	490	3,525
- deposits from non-bank customers	33	2,788,959	2,483,283
- loans from banks and central banks	34	299,280	79,601
- other financial liabilities	35	28,839	19,314
Derivatives – hedge accounting	21	12,605	27,846
Fair value changes of the hedged items in portfolio hedge of interest rate risk		526	22
Provisions:		5,987	6,130
- provisions for liabilities and charges	36	2,981	3,259
- retirement benefit obligations	37	3,006	2,871
Tax liabilities:		3,731	3,250
- current tax liabilities		716	-
- deferred tax liabilities	38	3,015	3,250
Other liabilities	39	5,180	5,643
Total liabilities		**3,145,921**	**2,628,784**
EQUITY			
Share capital	40	22,173	22,173
Share premium	40	7,499	7,499
Accumulated other comprehensive income	41	15,129	16,064
Reserves from profit	42	263,081	254,507
Treasury shares		(49)	(49)
Retained earnings (including net profit for the current year)	42	18,819	16,376
Total equity		**326,652**	**316,570**
Total liabilities and equity		**3,472,573**	**2,945,354**

The accompanying notes on pages 54 to 149 are an integral part of these financial statements.

4. STATEMENT OF CHANGES IN EQUITY

(in thousands of euros)

For the year ended 31 December 2021	Notes	**Share capital**	**Share premium**	**Accumulated other comprehensive income**	**Reserves**	**Retained earnings or loss (including income from the current year)**	**Treasury shares (equity deduction item)**	**Total equity**
OPENING BALANCE FOR THE REPORTING PERIOD	41,42,43	**22,173**	**7,499**	**16,064**	**254,507**	**16.376**	**(49)**	**316.570**
Comprehensive income for the financial year after tax		-	-	(935)	-	17,709	-	**16,774**
Appropriation of (accounting for) dividends		-	-	-	(6,704)	-	-	**(6,704)**
Transfer of net profit to reserves from profit		-	-	-	15,278	(15,278)	-	**-**
Other movement*		-	-	-	-	12	-	**12**
CLOSING BALANCE FOR THE REPORTING PERIOD	41,42,43	**22,173**	**7,499**	**15,129**	**263,081**	**18,819**	**(49)**	**326,652**
DISTRIBUTABLE PROFIT for the financial year		**-**	**-**	**-**	**-**	**16,836**	**-**	**16,836**

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

(in thousands of euros)

For the year ended 31 December 2020	Notes	**Share capital**	**Share premium**	**Accumulated other comprehensive income**	**Reserves**	**Retained earnings or loss (including income from the current year)**	**Treasury shares (equity deduction item)**	**Total equity**
OPENING BALANCE FOR THE REPORTING PERIOD	41,42,43	**22,173**	**7,499**	**16,149**	**231,299**	**24,503**	**(49)**	**301,574**
Comprehensive income for the financial year after tax	-	-	-	2,159	-	12,837	-	**14,996**
Transfer of net profit to reserves from profit	-	-	-	-	23,208	(23,208)	-	**-**
Other movement*	-	-	-	(2,244)	-	2,244	-	**-**
CLOSING BALANCE FOR THE REPORTING PERIOD	41,42,43	**22,173**	**7,499**	**16,064**	**254,507**	**16,376**	**(49)**	**316,570**
DISTRIBUTABLE PROFIT for the financial year		**-**	**-**	**-**	**-**	**14,392**	**-**	**14,392**

* *The movement from accumulated comprehensive income to retained earnings came from derecognition of FVOCI equity shares and its reclassification in FVTPL portfolio. Consequently, corresponding revaluation reserve has been derecognised and transferred to retained earnings.*

The accompanying notes on pages 54 to 149 are an integral part of these financial statements.

5. STATEMENT OF CASH FLOWS

(in thousands of euros)

	Notes	For the year ended 31 December	
		2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Total profit or loss before tax		21,562	15,547
Depreciation	14	4,710	4,249
Impairments / (reversal of impairments) of financial assets at fair value through other comprehensive income	16	(1)	(9)
Impairments / (reversal of impairments) of financial assets measured at amortised cost	16	(634)	5,236
Impairments of tangible assets, investment property, intangible assets and other assets	16	-	622
Net (gains) / losses from exchange differences		383	103
Net modification (gains) / losses		708	-
Net (gains) / losses from sale of tangible assets		(1,146)	(37)
Net (gains) / losses from non-current assets held for sale and discontinuing operations and liabilities associated therewith		(1,219)	710
Provisions		3,993	(1,652)
Cash flow from operating activities before changes in operating assets and liabilities		**28,356**	**24,769**
(Increases) / decreases in operating assets (excl. cash & cash equivalents)		**(191,363)**	**(21,600)**
Net (increase) / decrease in financial assets held for trading		(173)	(56)
Net (increase) / decrease in non-trading financial assets mandatorily at fair value through profit or loss		136	(2,522)
Net (increase) / decrease in financial assets measured at fair value through other comprehensive income		39,067	57,286
Net (increase) / decrease in loans and receivable measured at amortised cost		(235,744)	(69,953)
Net (increase) / decrease in assets-derivatives - hedge accounting		5,192	(2,313)
Net (increase) / decrease in other assets		159	(4,042)
Increases / (decreases) in operating liabilities		**511,176**	**255,373**
Net increase / (decrease) in financial liabilities held for trading		154	60
Net increase / (decrease) in deposits, loans and receivables measured at amortised cost		522,915	245,021
Net increase / (decrease) in liability – derivatives – hedge accounting		(14,737)	8,574
Net increase / (decrease) in other liabilities		2,844	1,718
Cash flow from operating activities		**348,169**	**258,542**
Income taxes (paid) / refunded		(2,169)	(7,292)
Net cash flow from operating activities		**346,000**	**251,250**
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipts from investing activities		**8,421**	**841**
Receipts from the sale of tangible assets		2,473	18
Receipts from non-current assets or related liabilities held for sale		5,948	823
Cash payments on investing activities		**2,705**	**2,078**
Cash payments to acquire tangible assets		607	624
Cash payments to acquire intangible assets		2,098	1,454
Net cash flow from investing activities		**5,716**	**(1,237)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash payments on financing activities		**7,838**	**1,163**
Dividends paid		6,704	-
Other cash payments related to leases		**1,134**	**1,163**
Net cash flow from financing activities		**(7,838)**	**(1,163)**
Effects of change in exchange rates on cash and cash equivalents		2,198	(1,564)
Net increase in cash and cash equivalents		**343,878**	**248,850**
Opening balance of cash and cash equivalents	44	**526,379**	**279,093**
Closing balance of cash and cash equivalents	44	**872,455**	**526,379**

(in thousands of euros)

	For the year ended 31 December	
Operational cash flows of interest and dividends	**2021**	**2020**
Interest paid	2,243	2,400
Interest received	43,765	35,680
Dividends received	118	128

As at 31 December 2021, the Bank did not have undrawn credit lines with other banks (2020: nil).

The accompanying notes on pages 54 to 149 are an integral part of these financial statements.

Notes to financial statements

1. GENERAL INFORMATION

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 BASIS OF PREPARATION

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

Basis of measurement
Financial statements have been prepared on a cost basis, except for the following items, which are measured at fair value:
- Financial instruments held for trading
- Hedge derivatives
- Financial asset at FVTPL
- Financial assets at FVOCI
- Land and buildings for classified as fixed assets and investment property
- Recognised financial assets designated as hedged items in qualifying fair value hedging relationship (which otherwise would have been measured at amortised cost)

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

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

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

Impact of COVID-19 on the Bank's business

The year 2020 posed a special challenge for the Bank due to the outbreak of the COVID-19 epidemic. In the first half of the year, the Bank focused mainly on the negative consequences of the outbreak on business, internal processes and procedures and government measures to contain the epidemic and ensure the liquidity of individuals and companies. Even when strict government measures were stabilised to some extent, the Bank continued to closely monitor customers' operations, taking into account the impact of the epidemic and government measures on customers' financial stability.

Also in 2021, the Bank continued to closely monitor developments related to the COVID-19 epidemic, including monitoring the number of infected employees as well as the related consequences connected to the operation of its internal processes and smooth delivery of services to its customers.

The focus in 2021 was on continued monitoring of exposures with approved COVID-19 moratoriums and on the credit quality of Bank's loan portfolio. The findings were regularly reported to the Bank's bodies. The Bank assessed the measures taken to mitigate the short- and medium-term risks arising from the long-term epidemic, the large number of unemployed and waiting workers and the poorer performance of companies in the most affected segments of the economy, such as tourism, hospitality and transport. Approved deferrals expired in 2021, therefore in order to assess the negative impact of the crisis on its portfolio and in accordance with applicable legislation and the regulator's guidelines, the Bank assessed whether there was a significant increase in credit risk and insolvency after the moratorium was approved. If the Bank assessed that these were not merely short-term liquidity problems and that there were negative elements and / or loss events leading to a default situation, it reclassified the exposures as non-performing loans. It took the latter into account when calculating expected credit losses by updating forward-looking information that affects the calculation of credit risk parameters. In doing so, it used ECB`s scenarios that envisage a decline in economic activity as a result of the health crisis and restrictive measures.

Despite the significant reduction in the volume of loans with the COVID-19 moratorium, but given that the still persisting uncertainties about the future development of the epidemic, the Bank will continue to carefully monitor the credit risk in the year 2022.

2.2 FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

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

Recording foreign currency transactions

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

2.3 RELATED PARTIES

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

2.4 FINANCIAL ASSETS AND LIABILITIES

2.4.1 Treatment of financial assets and liabilities in financial statements

Recognition and initial measurement

The Bank initially recognises loans and advances and deposits on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

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

2.4.2 Classification

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

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis and is determined in the Bank's Business Model, which is defined by Intesa Sanpaolo Group.

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

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

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassifications
Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

2.4.3 De-recognition of financial instruments

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Gain/loss recognised from equity investment securities classified through OCI at the derecognition are not part of the income statement but go directly into retained earnings.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in income statement.

2.4.4 Modifications of financial assets and financial liabilities

Financial assets
If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset **are substantially different.** If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

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

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

2.4.5 Offsetting

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

2.4.6 Fair value measurement principles

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

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

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

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

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

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

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

Since the application of IFRS 13 – Fair value measurement, the inputs used to measure fair value should be presented when classifying financial instruments in the three levels of fair value hierarchy:
- **Level 1 inputs:** Fair value measured using (unadjusted) quoted prices in active markets for identical assets or liabilities.
- **Level 2 inputs:** Fair value measured using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices from similar assets) or indirectly (i.e. derived from prices of similar instruments).
- **Level 3 inputs:** Fair value measured using inputs for the asset or liability that are not based on observable market inputs.

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

2.4.7 Impairment of financial assets

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:
- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:
- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

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

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

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:
- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Restructured financial assets

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

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

Restructured exposures can be identified in both the performing and non-performing part of the portfolio. If the restructured receivable is included in the non-performing, it may be reclassified to the performing part when:
- the exposure is no longer considered impaired or defaulted,
- certain amounts have been repaid,
- one year has passed since the last identifiable event (restructuring, reclassification to non-performing part, repayment of the last amount due and unpaid, termination of the moratorium) and
- there were no outstanding amounts due or doubts about the full repayment of the exposure during the restructuring period.

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

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

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt securities carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:
- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has been reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more in the amount of EUR 100 is considered impaired.

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

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

Presentation of allowance for ECL in the statement of financial position

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

Write-off

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

2.5 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

2.5.1 Hedge accounting

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

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

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

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

Fair value hedge

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

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

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a CCP by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered expired or terminated.
Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

2.6 LOANS AND ADVANCES

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

2.7 SECURITIES

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

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:
- Interest revenue using the effective interest method;
- ECL and reversals; and
- Foreign exchange gains and losses.

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

2.8 INTEREST

Effective Interest rate

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

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

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

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

Amortised cost and gross carrying amount

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

Calculation of interest income and expense

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

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

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

2.9 FEE AND COMMISSION INCOME

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

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

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

* A contract with a customer that results in a recognised financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the

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

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

2.11 INTANGIBLE ASSETS

Intangible assets encompass licences for computer software, patents, copyrights and other industrial property rights acquired and development expenditures are carried in the statement of financial position at cost less any accumulated amortisation and any accumulated impairment losses.
Expenditure on research and development and maintaining computer software is recognised in profit or loss as the expense is incurred. In circumstances when expenditure is directly associated with the development of computer software that will probably generate expected future economic benefits exceeding costs, expenditures are recognised as intangible assets. Directly attributable costs are capitalised as software development.

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

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

Intangible assets	Estimated useful lives in 2021	Estimated useful lives in 2020
Licence fees	2–4	2–4
Development expenditure	5	5
Computer software	4	4

The main IT system (Bančno okence) is internally developed and included within Development expenditure. For this type of intangible fixed assets, the estimate useful life is 5 years.

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

2.12 PROPERTY, PLANT AND EQUIPMENT

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

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

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

The Bank assesses annually whether there is any indication that an asset may be impaired. If there is an indication that an asset may be impaired, the recoverable amount of the asset is determined. The recoverable amount is the higher of the fair value less costs to sell and the value in use. If the recoverable amount exceeds the carrying amount, it is an indication that the asset is not impaired.
The Bank recognises subsequent costs in the carrying amount of an item of property, plant and equipment when it is probable that future economic benefits associated with the item will flow to the Bank. The costs of day-to-day servicing (repairs and maintenance) are recognised in profit or loss as incurred.

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

Assets in the course of transfer or construction are not depreciated until they are brought into use.
The residual value and the useful life of an asset is reviewed on a regular basis and, if expectations differ from previous estimates, the change(s) is accounted for as a change in an accounting estimate.

Property, plant and equipment	Estimated useful lives in 2021	Estimated useful lives in 2020
Buildings	16.6-33	16.6-33
Other investment in intangibles	20	20
Equipment	5	5
Motor vehicles	5	5
Computers and software	4	4
Rights to use	2 - 5	2 - 5

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

2.13 INVESTMENT PROPERTY

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

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

Subsequent to initial measurement, the investment properties are measured with the fair value method. All valuation effects are recognised in income statement within other income.
Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its initial cost value.

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

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

Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Bank's accounting policies. Thereafter, the assets (or disposal group of assets and liabilities) are measured at the lower of their carrying amount and fair value less cost to sell.

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

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

Although the sale of real estate lasts more than one year, the management of the Intesa Sanpaolo d.d. does not have intention to reclassified the remaining premises to the original portfolio. The sales activities are continuing intensively and are planned to be concluded in 2022.

2.15 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

2.16 DEPOSITS AND RECEIVED LOANS

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

2.17 ACCOUNTING FOR LEASES

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

- **The Bank as lessee**

At inception of a contract, the Bank assesses whether a contract is or contains a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of branches and office premises, the Bank has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.
The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.
The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.
The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the borrowing interest rate for loans with similar maturity.

Lease payments included in the measurement of the lease liability comprise the following:
- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

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

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

- **The Bank as lessor**

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

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

2.18 CASH AND CASH EQUIVALENTS

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

2.19 PROVISIONS

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

2.20 FINANCIAL GUARANTEES

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.
Financial guarantee liabilities are initially recognised in the financial statements at their fair value on the date the guarantee is given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the period, and the best estimate of the expenditure required to settle any financial obligation arising as the result of the guarantees at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the management's judgment.

2.21 INCOME TAX

Current income tax has been calculated in accordance with the local tax law and using the tax rate of 19%.

Deferred income tax is calculated for all taxable temporary differences using the tax rate of 19%. Temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base. The tax rates (and tax laws) that have been enacted by the end of the reporting date are used to determine deferred income tax. The principal temporary differences arise from the valuation of financial instruments including derivatives, the valuation of real estates and provisions for retirement benefit obligations. A deferred tax asset shall be recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

2.22 EMPLOYEE BENEFITS

Employee benefits include jubilee benefits, retirement indemnity bonuses and other long-service benefits. According to Slovenian legislation, employees retire after 40 years of services, when, if fulfilling certain conditions, they are entitled to a termination benefit paid out as a lump sum. Valuations of these obligations are carried out by independent qualified actuaries, by using the book reserve method.
The Bank's obligation for the current service cost of providing pension benefits and the increment in the present value of the defined benefit obligation due to the approaching beginning of the defined benefit liability (interest cost) was assessed. The increase in the benefit scheme liabilities in excess of the above two assessments shall be recognised as the actuarial gain or loss.

The defined benefit scheme liabilities are measured on an actuarial basis using the projected unit credit method, which measures actuarial liabilities in accordance with the expected wage/salary increase from the valuation date until the foreseen retirement of the employed person. The wage/salary increase comprises promotion and inflation-related rise.
Under IAS19, the calculated current scheme liabilities are discounted using the rates equivalent to the market yields at the balance-sheet date on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid by the employer.

2.23 SHARE CAPITAL

Dividends on ordinary shares

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

Treasury shares

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

2.24 FIDUCIARY ACTIVITIES

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

2.25 COMPARATIVE INFORMATION

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

In December 2021, with effect from the end of 2021, the Bank of Slovenia amended the Instructions for the Implementation of the Decision on Reporting by Monetary Financial Institutions. In accordance with these instructions, the content of some individual items of the Income Statement and Statement of Financial Position was changed (see Note 2.29).

2.26 ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Impairment losses on loans and advances

Information about judgements mode relating to classification of financial assets, assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payments of principal and interest on the principal amount outstanding are discussed in Note 2.4.

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

Measurement of employee benefits

For the calculation of actuarial gains and losses, the following assumptions have been used:
- The discount rate of 0.94% (2020: 1.09%), and
- Future salary increases 1.8% p.a. from 2022 onwards (2021: 2.5%).

Taxation

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

Litigation and claims

The Bank performs an individual assessment of all court cases and creates provisions in accordance with the assessment. The assessment of risks and proposal for provisions for legal cases is performed by the Legal Affairs Department and Finance Division, and a decision on the creation of provisions is made by the Bank's management.

Total claims amount related to legal cases as at 31 December 2021 amounts to EUR 466 thousand (2020: EUR 671 thousand). As stated in Note 36, the Bank provided EUR 400 thousand (2020: EUR 321 thousand), which management estimates as sufficient. Since the estimate is made considering the specifics of each individual case, it is not practicable for management to evaluate the financial impact of changes to the assumptions based on which provisions are quantified as at the reporting date.

Fair value of property

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

Fair value of financial instruments

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

2.27 CHANGES IN EXISTING STANDARDS AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs, which have been adopted by the Company as of 1 January 2021:

- Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)
  In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships, including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. While application is retrospective, an entity is not required to restate prior periods.

The amendments have not had any impact on the financial statements and disclosures of the Bank.

- IFRS 4: Insurance Contracts (Amendments)
  The amendments to IFRS 4 change the fixed expiry date for the temporary exemption in IFRS 4 Insurance Contracts from applying IFRS 9 Financial Instruments, so that entities would be required to apply IFRS 9 for annual periods beginning on or after January 1, 2023.

The amendments have not had any impact on the financial statements of the Bank.

- IFRS 16 Leases-Covid 19 Related Rent Concessions (Amendment)
  The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorised for issue at 28 May 2020. IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The amendment

provides a practical expedient for the lessee to account for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:
- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021.

The amendments have not had any impact on the financial statements of the Bank.

2.28 STANDARDS ISSUED BUT NOT YET EFFECTIVE

- IFRS 17: Insurance Contracts
  The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. In its March 2020 meeting, the Board decided to defer the effective date to 2023. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity.

The amendments have not had any impact on the financial statements of the Bank.

- IFRS 17: Insurance Contracts (Amendments)
  The amendments to IFRS 17 are effective, retrospectively, for annual periods beginning on or after January 1, 2023, with earlier application permitted. The amendments aim at helping companies implement the Standard. In particular, the amendments are designed to reduce costs by simplifying some requirements in the Standard, make financial performance easier to explain and ease transition by deferring the effective date of the Standard to 2023 and by providing additional relief to reduce the effort required when applying IFRS 17 for the first time.

The amendments will not have any impact on the financial statements of the Bank.

- IFRS 17: Insurance contracts – Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendments)
  The amendment is effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted respectively with IFRS 17. For entities that first apply IFRS 17 and IFRS 9 at the same time, the amendment adds a transition option for a "classification overlay", relating to comparative information of financial assets. An entity applying the classification overlay to a financial asset shall present comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset. Also, in applying the classification overlay to a financial asset, an entity is not required to apply the impairment requirements of IFRS 9. The amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities and therefore improve the usefulness of comparative information for users of financial statements. These amendments have not yet been endorsed by the EU.

The amendments will not have any impact on the financial statements of the Bank.

- Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is 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.

Management has assessed that the amendment has not had any impact on financial statements of the Bank.

- IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)
  The amendments were initially effective for annual reporting periods beginning on or after 1 January 2022, with earlier application permitted. However, in response to the covid-19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments.
  In November 2021, the Board issued an exposure draft (ED), which clarifies how to treat liabilities that are subject to covenants to be complied with, at a date subsequent to the reporting period. In particular, the Board proposes narrow scope amendments to IAS 1 which effectively reverse the 2020 amendments requiring entities to classify as current liabilities subject to covenants that must only be complied with within the next twelve months after the reporting period if those covenants are not met at the end of the reporting period. Instead, the proposals would require entities to present separately all non-current liabilities subject to covenants to be complied with only within twelve months after the reporting period. Furthermore, if entities do not comply with such future covenants at the end of the reporting period, additional disclosures will be required. The proposals will become effective for annual reporting periods beginning on or after 1 January 2024 and will need be applied retrospectively in accordance with IAS 8, while early adoption is permitted. The Board has also proposed to delay the effective date of the 2020 amendments accordingly, such that entities will not be required to change current practice before the proposed amendments come into effect. These Amendments, including ED proposals, have not yet been endorsed by the EU.

Management has assessed that the amendments will not have any important impact on financial statements of the Bank.

- IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)
  The amendments are effective for annual periods beginning on or after 1 January 2022, with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:
  - IFRS 3 Business Combinations (Amendments) update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
  - IAS 16 Property, Plant and Equipment (Amendments) prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
  - IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments) specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
  - Annual Improvements 2018-2020 make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases

Management has assessed that the amendments will not have any important impact on financial statements of the Bank

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

Management has assessed that the amendments will not have any important impact on financial statements of the Bank.

- IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)
  The Amendments are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The Amendments have not yet been endorsed by the EU.

Management has assessed that the amendments will not have any impact on financial statements of the Bank.

- IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)
  The amendments become effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted, and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The Amendments have not yet been endorsed by the EU.

Management has assessed that the amendments will not have any important impact on financial statements of the Bank.

- IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)
  The amendments are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted. In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12 and specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The Amendments have not yet been endorsed by the EU.

Management has assessed that the amendments will not have any important impact on financial statements of the Bank.

2.29 RECLASSIFICATION OF FINANCIAL STATEMENTS FOR 2020 DUE TO THE CHANGED PRESENTATION OF CERTAIN INCOME AND EXPENSES ITEMS IN THE INCOME STATEMENT AND ITEMS IN THE STATEMENT OF FINANCIAL POSITION

In December 2021, with effect from the end of 2021, the Bank of Slovenia amended the Instructions for the Implementation of the Decision on Reporting by Monetary Financial Institutions. In accordance with these instructions, the content of some individual items of the Income Statement and Statement of Financial Position was changed.

The following substantive changes were made in the presentation of the income statement, namely:
- interest income and expenses from derivatives designated for hedging are disclosed in the income statement according as adjustment of the economic effect of interest on the hedged item,
- expenses and income from written-off assets at amortised cost and assets at fair value through other comprehensive income are excluded from item Income and expenses from derecognition and are reclassified to Effect from impairments.

In accordance with the amended Instruction, in the statement of financial position, liabilities from salaries were reclassified from Other financial liabilities to Other liabilities.

In order to ensure the comparability of financial information, the already reported financial statements for the year 2020 were modified accordingly.

In the income statement for 2020, interest expense from derivatives designated for hedge in the amount of EUR 5,827 thousand reduce the positive effects from interest on bond investments and long-term loans, which the Bank hedges against interest rate risk. Net written-off receivables in the amount of EUR 1,945 thousand are moved from the item Net effects from derecognition to item Effects from impairments.

In the statement of financial position, the liabilities for salaries in the amount of EUR 2,272 thousand are transferred from Other Financial Liabilities to Other (operating) Liabilities

INCOME STATEMENT

(in thousands of euros)

	For the year ended 31 December		
	2020 Previously reported	Reclassification	2020 Reclassified
Interest income calculated using effective interest rate	42,983	(5,827)	37,156
Other interest income	1,589		1,589
Interest expenses	(8,324)	5,827	(2,497)
Net interest income	**36,248**		**36,248**
Dividend income	128		128
Fee and commission income	35,293		35,293
Fee and commission expenses	(10,095)		(10,095)
Net fee and commission income	**25,198**		**25,198**
Net gains or losses on financial assets and liabilities not measured at fair value through profit or loss	4,364	(1,945)	2,419
Net gains or losses on financial assets and liabilities held for trading	785		785
Net gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	976		976
Net gains or losses from hedge accounting	(1,323)		(1,323)
Net exchange differences	(103)		(103)
Net gains and losses on derecognition of non-financial assets	37		37
Other operating income	1,350		1,350
Other operating expenses	(326)		(326)
Administrative expenses	(40,244)		(40,244)
Cash contributions to resolution funds and deposit guarantee schemes	(2,765)		(2,765)
Depreciation and amortisation	(4,249)		(4,249)
Net modification gains or losses	71		71
Provisions	1,652		1,652
Impairments	(5,849)	1,945	(3,904)
Profit or loss from non-current assets and disposal groups classified as held for sale, not qualifying as discontinued operations	(403)		(403)
Total profit or loss before tax	**15,547**		**15,547**
Tax expense	(2,710)		(2,710)
Total profit or loss after tax	**12,837**		**12,837**
Basic earnings per share	24,20		24,20
Diluted earnings per share	24,20		24,20

STATEMENT OF FINANCIAL POSITION

(in thousands of euros)

	As at 31 December		
	2020 Previously reported	Reclassification	2020 Reclassified
ASSETS			
Cash, cash balances at central banks and other demand deposits at banks	532,774		532,774
Financial assets held for trading	174		174
Non-trading financial assets mandatorily at fair value through profit or loss	3,918		3,918
Financial assets at fair value through other comprehensive income	270,882		270,882
Derivatives - hedge accounting	21		21
Financial assets at amortised cost:	2,071,984		2,071,984
-loans to banks	47,064		47,064
-loans to customers	2,014,185		2,014,185
-advances	10,735		10,735
Fair value changes of the hedged items in portfolio hedge of interest rate risk	10,241		10,241
Tangible assets	35,053		35,053
- Property, plant and equipment	33,333		33,333
- Investment property	1,720		1,720
Intangible assets	6,520		6,520
Tax assets	942		942
Other assets	6,287		6,287
Non-current assets classified as held for sale	6,558		6,558
Total assets	**2,945,354**		**2,945,354**
LIABILITIES			
Financial liabilities held for trading (derivatives)	170		170
Financial liabilities measured at amortised cost:	2,587,995	(2,272)	2,585,723
- deposits from banks and central banks	3,525		3,525
- deposits from non-bank customers	2,483,283		2,483,283
- loans from banks and central banks	79,601		79,601
- other financial liabilities	21,586	(2,272)	19,314
Derivatives – hedge accounting	27,846		27,846
Fair value changes of the hedged items in portfolio hedge of interest rate risk	22		22
Provisions:	6,130		6,130
- Provisions for liabilities and charges	3,259		3,259
- Retirement benefit obligations	2,871		2,871
Tax liabilities:	3,250		3,250
- current tax liabilities	-		-
- deferred tax liabilities	3,250		3,250
Other liabilities	3,371	2,272	5,643
Total liabilities	**2,628,784**		**2,628,784**
EQUITY			
Share capital	22,173		22,173
Share premium	7,499		7,499
Accumulated other comprehensive income	16,064		16,064
Reserves from profit	254,507		254,507
Treasury shares	(49)		(49)
Retained earnings (including net profit for the current year)	16,376		16,376
Total equity	**316,570**		**316,570**
Total liabilities and equity	**2,945,354**		**2,945,354**

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 parent company. Therefore, risk management is governed in accordance with the Group and subsequently the industry's best practices. The Bank manages all risks on an enterprise-wide basis and therefore emphasises a strong institution-wide risk management culture. Consequently, risks are managed at all levels of the Bank and involve all managerial positions as well as an independent risk management function.

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

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

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

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

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

The risk management process is divided into four stages:
- risk identification,
- risk analysis,
- risk measurement, and
- risk mitigation and monitoring.

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

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

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

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

In 2021, the Bank continued to implement steps to even further improve the interconnectedness of the Bank's business strategy with the principles of sound and prudential institution wide risk management. The Bank's Risk Management Strategy became a fundamental strategic document that determines the Bank's risk appetite, basic strategic guidelines for capital planning, risk management objectives and basic risk mitigation principles, including the risks arising from macroeconomic and regulatory environment in which the Bank operates, while taking into consideration the status of the business cycle. On a yearly basis, the Risk Management Strategy outlines and raises awareness about all risks arising from new business initiatives as well as analyses the impact of those initiatives on the Bank's overall risk profile.

3.1 CORPORATE RISK MANAGEMENT AND ORGANISATIONAL STRUCTURE

3.1.1 Corporate risk management

The following structures take part in the risk governance process:

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

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

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

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

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

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

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

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

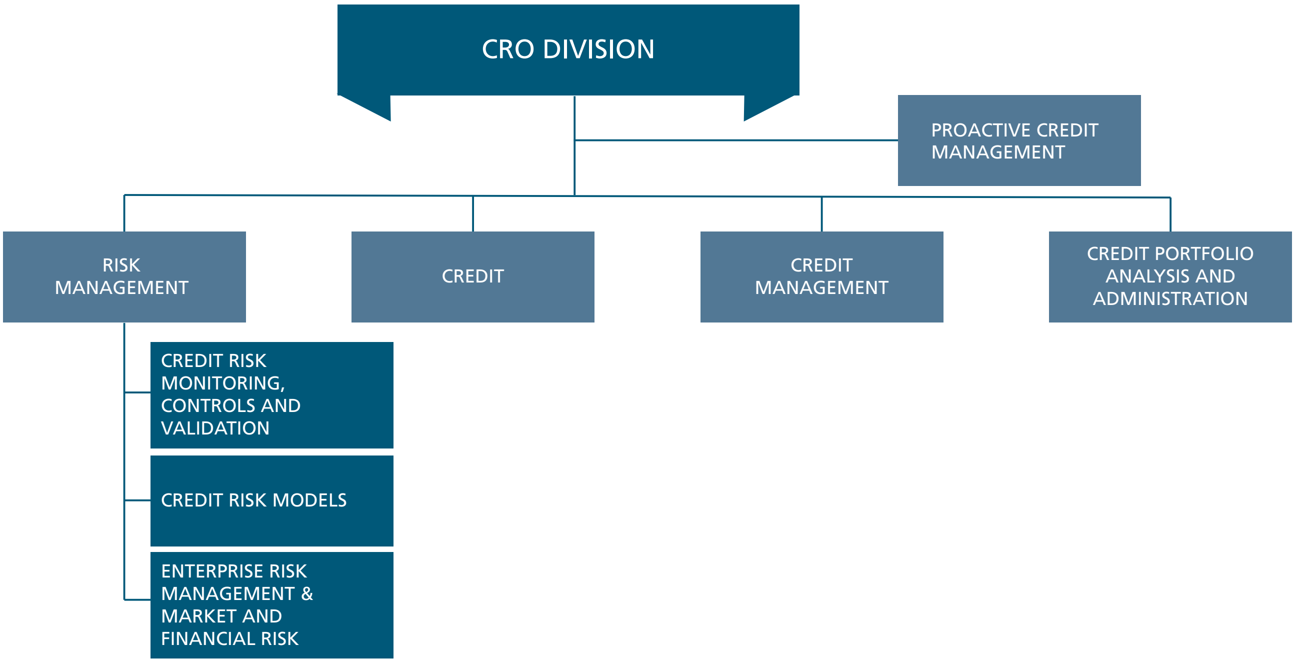
The Internal Audit Department evaluates and reviews processes, procedures, guidelines, policies and all operating activities performed by the Bank with the aim of evaluation of the efficiency and effectiveness of the internal controls system and risk management system.

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

3.1.2. Organisational structure of the risk management area

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

The organisation chart of the Risk Division:



The roles of organisational units within the Risk Division

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

- **Enterprise, Market & Financial Risk** is responsible for risk policies, risk methodologies and reporting on risk exposures other than credit risk. In addition, the Office monitors internal risk limits and external regulatory constraints, including the minimum capital adequacy ratios.

- **Credit Risk Monitoring, Controls and Validation Office** is performing second level controls and monitoring activities over the credit portfolio, in terms of quality, composition and considerable changes. The office is also in charge of evaluating the compliance of the internal systems of risk measurement and management with the regulatory requirements and their alignment with ISP Group guidelines. The Office is responsible for the evaluation of the internal systems of all risk profiles (to be used for both regulatory and internal management purposes) in all phases of the internal systems lifecycle and also supports the Supervisory Authorities in their review activities. Especially concerning credit risk, the role of the Office is to evaluate appropriateness and adequacy of IRB systems, both in the development (analyses of the chosen methodology from the perspectives of regulatory requirements and principles of best internal and external practices) and model efficiency dimensions (backtesting analyses and periodical monitoring of the model). Validation analysis also includes development of the model (this is done internally by the Office) and alternative methodologies that are used for benchmark purposes.

- **Credit Risk Models Office** develops data driven models that help the Bank predict the chances of a default of a borrower and the amount of loss in the case of the default.

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

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

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

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

3.2 CAPITAL ADEQUACY AND OWN FUNDS (CAPITAL) MANAGEMENT

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

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

The internal capital planning strategy, which ensures expected sustainable growth of the balance sheet compared to the available capital (shareholders' equity), takes into account:
- expected growth of placements,
- future funding sources and their use,
- dividend policy,
- changes in the minimum amount of regulatory capital and
- restrictions related to regulatory capital.

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

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

3.2.1 Compliance with the regulatory capital requirement

The regulatory capital requirement is calculated in line with the CRR and is determined as a ratio between the Bank's capital and risk-weighted assets. Regulatory capital requirements mandate the Bank to set aside funds for covering unexpected losses for credit, market and operational risk. Banks have to meet the CET1 minimum capital requirement of 4.5% or higher and the minimum own funds requirement of 8%. The Bank's capital is composed of the Common Equity Tier 1 capital and, to a lesser extent, of Tier 2 capital. As of 31 December 2021, the Bank's regulatory capital amounts to 308 million euros, whereas the Capital Adequacy ratio was 18.35%. The capital ratio was adequate and above the minimum capital requirement as defined by the regulation as well as with regard to the Pillar II framework, i.e. the internal assessment of capital requirement of the Bank (ICAAP) and the supervisory review process (SREP) evaluation of Pillar II.

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

(in thousands of euros)

Capital adequacy as at 31 December	Risk weighted amount		Capital requirement (8% of RWA)	
	2021	2020	2021	2020
Credit risk exposures of banking book				
Exposures to state and central bank	10,951	8,733	876	699
Exposures to local municipalities	32,767	20,046	2,621	1,604
Exposures to public sector	2,502	3,420	200	274
Exposures to institutions	127,534	34,570	10,203	2,766
Exposures to enterprises	88,059	157,858	7,045	12,629
Exposures to retail banking	474,591	483,992	37,967	38,719
Past due exposures	5,911	6,525	473	522
Exposures to highly risk exposures	93	162	7	13
Exposures to investments funds	1,379	1,505	110	120
Secured by mortgages on immovable property	119,680	93,349	9,574	7,468
Exposures to corporates-other IRB	513,956	468,153	41,116	37,452
Exposures to corporates-SME IRB	123,017	124,454	9,841	9,956
Exposures to equity IRB	14,132	12,311	1,131	985
Exposures to other assets IRB	41,840	47,992	3,347	3,839
Total	**1,556,412**	**1,463,070**	**124,511**	**117,046**
Credit risk weighted assets	1,556,412	1,463,070	124,511	117,046
Market risk weighted assets	541	457	43	37
Operational risk weighted assets	123,890	129,222	9,911	10,338
Total risk weighted assets	**1,680,843**	**1,592,749**	**134,465**	**127,421**

Regulatory capital	**2021**	**2020**
Share capital	22,173	22,173
Share premium	7,499	7,499
Treasury shares	(49)	(49)
Revaluation reserves	15,129	16,064
Legal reserves	17,837	17,195
Treasury shares fund reserves	49	49
Statutory reserves	244,310	214,055
Other reserves from profit	0	22,566
Retained earning	1,995	4,181
Less intangible assets	(3,970)	(6,520)
IRB shortfall of credit risk adjustments to expected losses	0	(26)
Other transitional adjustments		
Requirements from prudent valuation of debt securities	(137)	(106)
Recognised impairments for credit risk during the year	(102)	(1,073)
Total qualifying Tier 1 capital	**304,734**	**296,008**
IRB Excess of provisions over expected losses	3,710	3,766
Total qualifying Tier 2 capital	**3,710**	**3,766**
Total regulatory capital	**308,444**	**299,774**
Capital Adequacy ratio (%)	**18.35**	**18.82**

3.2.2 Risk Appetite Framework Limits

The Risk Appetite Framework (hereinafter RAF) limits are a set of risk metrics that represent the amount of risk the Bank is willing to take whilst conducting business operations. The RAF includes:
- top of the house limits,
- local specific limits, and
- early warning indicators.

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

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

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

3.3 CREDIT RISK

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

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

The Bank's credit risk related portfolio at the end of December 2021 amounted to EUR 4.029 million, of which 99% is classified as performing, which includes all asset (including loans to customers, financial assets at fair value through other comprehensive income, other assets, advances) and off-balance sheet items (including guarantees and credit commitments) that are subject to credit risk according to the Bank of Slovenia methodology.

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

(in thousands of euros)

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

Intesa Sanpaolo Bank's credit risk related portfolio as at 31 December 2020

(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	739,680	22%	739,680	22%	-	0%	45	0%	-	0%	739,635	22%
Corporate entities	1,663,510	49%	1,621,021	49%	42,489	75%	9,285	1%	26,057	61%	1,628,168	49%
Banks	105,645	3%	105,645	3%	-	0%	41	0%	-	0%	105,604	3%
Private individuals	864,234	26%	849,731	26%	14,503	25%	11,837	1%	10,407	72%	841,990	26%
Total	**3,373,069**	**100%**	**3,316,077**	**100%**	**56,992**	**100%**	**21,208**	**1%**	**36,464**	**64%**	**3,315,397**	**100%**

Analyses by type of collateral

(in thousands of euros)

	2021		2020	
	Net loans	Fair value of collateral	Net loans	Fair value of collateral
Performing	**1,315,932**	**2,311,423**	**1,243,813**	**2,171,363**
Totally secured	**1,226,182**	**2,220,957**	**1,165,388**	**2,092,034**
Real estate	707,253	1,628,954	634,571	1,498,438
Debt securities	1,701	2,091	1,666	1,677
Deposits	563	1,181	1,081	1,968
Other collateral	75,420	138,686	63,041	106,020
Bank guaranties	63,071	64,159	13,835	13,846
Government guaranties	168,567	170,603	201,787	203,322
Insurance company guaranties	132,798	133,211	143,865	144,241
Third party guarantors	76,809	82,072	105,542	122,522
Partially secured	**89,750**	**90,466**	**78,425**	**79,329**
Real estate	34,757	35,209	32,625	33,071
Deposits	3,062	3,062	3.097	3.097
Other collateral	4,256	4,300	6.501	6.692
Bank guaranties	40,933	41,054	31.868	31.919
Government guaranties	6,740	6,836	4.328	4.544
Insurance company guaranties	-	-	4	4
Third party guarantors	2	5	2	2
Impaired	**7,727**	**48,712**	**17.536**	**75.104**
Totally secured	**7,707**	**46,706**	**15.346**	**63.844**
Real estate	6,545	41,543	11,184	51,993
Debt securities	-	-	1,163	4,782
Deposits	-	-	2	10
Other collateral	218	2,407	1,954	5,105
Insurance company guaranties	940	2,725	1,043	1,954
Third party guarantors	4	27	-	-
Partially secured	**20**	**2,006**	**2,190**	**11,260**
Real estate	6	1,800	2,117	7,579
Other collateral	-	-	29	3,575
Government guaranties	14	206	44	106
TOTAL secured net loans	**1,323,659**	**2,360,135**	**1,261,349**	**2,246,467**
Unsecured*	**861,896**		**753,471**	
TOTAL net loans**	**2,185,555**		**2,014,820**	

* *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.*
** *For the year 2020, this amount includes also the amount of net loans classified as mandatorily at FV through profit or loss*
The amounts of fair value of collaterals represents the total estimated fair value of collaterals, and they have not been presented only up to the amount which would mitigate credit risk, i.e. up to the amount of exposure.

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

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

Credit exposure measurement

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

Maximum exposure to credit risk

(in thousands of euros)

	Maximum exposure	
	2021	**2020**
Credit risk exposures relating to on-balance sheet assets are as follows:		
Loans to banks	107,843	47,064
Loans to customers:*	2,179,391	2,000,516
Loans to individuals:	779,149	711,396
- overdrafts	17,610	19,448
- credit cards	8,521	8,136
- term loans	149,742	146,644
- mortgages	600,338	533,164
- finance leases	2,938	4,004
Loans to sole proprietors	51,871	50,055
Loans to corporate entities	1,348,371	1,239,065
Advances	8,431	10,735
Non-trading financial assets mandatorily at fair value through profit or loss:	2,800	3,220
- debt securities	2,800	2,585
- loans and advances	-	635
Financial assets at fair value through other comprehensive income:	221,601	257,032
- debt securities	221,601	257,032
Other assets**	862,733	517,717
Credit risk exposures relating to off-balance sheet items are as follows:		
Guarantees and documentary letters of credit	169,110	111,766
Credit commitments and other credit related liabilities	403,902	360,768
Derivatives replacement value	24,142	6,579
At 31 December	**3,979,953**	**3,315,397**

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

The maximum exposure to credit risk represents the worst case scenario of credit risk exposure to the Bank at 31 December 2021 and 2020, without taking into account any collateral held or other attached credit enhancements. For contingent liabilities (guarantees and loan commitments), the exposures set out above are based on net amounts after impairments as reported in Note 45 Contingent liabilities and commitments.

Credit Classification

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

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

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

Significant increase in credit risk (SICR)

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

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

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

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

Definition of default and staging criteria

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

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

Stage assignment for Loans:

Loan exposures towards Legal entities:

Condition - business condition (event) for assignment of stage	Stage
Risk class is Past Due, Unlikely to pay or Doubtful	3
DPD >30 with materiality threshold over 5% at reporting date	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 with materiality threshold over 5% at reporting date	2
Early warning signals for retail exposures show significant deterioration in credit risk:	2
Contract is Forborne	2

Inclusion of forward-looking element

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

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

The Bank revised the forward-looking components of the ECL calculation. Despite expected improvements in the macroeconomic outlook, additional loan loss provisions were set aside end of 2021 as uncertainties related to forecast remained high. In accordance with the prudence principles, a decision has been made to retain existing (greater) amount of Loan loss provisions.

In the year 2021, the Bank updated the macroeconomic outlook and the forward-looking elements of the calculation. The said updates are anchored in the updated ECB macroeconomic scenarios. These ECB scenarios translate onto the macro variables that subsequently determine the FLI component of the ECL. Regarding the numbers of scenarios and their weighting, the Bank has not changed its methodology in 2020. The Bank defined three macroeconomic scenarios (favourable, base, adverse) and the FLI effects of the ECL stems from these scenarios.

Macroeconomic scenarios included in the FLI component

	Favourable scenario			Baseline scenario			Adverse scenario		
Macroeconomic indicator	2022	2023	2024	2022	2023	2024	2022	2023	2024
Real GDP y/y	5.9	4.2	3.7	4.7	3.5	3.0	3.7	2.7	2.5
Unemployment rate (avg)	7.5	7.6	7.5	7.9	7.8	7.7	8.2	8.1	7.9
CPI y/y (average)	2.1	2.3	2.3	1.8	2.0	2.0	1.9	1.9	1.9
Bank Loans y/y	4.9	4.0	6.1	3.3	2.9	2.7	2.0	1.4	1.2
Bank Deposits y/y	5.1	4.4	5.7	4.4	3.6	3.6	3.8	2.9	2.7

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

Managerial overlay has been adopted to address the following circumstances:
- Increase of the PD obtained with the internal satellite model for a margin of conservatism of 20% applied to Corporate and Small business clients because of weaknesses of PD models and related to ongoing re-development of new models.
- Due to absence of internal rating model in the risk segment Private individuals, the Bank has identified an additional indicator of significant increase of credit risk that is based on clients' overdrafts and their usage.

In total, the provisions that were set aside as managerial overlay in the year 2021 amounted to EUR 3.9 million (2020: EUR 4.3 million).

Credit quality analysis

(in thousand euros)

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

Credit quality analysis

(in thousand euros)

	2020				
	12 month ECL	Lifetime ECL – not credit impaired	Lifetime ECL - credit impaired	POCI	Total 2020
Loans to banks at amortised cost					
Performing	47,086	-	-	-	**47,086**
Loss allowance	(22)	-	-	-	**(22)**
Carrying amount	**47,064**	**-**	**-**	**-**	**47,064**
Loans to customers at amortised cost					
Performing	1,954,146	-	-	-	**1,954,146**
Watch list	-	60,105	-	-	**60,105**
Past due impaired	-	-	1,810	-	**1,810**
Unlikely to pay	-	-	28,025	6,833	**34,858**
Doubtful	-	-	17,810	-	**17,810**
Loss allowance	(13,102)	(6,521)	(34,825)	(96)	**(54,544)**
Carrying amount	**1,941,044**	**53,584**	**12,820**	**6,737**	**2,014,185**
Debt investment securities at FVOCI					
Performing, low risk	257,078	-	-	-	**257,078**
Loss allowance	(46)	-	-	-	**(46)**
Carrying amount - fair value	**257,032**	**-**	**-**	**-**	**257,032**
Off balance sheet					
Loan commitments					
Performing	355,126	-	-	-	**355,126**
Watch list	-	6,334	-	-	**6,334**
Past due impaired	-	-	106	-	**106**
Unlikely to pay	-	-	332	-	**332**
Doubtful	-	-	70	-	**70**
Loss allowance	(839)	(39)	(322)	-	**(1,200)**
Carrying amount (provision)	**354,287**	**6,295**	**186**	**-**	**360,768**
Financial guarantee contracts					
Performing	108,178	-	-	-	**108,178**
Watch list	-	3,982	-	-	**3,982**
Past due impaired	-	-	-	-	**-**
Unlikely to pay	-	-	10	-	**10**
Doubtful	-	-	509	-	**509**
Loss allowance	(291)	(152)	(470)	-	**(913)**
Carrying amount (provision)	**107,887**	**3,830**	**49**	**-**	**111,766**
Loans mandatorily at fair value through profit or loss					
Unlikely to pay	-	-	635	-	**635**
Carrying amount (provision)	**-**	**-**	**635**	**-**	**635**

Credit quality loan analysis - summary

(in thousands of euros)

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

(in thousands of euros)

	2020				
	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	POCI	Total
Balance exposures					
Gross carrying amount	2,258,310	60,105	47,645	6,833	**2,372,893**
Loss allowance	(13,170)	(6,521)	(34,825)	(96)	**(54,612)**
Net carrying amount	**2,245,140**	**53,584**	**12,820**	**6,737**	**2,318,281**
Off-balance exposure					
Gross carrying amount	463,304	10,316	1,027	-	**474,647**
Loss allowance	(1,130)	(191)	(792)	-	**(2,113)**
Net carrying amount	**462,174**	**10,125**	**235**	**-**	**472,534**

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

The rating model
Models for risk segments Corporate and Small Business are designed as such to calculate a credit score based on debtor’s financial data, behavioural data and qualitative information that is associated with the respective rating grade. A corresponding PD is assigned to each rating grade in accordance to the rating master scale. The final rating can be modified with an override request based on subjective evaluation.
The Bank uses 15 performing rating classes (N1 – N7, S1 – S4 and P1 – P4), indicating low, medium and high risk, respectively. They are recalculated every time new information about the client is received, but at least once per year.

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

Internal rating

Loans to customers at amortised cost

(in thousands of euros)

STAGE 1 (12 - month ECL)	2021 Gross amount	2021 Loss allowance	2021 Carrying (net) amount	2020 Gross amount	2020 Loss allowance	2020 Carrying (net) amount
N1	11,188	(22)	11,166	10,344	(24)	10,320
N2	74,491	(163)	74,328	58,024	(116)	57,908
N3	126,181	(435)	125,746	57,371	(169)	57,202
N4	123,532	(420)	123,112	218,073	(611)	217,462
N5	135,554	(829)	134,725	109,942	(540)	109,402
N6	357,172	(1,300)	355,872	273,446	(809)	272,637
N7	55,750	(503)	55,247	86,601	(606)	85,995
S1	35,010	(445)	34,565	24,885	(317)	24,568
S2	15,581	(291)	15,290	14,245	(273)	13,972
S3	6,361	(150)	6,211	17,164	(353)	16,811
S4	2,237	(87)	2,150	2,361	(98)	2,263
P1	623	(22)	601	413	(16)	397
P2	112	(8)	104	1,060	(24)	1,036
P3	31	(3)	28	16	(2)	14
P4	-	-	-	53	(11)	42
No rating	1,167,607	(8,238)	1,159,369	1,080,148	(9,133)	1,071,015
of which						
Government	8,402	(1)	8,401	12,407	(1)	12,406
Other public entities	216,729	(77)	216,652	179,315	(57)	179,258
Financial entities	95,329	(45)	95,284	98,994	(63)	98,931
Non-financial entities	55,496	(735)	54,761	56,963	(788)	56,175
Sole proprietors	26,749	(1,178)	25,571	24,264	(941)	23,323
Individuals	762,923	(6,153)	756,770	706,792	(7,235)	699,557
Non-profit institutions serving households	1,979	(49)	1,930	1,413	(48)	1,365
TOTAL STAGE 1	**2,111,430**	**(12,916)**	**2,098,514**	**1,954,146**	**(13,102)**	**1,941,044**

(in thousands of euros)

STAGE 2 (Lifetime ECL not credit - impaired)	2021 Gross amount	2021 Loss allowance	2021 Carrying (net) amount	2020 Gross amount	2020 Loss allowance	2020 Carrying (net) amount
N1	-	-	-	58	-	58
N2	1	-	1	-	-	-
N3	256	(2)	254	4,553	(69)	4,484
N4	2,077	(126)	1,951	2,807	(19)	2,788
N5	2,013	(22)	1,991	1,817	(63)	1,754
N6	8,067	(201)	7,866	2,910	(76)	2,834
N7	15,351	(352)	14,999	7,193	(233)	6,960
S1	7,819	(207)	7,612	6,522	(254)	6,268
S2	11,648	(573)	11,075	7,390	(375)	7,015
S3	2,649	(167)	2,482	1,831	(100)	1,731
S4	3,972	(301)	3,671	1,476	(76)	1,400
P1	2,787	(159)	2,628	2,995	(246)	2,749
P2	488	(77)	411	866	(66)	800
P3	374	(47)	327	420	(41)	379
P4	289	(68)	221	285	(37)	248
No rating	29,693	(7,330)	22,363	18,982	(4,866)	14,116
of which						
Other public entities	-	-	-	4,782	(6)	4,776
Financial entities	35	(5)	30	-	-	-
Non-financial entities	3,793	(918)	2,875	1,086	(330)	756
Sole proprietors	1,683	(464)	1,219	1,095	(409)	686
Individuals	24,166	(5,941)	18,225	11,999	(4,117)	7,882
Non-profit institutions serving households	16	(2)	14	20	(4)	16
TOTAL STAGE 2	**87,484**	**(9,632)**	**77,852**	**60,105**	**(6,521)**	**53,584**
TOTAL STAGE 1 and STAGE 2	**2,198,914**	**(22,548)**	**2,176,366**	**2,014,251**	**(19,623)**	**1,994,628**

Off-balance sheet

Loan commitments

(in thousands of euros)

STAGE 1 (12 - month ECL)	2021 Gross amount	2021 Loss allowance	2021 Carrying (net) amount	2020 Gross amount	2020 Loss allowance	2020 Carrying (net) amount
N1	12,050	(7)	12,043	13,625	(6)	13,619
N2	15,920	(13)	15,907	10,671	(10)	10,661
N3	58,818	(90)	58,728	43,762	(40)	43,722
N4	25,147	(28)	25,119	36,959	(37)	36,922
N5	43,129	(67)	43,062	39,024	(61)	38,963
N6	38,935	(77)	38,858	13,696	(24)	13,672
N7	18,756	(41)	18,715	19,148	(46)	19,102
S1	8,751	(26)	8,725	5,323	(18)	5,305
S2	2,955	(15)	2,940	2,884	(15)	2,869
S3	949	(6)	943	858	(5)	853
S4	309	(3)	306	299	(2)	297
P1	36	-	36	134	(1)	133
P2	5	-	5	29	-	29
P3	2	-	2	-	-	-
P4	-	-	-	3	-	3
No rating	169,480	(471)	169,009	168,711	(574)	168,137
of which						
Government	5	-	5	5	-	5
Other public entities	5,291	(1)	5,290	1,721	(5)	1,716
Banks	1,682	-	1,682	17	-	17
Financial entities	3,344	(7)	3,337	8,058	(6)	8,052
Non-financial entities	25,192	(69)	25,123	26,077	(110)	25,967
Sole proprietors	4,847	(66)	4,781	4,367	(52)	4,315
Individuals	128,473	(323)	128,150	128,061	(396)	127,665
Non-profit institutions serving households	646	(5)	641	405	(5)	400
TOTAL STAGE 1	**395,242**	**(844)**	**394,398**	**355,126**	**(839)**	**354,287**

(in thousands of euros)

STAGE 2 (Lifetime ECL not credit - impaired)	2021 Gross amount	2021 Loss allowance	2021 Carrying (net) amount	2020 Gross amount	2020 Loss allowance	2020 Carrying (net) amount
N1	20	-	20	2	-	2
N2	9	-	9			
N3	67	-	67	1,000	(4)	996
N4	273	-	273	671	(1)	670
N5	1,273	(2)	1,271	977	(2)	975
N6	727	(1)	726	653	(1)	652
N7	3,079	(7)	3,072	784	(2)	782
S1	1,312	(4)	1,308	854	(5)	849
S2	1,307	(7)	1,300	417	(1)	416
S3	430	(4)	426	593	(3)	590
S4	80	(2)	78	177	(1)	176
P1	120	(1)	119	28	-	28
P2	1	-	1	-	-	-
P3	-	-	-	-	-	-
P4	16	(1)	15	-	-	-
No rating	748	(58)	690	178	(19)	159
of which						
Non-financial entities	224	(23)	201	19	(3)	16
Sole proprietors	75	(7)	68	61	(7)	54
Individuals	445	(28)	417	97	(9)	88
Non-profit institutions serving households	4	-	4	1	-	1
TOTAL STAGE 2	**9,462**	**(87)**	**9,375**	**6,334**	**(39)**	**6,295**
TOTAL STAGE 1 and STAGE 2	**404,704**	**(931)**	**403,773**	**361,460**	**(878)**	**360,582**

Financial guarantee contracts

(in thousands of euros)

STAGE 1 (12 - month ECL)	2021 Gross amount	2021 Loss allowance	2021 Carrying (net) amount	2020 Gross amount	2020 Loss allowance	2020 Carrying (net) amount
I1.F	-	-	-	20	-	20
N1	11,180	(14)	11,166	6,184	(8)	6,176
N2	12,732	(15)	12,717	8,743	(10)	8,733
N3	38,592	(117)	38,475	26,959	(70)	26,889
N4	35,455	(88)	35,367	19,348	(52)	19,296
N5	4,767	(19)	4,748	8,755	(20)	8,735
N6	35,827	(185)	35,642	18,331	(59)	18,272
N7	5,758	(45)	5,713	1,802	(13)	1,789
S1	3,553	(36)	3,517	1,528	(14)	1,514
S2	980	(9)	971	1,961	(18)	1,943
S3	234	(2)	232	69	-	69
S4	291	(3)	288	92	(3)	89
P1	90	(1)	89	93	(1)	92
P3	-	-	-	-	-	-
No rating	11,100	(14)	11,086	14,293	(23)	14,270
of which						
Other public entities	569	-	569	300	-	300
Banks	7,541	-	7,541	10,848	(1)	10,847
Financial entities	102	-	102	102	-	102
Non-financial entities	408	(7)	401	577	(7)	570
Sole proprietors	222	(6)	216	215	(4)	211
Individuals	1,907	-	1,907	1,900	-	1,900
Non-profit institutions serving households	351	(1)	350	351	(11)	340
TOTAL STAGE 1	**160,559**	**(548)**	**160,011**	**108,178**	**(291)**	**107,887**

(in thousands of euros)

STAGE 2 (life time loss)	2021 Gross amount	2021 Loss allowance	2021 Carrying (net) amount	2020 Gross amount	2020 Loss allowance	2020 Carrying (net) amount
N1	-	-	-	152	(4)	148
N3	5,000	(19)	4,981	8	-	8
N4	24	-	24	122	-	122
N5	225	(1)	224	168	(1)	167
N6	469	(17)	452	1,258	(3)	1,255
N7	1,698	(112)	1,586	142	(20)	122
S1	184	(2)	182	587	(52)	535
S2	675	(33)	642	208	(5)	203
S3	215	(5)	210	620	(63)	557
S4	236	(5)	231	24	-	24
P1	617	(76)	541	30	(1)	29
P2	12	-	12	17	-	17
P4	14	-	14	14	-	14
No rating	-	-	-	632	(3)	629
of which						
Other public entities	-	-	-	632	(3)	629
STAGE 2 Total	**9,369**	**(270)**	**(9,099)**	**3,982**	**(152)**	**3,830**
TOTAL STAGE 1 and STAGE 2	**169,928**	**(818)**	**169,110**	**112,160**	**(443)**	**111,717**

Changes in credit-impaired loans to customers

(in thousands of euros)

	2021	2020
Credit-impaired loans (Stage 3) at 1 January	**19,557**	**27,446**
Change in allowance for impairment	1,868	(788)
Classified as credit-impaired during the year	7,449	6,317
Transferred to not credit-impaired during the year	(451)	(916)
Recoveries of amounts previously written off	(16,989)	(12,102)
Disposals	(134)	-
Write-offs	(936)	(47)
Other movements	(471)	(353)
Modification gain/loss	(704)	-
Credit-impaired loans (Stage 3) at 31 December	**9,189**	**19,557**

Impairment provisions for credit risk

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

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

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

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

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

The 2020 and 2021 pandemic years posed a challenge for the ECL modelling, since pandemic effects were not observed in the past. However, the Bank was able to adjust the credit risk parameters, so that they reflect the new macroeconomic forecasts, which are anchored in the last ECB macro scenarios. The methodology of ECL calculation has remained the same.

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

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

Covid 19 intervention measures

On 29 March 2020, the Act on the Intervention measure settlement of debt obligations (Intervention law) entered into force in Republic of Slovenia. The Bank has launched measures to mitigate the impact of the COVID-19 crisis on its clients following the regulatory requirements and EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA Guidelines).

Since the beginning of the COVID-19 pandemic, the Bank has focused on lean processing of requests for moratoriums while respecting Intervention Law and regulatory framework with proclaimed flexibility. The clients which have submitted a request for moratorium have been assessed with a focus on justification of impact due to Covid-19 crisis on repayment ability, while potential classification to NPL and to Performing forborne exposures was also considered in cases where there was indication that the repayment deterioration is not of transitional nature, i.e. for clients for which creditworthiness is unlikely to be restored.
The Bank is aware that the future macroeconomic developments that affect its portfolio are subject to high uncertainty and has therefore adopted managerial overlays already in 2020, thereby prudentially increasing the coefficients which reflects macroeconomic projections and by applying a 20% Margin of conservatism to the output obtained with internal satellite model. 20% Margin of conservatism was prudentially extended to year 2021 for Corporate and Small business clients.

The Bank is continuously following the economic developments in 2021, including the political measures and changes of legislation, which may directly or indirectly affect the Bank's portfolio.

In 2021, the Bank followed all the currently valid rules for significant increase in credit risk identification. The latter did not change in 2021 as a consequence of the COVID-19 pandemic.

As of 31 December 2021, there are no active COVID-19 moratoria in the Bank`s portfolio. Nevertheless, the Bank continues to monitor the clients which had COVID-19 moratoria in the past, giving special attention to clients with payment difficulties after the end of moratoria. In doing so, the Bank is taking into account all the relevant information available, including possible future developments which may affect the business of these clients.

In 2021, no material exposures have been reclassified into NPL as a consequence of inability of repayment of their debt after the expiration of COVID-19 moratorium.

(in thousands of euros)

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

(in thousands of euros)

2021	Gross carrying amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk				
		Performing		Non-performing			Performing		Non-performing	
	Total	Total	Of which: exposures with forbearance measures	Total	Of which: exposures with forbearance measures	Total	Total	Of which: exposures with forbearance measures	Total	Of which: exposures with forbearance measures
Loans subject to EBA-compliant moratoria	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
of which: Households	-	-	-	-	-	-	-	-	-	-
of which: Non-financial corporations	-	-	-	-	-	-	-	-	-	-
Other loans subject to COVID-19-related forbearance measures	**1,526**	**1,374**	**448**	**152**	**152**	**(326)**	**(232)**	**(115)**	**(94)**	**(94)**
of which: Households	1,059	945	448	114	114	(193)	(135)	(115)	(58)	(58)
of which: Non-financial corporations	467	429	-	38	38	(133)	(97)	-	(36)	(36)

(in thousands of euros)

2020	Granted gross carrying amount					
		Residual maturity				
	Total	Of which: expired	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months
EBA-compliant moratoria loans and advances	**114,080**	**20,647**	**49,247**	**30,391**	**9,211**	**4,584**
of which: Households	36,782	10,194	15,958	7,110	1,975	1,545
of which: Non-financial corporations	77,229	10,453	33,221	23,281	7,235	3,039
Other loans and advances with COVID-19-related forbearance measures	**12,046**	**10,806**	**450**	**756**	**2**	**32**
of which: Households	1,813	1,338	184	257	2	32
of which: Non-financial corporations	10,201	9,436	266	499	-	-

(in thousands of euros)

2020	Gross carrying amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk				
		Performing		Non-performing			Performing		Non-performing	
	Total	Total	Of which: exposures with forbearance measures	Total	Of which: exposures with forbearance measures	Total	Total	Of which: exposures with forbearance measures	Total	Of which: exposures with forbearance measures
Loans subject to EBA-compliant moratoria	**93,433**	**84,187**	**9,874**	**9,246**	**8,950**	**(4,704)**	**(3,029)**	**(1,928)**	**(1,675)**	**(1,528)**
of which: Households	26,588	25,750	4,242	838	741	(2,404)	(1,906)	(1,443)	(498)	(452)
of which: Non-financial corporations	66,776	58,368	5,632	8,408	8,209	(2,295)	(1,118)	(484)	(1,177)	(1,076)
Other loans subject to COVID-19-related forbearance measures	**1,240**	**957**	**957**	**283**	**283**	**(349)**	**(155)**	**(155)**	**(194)**	**(194)**
of which: Households	475	418	418	57	57	(131)	(100)	(100)	(31)	(31)
of which: Non-financial corporations	765	539	539	226	226	(218)	(55)	(55)	(163)	(163)

Large exposures

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

Financial instruments' breakdown by country risk
Country risk

(in thousands of euros)

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

(in thousands of euros)

As at 31 December 2020	Slovenia	EU	*Of which Italy*	Other Europe	Rest of world	Total
Cash, cash balances at central banks and other demand deposits at banks	514,147	16,929	*13,582*	-	1,698	**532,774**
Financial assets held for trading –derivatives	170	4	*4*	-	-	**174**
Non-trading financial assets mandatorily at fair value through profit or loss	699	-	-	634	2,585	**3,918**
Financial assets at fair value through other comprehensive income	195,903	72,076	*40,674*	-	2,903	**270,882**
Financial assets at amortised cost	1,816,139	216,996	*50,061*	35,780	3,069	**2,071,984**
- Loans to banks	1,249	45,321	*45,321*	494	-	**47,064**
- Loans to customers	1,807,741	171,051	*4,717*	35,286	107	**2,014,185**
- Advances	7,149	624	*23*	-	2,962	**10,735**
Derivatives - hedge accounting	-	21	*21*	-	-	**21**
Contingent liabilities and commitments	429,377	38,901	3,483	931	3,325	**472,534**
TOTAL EXPOSURES	**2,956,435**	**344,927**	***107,825***	**37,345**	**13,580**	**3,352,287**

3.4 ANALYSIS OF PAST DUE FINANCIAL INSTRUMENTS

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

Loans are summarised as follows:

Loans by maturity (past due)

(in thousands of euros)

	2021		2020	
	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)	2,198,035	107,875	2,013,393	47,086
Past due but not impaired (stage1 and 2)	879	-	860	-
Impaired	32,944	-	55,111	-
Gross	**2,231,858**	**107,875**	**2,069,364**	**47,086**
Impairment losses on loans	(46,303)	(32)	(54,544)	(22)
Net	**2,185,555**	**107,843**	**2,014,820**	**47,064**

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

Loans to customers by maturity and portfolio quality

(in thousands of euros)

31 December 2021	Individuals							Total loans and advances to customers
	Overdrafts	Credit Cards	Term loans	Mortgages	Finance leases	Sole proprietors	Corporate	
Neither past due nor impaired (stage 1 and 2)	17,653	8,649	151,578	605,624	2,993	53,676	1,357,862	**2,198,035**
Not past due but impaired (stage 3)	395	208	3,094	6,903	0	716	9,649	**20,965**
Past due but not impaired (stage 1 and 2)	161	10	243	172	5	41	247	**879**
Past due and impaired (stage 3)	515	362	1,810	1,779	238	889	6,386	**11,979**
Gross	**18,724**	**9,229**	**156,725**	**614,478**	**3,236**	**55,322**	**1,374,144**	**2,231,858**
Impairment losses on loans and advances	(1,114)	(708)	(6,983)	(14,140)	(298)	(3,451)	(19,609)	**(46,303)**
Net	**17,610**	**8,521**	**149,742**	**600,338**	**2,938**	**51,871**	**1,354,535**	**2,185,555**

Loans to customers by maturity and portfolio quality

(in thousands of euros)

31 December 2020	Individuals							Total loans and advances to customers
	Overdrafts	Credit Cards	Term loans	Mortgages	Finance leases	Sole proprietors	Corporate	
Neither past due nor impaired (stage 1 and 2)	19,279	8,152	147,619	539,270	3,940	51,262	1,243,871	**2,013,393**
Not past due but impaired (stage 3)	420	216	2,002	5,446	-	990	29,291	**38,365**
Past due but not impaired (stage 1 and 2)	172	17	185	153	5	32	296	**860**
Past due and impaired (stage 3)	516	675	1,756	2,685	358	924	9,832	**16,746**
Gross	**20,387**	**9,060**	**151,562**	**547,554**	**4,303**	**53,208**	**1,283,290**	**2,069,364**
Impairment losses on loans and advances	(939)	(925)	(4,917)	(14,390)	(299)	(3,153)	(29,921)	**(54,544)**
Net	**19,448**	**8,135**	**146,645**	**533,164**	**4,004**	**50,055**	**1,253,369**	**2,014,820**

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

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

(in thousands of euros)

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

(in thousands of euros)

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

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

(in thousands of euros)

2020	Individuals										Total individuals
	Overdrafts		Credit cards		Term loans		Mortgages		Finance leases		
	Not impaired	*Impaired*	*Not impaired*	*Impaired*	*Not impaired*	*Impaired*	*Not impaired*	*Impaired*	*Not impaired*	*Impaired*	
Past due up to 30 days	113	4	11	1	167	84	130	41	4	8	**563**
Past due 30 - 60 days	30	3	6	-	13	29	13	80	1	3	**178**
Past due 60 - 90 days	29	28	-	11	5	179	10	193	-	9	**464**
Past due over 90 days	-	481	-	663	-	1,464	-	2,371	-	338	**5,317**
Total	**172**	**516**	**17**	**675**	**185**	**1,756**	**153**	**2,685**	**5**	**358**	**6,522**

(in thousands of euros)

2020	Sole proprietors		Corporate entities		Total
	Not impaired	*Impaired*	*Not impaired*	*Impaired*	
Past due up to 30 days	23	16	254	68	**361**
Past due 30 - 60 days	8	24	36	72	**140**
Past due 60 - 90 days	1	96	6	437	**540**
Past due over 90 days	-	788	-	9,255	**10,043**
Total	**32**	**924**	**296**	**9,832**	**11,084**

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)

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

(in thousands of euros)

2020	Individuals	Sole proprietors	Corporate entities	Total
Impaired loans	14,075	1,915	39,123	**55,113**
Fair value of collateral	20,904	3,866	32,241	**57,011**

In 2021, the Bank received EUR 4,499 thousand from the sale of pledged collateral (2020: EUR 6,414 thousand).

3.5 LIQUIDITY RISK

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

The minimum liquidity to be maintained by banks is defined by the Decision on macro-prudential monitoring of the areas of liquidity and funding structure (Ur. l. RS, nr. 10/20).

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

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

Liquidity ratios

	31.12.2021	31.12.2020	31.12.2019
LCR	264%	225%	198%
NSFR	158%	151%	137%
Survival Period	Over 5 years	Over 5 years	Not available

The LCR and NSFR ratios through the past period were stable, showing no significant movement and compliant with the regulatory limit. Internal RAF limits were set at 100% for LCR and NSFR until February 2021 and after that at 107.5% for LCR and 102.5% for NSFR. The liquidity buffer is comprised entirely out of assets, mostly withdrawable central bank reserves and government bonds.

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

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

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

(in thousands of euros)

As at 31 December 2021	Contractual maturity - undiscounted						
	Carrying amount	**Gross nominal Inflow/(outflow)**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5**
ASSETS							
Cash, cash balances at Central Banks and other demand deposits at banks	881,289	881,289	854,691	-	-	-	26,598
Non-trading financial assets mandatorily at fair value through profit or loss	3,782	3,782	-	-	-	3,782	-
Financial assets at fair value through other comprehensive income	235,559	228,059	20,000	40,000	62,467	91,586	14,006
Loans and receivables:*	2,301,829	2,324,410	86,029	81,923	341,151	987,925	827,381
- loans to banks	107,843	107,882	19,016	15,000	12,532	60,000	1,334
- loans to customers	2,185,555	2,208,096	63,865	61,640	328,619	927,925	826,047
- other financial assets	8,431	8,431	3,148	5,283	-	-	-
Total assets	**3,422,459**	**3,437,539**	**960,720**	**121,923**	**403,618**	**1,083,293**	**867,985**
LIABILITIES							
Financial liabilities measured at amortised cost:	3,117,568	3,117,568	2,668,900	46,861	89,449	312,001	357
- deposits from banks and central banks	490	490	490	-	-	-	-
- deposits from non-bank customers	2,788,959	2,788,959	2,641,600	45,515	86,589	15,192	63
- loans from banks and central banks	299,280	299,280	-	1,165	2,145	295,676	294
- financial leasing	2,130	2,130	101	181	715	1,133	-
- other financial liabilities	26,709	26,709	26,709	-	-	-	-
Total liabilities	**3,117,568**	**3,117,568**	**2,668,900**	**46,861**	**89,449**	**312,001**	**357**
Net liquidity gap	**304,891**	**319,971**	**(1,708,180)**	**75,062**	**314,169**	**771,292**	**867,628**

(in thousands of euros)

As at 31 December 2020	Contractual maturity - undiscounted						
	Carrying amount	**Gross nominal Inflow/(outflow)**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5**
Total assets	2,879,558	2,875,354	625,398	54,627	403,640	1,033,455	758,234
Total liabilities	2,585,723	2,585,723	2,268,160	67,780	142,528	105,199	2,056
Net liquidity gap	**293,835**	**289,631**	**(1,642,762)**	**(13,153)**	**261,112**	**928,256**	**756,178**

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

The negative net liquidity gap in the 1-month time bucket should be viewed with additional consideration of specific liquidity profile of some balance sheet items, particularly with sight deposits, of which balances during 2021 kept increasing. Although sight deposits can be withdrawn at any time, they are considered (for liquidity management purposes) to be largely stable. This is demonstrated by the LCR treatment of sight deposits, whereby the run-off factor is 5%, representing the percentage of sight deposits deemed volatile in 1-month horizon. Moreover, on the assets side, the financial assets available for sale include ECB eligible bonds, which are treated as liquidity reserves entering in the 1-month maturity bucket. The stable part of sight deposits and ECB eligible bonds counterbalance the 1-month net liquidity gap.

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

(in thousands of euros)

As at 31 December 2021	Carrying amount	Nominal In-flow/(outflow)	Contractual maturity 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)	**55**	**55**	**4**	**10**	**23**	**18**	**-**
- Inflow		67	4	10	23	28	2
- Outflow		(12)	-	-	-	(10)	(2)
FX Forward (FWD)	**272**	**265**	**106**	**80**	**79**	**-**	**-**
- Inflow		9,708	2,647	1,765	5,296	-	-
- Outflow		(9,443)	(2,541)	(1,685)	(5,217)	-	-
Interest rate cap (CAP)	**20**	**20**	**-**	**-**	**-**	**1**	**19**
- Inflow		20	-	-	-	1	19
- Outflow		-	-	-	-	-	-
Total	**347**	**340**	**110**	**90**	**102**	**19**	**19**
DERIVATIVE LIABILITIES							
Derivatives held for trading:							
Interest rate swap (IRS)	**(55)**	**(55)**	**(4)**	**(10)**	**(23)**	**(18)**	**-**
- Inflow		12				10	2
- Outflow		(67)	(4)	(10)	(23)	(28)	(2)
FX Forward (FWD)	**(269)**	**(263)**	**(106)**	**(77)**	**(80)**	**-**	**-**
- Inflow		9,445	2,541	1,688	5,216	-	-
- Outflow		(9,708)	(2,647)	(1,765)	(5,296)	-	-
Total	**(324)**	**(318)**	**(110)**	**(87)**	**(103)**	**(18)**	**-**
Net liquidity gap		**22**	**-**	**3**	**(1)**	**1**	**19**

(in thousands of euros)

As at 31 December 2021	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	174	174	10	14	29	106	15
Total liabilities	(170)	(170)	(10)	(14)	(29)	(106)	(11)
Total gap		**4**	**-**	**-**	**-**	**-**	**4**

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

(in thousands of euros)

As at 31 December 2021	Carrying amount	Nominal In-flow/(outflow)	Contractual maturity Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
DERIVATIVE ASSETS							
IRS	547	437	(32)	(71)	(276)	(252)	1,068
- Inflow		1,711	-	-	-	171	1,540
- Outflow		(1,274)	(32)	(71)	(276)	(423)	(472)
Total	**547**	**437**	**(32)**	**(71)**	**(276)**	**(252)**	**1,068**
DERIVATIVE LIABILITIES							
IRS	12,605	(12,476)	(805)	(625)	(3,150)	(6,427)	(1,469)
- Inflow		5,748	-	23	144	1,575	4,006
- Outflow		(18,224)	(805)	(648)	(3,294)	(8,002)	(5,475)
Total	**12,605**	**(12,476)**	**(805)**	**(625)**	**(3,150)**	**(6,427)**	**(1,469)**
Net liquidity gap		**(12,039)**	**(837)**	**(696)**	**(3,426)**	**(6,679)**	**(401)**

(in thousands of euros)

As at 31 December 2020	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 liabilities	27,846	(27,523)	(378)	(1,423)	(3,610)	(14,899)	(7,213)
Total gap		**(27,502)**	**(378)**	**(1,428)**	**(3,625)**	**(14,946)**	**(7,125)**

Cash flows of interest rate caps, interest options and interest rate swaps represent fairly the difference between the contractual price and market price of derivatives.

The decrease in cash flows from derivatives in 2021 is due to the expiration of some derivatives and derecognition of some derivative contracts due to early repayment of hedged loans.

Contractual maturities of off-balance sheet items*

(in thousands of euros)

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

(in thousands of euros)

As at 31 December 2020	Up to 1	1-3 months	3-12 months	1-5 years	Over 5	Total
Documentary and commercial letters of credit	160	-	-	-	-	**160**
Guarantees	6,736	1,418	49,593	32,363	912	**91,022**
Credit commitments	162,156	17,722	105,843	19,499	56,425	**361,645**
Total	**169,052**	**19,140**	**155,436**	**51,862**	**57,337**	**452,827**

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

Financial assets available to support future funding

(in thousands of euros)

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

(in thousands of euros)

As at 31 December 2020	Encumbered		Non-encumbered	
	Pledged as collateral	Other	Available as collateral	Other
Loans on demand	-	23,531	-	490,613
Equity instruments	-	-	-	14,548
Debt securities	11,300	-	245,733	2,584
Loans other than loans on demand	-	28,206	397,592	1,646,821
Other assets	-	-	-	84,426
Total	**11,300**	**51,737**	**643,325**	**2,238,992**

Bank's liquidity reserves

(in thousands of euros)

	31. 12. 2021		31. 12. 2020	
	Gross Carrying amount	Fair value amount	Gross Carrying amount	Fair value amount
Balances with central bank (deducted by mandatory reserve)	797,262	797,262	453,643	453,643
Balances with clearing agent for BIPS payments	17,503	17,503	16,408	16,408
Balances with banks up to 90 days	52,633	52,633	37,715	37,715
Unencumbered debt securities issued by sovereigns	121,896	112,507	217,718	202,877
Unencumbered debt securities eligible for use as collateral with central bank	5,841	5,234	28,015	26,966
Loans to customers eligible for use as collateral with central bank	34,205	29,079	393,868	325,047
Total	**1,029,340**	**1,014,218**	**1,147,367**	**1,062,656**

3.6 BANKING BOOK EQUITY RISK

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

The Bank acquired these equity investments mainly by taking possession of financial collaterals that it received during its normal lending activity. These investments are managed with the aim of disposal in order to recover the Bank's credit exposures. In fact, most of these positions were already disposed of in the previous years, therefore only a very limited equity position is still left in the Bank`s balance sheet as of the end of 2021 (Note 23).

3.7 MARKET RISK

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

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

The Bank has established internal market risk limits on Fixed Income VaR indicator, FX VaR indicator, open foreign currency positions and on credit sensitivity (CR01) of Italian government bonds.

3.7.1 Derivative instruments

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

3.7.2 Currency Risk

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

For the purpose of measuring currency risk, the Bank takes into account the notional position (i.e. net difference between assets and liabilities in that currency) in a particular currency, FX spot transactions and currency derivatives. The Bank measures and monitors currency risk on a daily basis in two dimensions:
- as a notional open position in a particular currency, and
- as a Value-at-Risk (VAR) indicator for its global currency position.

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

The average utilisation of the FX VaR limit in 2021 stood at 6.02%, while the average utilisation of the Fixed Income VaR limit stood at 17.79%.

Bank VAR by risk type

(in thousands of euros)

	12 months to 31 December 2021			12 months to 31 December 2020		
	Average	High	Low	Average	High	Low
Foreign exchange risk (trading and non-trading portfolio)	1.8	6.2	0.4	2.1	8.1	0.6
Debt securities risk (banking book)	97.8	200.0	59.0	482.9	896.0	190.0
Total VAR	**99.6**	**206.2**	**59.4**	**485.0**	**904.1**	**190.6**

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

(in thousands of euros)

As at 31 December 2020	EUR	USD	Other	Total
ASSETS				
Cash, cash balances at central banks and other demand deposits at banks	513,587	10,688	8,499	532,774
Financial assets held for trading	165	9	-	174
Non-trading financial assets mandatorily at fair value through profit or loss	1,333	2,585	-	3,918
Financial assets at fair value through other comprehensive income	224,312	46,570	-	270,882
Financial assets at amortised cost	2,052,084	297	19,603	2,071,984
- Loans to banks	29,928	-	17,136	47,064
- Loans to customers	2,011,433	288	2,464	2,014,185
- Other financial assets	10,723	9	3	10,735
Derivatives - hedge accounting	21	-	-	21
Total	**2,791,502**	**60,149**	**28,102**	**2,879,753**
LIABILITIES				
Financial liabilities held for trading	161	9	-	170
Financial liabilities measured at amortised cost	2,499,668	57,576	28,479	2,585,723
- Deposits from banks and central banks	3,525	-	-	3,525
- Deposits from non-bank customers	2,397,615	57,190	28,478	2,483,283
- Loans from banks and central banks	79,601	-	-	79,601
- Other financial liabilities	18,927	386	1	19,314
Derivatives - hedge accounting	26,187	1,659	-	27,846
Total	**2,526,016**	**59,244**	**28,479**	**2,613,739**
CURRENCY GAP	**265,486**	**905**	**(377)**	**266,014**
Part of off-balance-sheet commitments sensitive to exchange rate changes in the year	**360,617**	**199**	**-**	**360,816**

3.7.3 Interest rate risk

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

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

Interest rate risk

(in thousands of euros)

As at 31 December 2021	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	881,289	38,690	842,599	-	-	-	-
Financial assets held for trading - derivatives	347	23	52	-	-	-	272
Non-trading financial assets mandatorily at fair value through profit or loss	3,782	-	-	-	2,800	-	982
Financial assets at fair value through other comprehensive income	235,559	29,997	40,105	63,065	88,386	-	14,006
Financial assets at amortised cost:	2,301,829	1,044,252	131,675	246,575	485,890	385,006	8,431
- loans to banks	107,843	47,667	-	194	59,982	-	-
- loans to customers	2,185,555	996,585	131,675	246,381	425,908	385,006	-
- other financial assets	8,431	-	-	-	-	-	8,431
Derivatives – Hedge accounting	547	547	-	-	-	-	-
Total assets	**3,423,353**	**1,113,509**	**1,014,431**	**309,640**	**577,076**	**385,006**	**23,691**
LIABILITIES							
Financial liabilities - derivatives	324	-	-	-	55	-	269
Financial liabilities measured at amortised cost:	3,117,568	2,644,854	342,031	86,588	15,192	64	28,839
- deposits from banks and central banks	490	490	-	-	-	-	-
- deposits from non-bank customers	2,788,959	2,641,600	45,515	86,588	15,192	64	-
- loans from banks and central banks	299,280	2,764	296,516	-	-	-	-
- other financial liabilities	28,839	-	-	-	-	-	28,839
Derivatives – Hedge accounting	12,605	10,398	880	1,327	-	-	-
Total liabilities	**3,130,497**	**2,655,252**	**342,911**	**87,915**	**15,247**	**64**	**29,108**
Total interest repricing gap	**292,856**	**(1,541,743)**	**671,520**	**221,725**	**561,829**	**384,942**	**(5,417)**

(in thousands of euros)

As at 31 December 2020	Carrying amount	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing
Total assets	2,879,753	2,302,871	129,653	175,296	71,666	10,936	189,331
Total liabilities	2,613,739	2,280,290	84,944	199,441	28,552	1,189	19,323
Net liquidity gap	**266,014**	**22,581**	**44,709**	**(24,145)**	**43,114**	**9,747**	**170,008**

The Bank measures the following sources of interest rate risk:

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

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

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

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

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

- Sight model: Assets and liabilities without contractual maturities are classified into specific time buckets based on their estimated sensitivity on changes in interest rates. The sight model was updated in April 2021 with newer data as part of periodic review done by ISP HQ. Overall, the main effect of changes came from increase of volumes as modelled sight deposits increased by 5.7% with model design effect contributing another +2.7%; altogether the effect being +8.4%. This translated to increase in shift sensitivity of sight deposits in overall shift sensitivity of about 8.1% (EUR +2.1 million).
- Prepayment model based on the probability that some of the loans outstanding will be paid off earlier than originally scheduled. Consequently, the planned cash flows of the outstanding loans are modified for the level of prepayment rate.
- Expected loss model: cash flows of outstanding loans are modified for the probability of default and LGD rate originating from credit risk.
- Fund Transfer Pricing model: the entire spread on loans above the reference rate is divided into cost of funding and commercial spread. For interest-sensitive cash flows, only the spread representing cost of funding is taken.

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

(mln EUR)

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

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

(mln EUR)

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

Sensitivity of net interest income of the Bank as of 31 December 2020

(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		**0.1**	**5.7**	**5.8**	**-**	**11.6**	**11.6**	**(0.3)**	**(4.3)**	**(4.6)**	**(0.1)**	**(4.5)**	**(4.6)**
Asset		**2.5**	**4.8**	**7.3**	**5.1**	**9.8**	**14.9**	**(2.5)**	**(3.7)**	**(6.2)**	**(2.6)**	**(3.7)**	**(6.3)**
Sight Loans*		2.5	-	2.5	5.1	-	5.1	(2.5)	-	(2.5)	(2.6)	-	(2.6)
Securities	FX	-	0.3	0.3	-	0.7	0.7	-	(0.3)	(0.3)	-	(0.3)	(0.3)
	FL	-	0.1	0.1	-	0.2	0.2	-	-	-	-	-	-
Loans	FX	-	0.7	0.7	-	1.4	1.4	-	(0.6)	(0.6)	-	(0.7)	(0.7)
	FL	-	3.7	3.7	-	7.5	7.5	-	(2.8)	(2.8)	-	(2.7)	(2.7)
Other Financial Assets	FX	-	-	-	-	-	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities		**(2.4)**	**(1.1)**	**(3.5)**	**(5.1)**	**(2.2)**	**(7.3)**	**2.2**	**1.0**	**3.2**	**2.5**	**1.0**	**3.5**
Sight Deposits		(2.4)	-	(2.4)	(5.1)	-	(5.1)	2.2	-	2.2	2.5	-	2.5
Securities Issued	FX	-	-	-	-	-	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-	-	-	-	-	-
Debts	FX	-	(0.8)	(0.8)	-	(1.6)	(1.6)	-	0.8	0.8	-	0.8	0.8
	FL	-	(0.3)	(0.3)	-	(0.6)	(0.6)	-	0.2	0.2	-	0.2	0.2
Other Financial Liabilities	FX	-	-	-	-	-	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-	-	-	-	-	-
Derivatives		**-**	**2.0**	**2.0**	**-**	**4.0**	**4.0**	**-**	**(1.6)**	**(1.6)**	**-**	**(1.8)**	**(1.8)**

Cash flows slotted into time buckets according to their maturity or repricing date as of 31 December 2020

(mln EUR)

		Total	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y
Total		**442.40**	**647.37**	**(149.53)**	**(97.55)**	**9.28**	**(6.59)**	**39.41**
Asset		**3,035.69**	**2,243.78**	**201.41**	**224.48**	**222.71**	**94.72**	**48.58**
Sight Loans*		523.82	523.82	-	-	-	-	-
Securities	FX	225.65	138.13	29.32	50.69	7.51	-	-
	FL	30.36	30.21	0.15	-	-	-	-
Loans	FX	924.01	293.95	150.89	157.28	192.83	85.21	43.85
	FL	1,331.84	1,257.67	21.05	16.51	22.37	9.51	4.73
Other Financial Assets	FX	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-
Liabilities		**(2,560.24)**	**(2,024.52)**	**(262.55)**	**(179.10)**	**(64.93)**	**(29.14)**	**-**
Sight Deposits		(2,201.79)	(1,681.70)	(247.96)	(178.20)	(64.79)	(29.14)	-
Securities Issued	FX	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-
Debts	FX	(275.47)	(260.29)	(14.37)	(0.68)	(0.13)	-	-
	FL	(82.98)	(82.53)	(0.22)	(0.22)	(0.01)	-	-
Other Financial Liabilities	FX	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-
Derivatives		**(33.05)**	**428.11**	**(88.39)**	**(142.93)**	**(148.50)**	**(72.17)**	**(9.17)**

* *Sight loans and deposits are those available on demand*

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

Due to lasting negative levels of interest rates, the Bank follows specific rules that allow adequate cash flow representation based on actual contractual interest rates and relevant yield curve shifts. The Bank is applying floors on contractual interest rates for customer's sight deposits when according to shift scenario the rates drop below zero, in order to replicate actual circumstances on the market. In addition, for representation of sight deposits, a model which estimates the partial and delayed changes in customer rates compared to changes in market interest rates is used. In order to control quantitatively the Bank's interest margin risk, a limit of EUR -9 million has been set up for a +/- 50 bp interest rates change. The impact on the Bank's interest margin due to an increase of market interest rates for 50 bp according to data as of end 2021 would be positive, in the amount EUR 7.6 million, while in case of an instantaneous 50 bp drop in interest rates, the impact would be negative EUR 5.6 million. The largest part of the margin sensitivity arises from the floating rate loans to customer exposure class.

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

(mln EUR)

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

In the table is presented the interest rate risk exposure of the Bank in terms of shift sensitivity (EVE - economic value of equity), which measures the change of net present value of future cash-flows as a result of parallel shift of market yield curve by 100 b.p. Each time-bucket shows the impact of interest rate change on net present value of cash-flows, distributed by time tenors according to residual time to the next repricing. The most significant exposure is in EUR currency, while the risk for other currencies is less material. The total exposure limit for +100 bps shift sensitivity amounts to EUR +10.0/-11.0 million, while the actual exposure at reference date is EUR -1.59 million. For the EVE measure, a floor assumption on market rates for negative shocks is in place. In 2019, EBA, through its Guidelines (EBA/GL/2018/02), introduced a non-constant floor that starts from a value of -100 b.p. and increases by 5 b.p. per year, until eventually reaching 0% for maturities of 20 years and more. The main generators of interest rate risk are medium – long term assets with fixed interest rates (e.g. housing loans, debt financial instruments), which are hedged by interest rate swaps. On the liabilities side, the highest portion of shift sensitivity derives from the sight deposits, where sight deposits are slotted to time buckets up to 15 years according to the sight deposit model.

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

Time bucket	Limit	Exposure
0-18 months	**+4/–8 mln EUR**	(1,27) mln EUR
from 19 m – 5 years	**+10/–11 mln EUR**	3,58 mln EUR
> 5 years	**+4/–8 mln EUR**	(3,91) mln EUR

The impact of 100 bps interest rate parallel shift on net present value of the Bank' interest-bearing assets and liabilities, as at 31 December 2020

(mln EUR)

Currency (mln EUR)	Total	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y
EUR	**9.52**	(2.25)	4.78	5.74	3.52	3.08	(5.35)
USD	**(0.19)**	(0.05)	(0.05)	(0.09)	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	**9.32**	**(2.31)**	**4.73**	**5.65**	**3.52**	**3.08**	**(5.35)**
Limit	**11**						
Utilisation %	**84.7%**						

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

(mln EUR)

Currency (mln EUR)	Total	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y
EUR	**(1.96)**	(2.36)	6.69	0.87	(3.71)	5.54	(8.99)
USD	**(0.47)**	(0.12)	(0.35)	0.00	0.00	0.00	0.00
CHF	**(0.03)**	(0.02)	0.00	0.00	(0.01)	0.00	0.00
Other	**0.00**	0.00	0.00	0.00	0.00	0.00	0.00
Total Shift	**(2.46)**	**(2.50)**	**6.34**	**0.87**	**(3.72)**	**5.54**	**(8.99)**
Reg. Capital – Tier 1(Dec. 21)	**306.66**						
% of Reg.Capital (<15%)	**0,80%**						

The impact of +200 bps interest parallel rate shift on net present value of the Bank's interest-bearing assets and liabilities, as at 31 December 2020

(mln EUR)

Currency (mln EUR)	Total	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y
EUR	**19.00**	(4.45)	9.42	11.21	6.75	5.77	(9.70)
USD	**(0.38)**	(0.09)	(0.09)	(0.20)	0.00	0.00	0.00
CHF	**(0.03)**	(0.03)	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	**18.59**	**(4.57)**	**9.33**	**11.01**	**6.75**	**5.77**	**(9.70)**
Reg. Capital – Tier 1 (Dec. 20)	**296.01**						
% of Reg.Capital (<15%)	**6.28%**						

The 200 bp shift is a standard measure defined by the Banking supervisor (supplemented with additional non-parallel scenarios) that treats an impact thereof on Economic value that exceeds 20% of total capital as outlying excessive risk exposure. As of 31 December 2021, the sensitivity reached 0.79% of total capital. In its Guidelines, EBA defines another threshold, that the sensitivity of the Bank's economic value to the 6 pre-defined regulatory scenarios shall not be higher than 15% of their Tier 1 capital. The maximum sensitivity is reached with the parallel up scenario, with 0.80% of Tier 1 capital.

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

(in thousands of euros)

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

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

(in thousands of euros)

2020	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	532,774	-	532,774
Financial assets held for trading	174	174	-
Non-trading financial assets mandatorily at fair value through profit or loss	3,918	-	3,918
Financial assets at fair value through other comprehensive income	270,882	-	270,882
Derivatives - hedge accounting	21	-	21
Financial assets at amortised cost:	2,071,984	-	2,071,984
- loans to banks	47,064	-	47,064
- loans to customers	2,014,185	-	2,014,185
- advances	10,735	-	10,735
Liabilities subject to market risk			
Financial liabilities held for trading	170	170	-
Derivatives - hedge accounting	27,846	-	27,846
Financial liabilities measured at amortised cost:	2,587,995	-	2,587,995
- deposits from banks and central banks	3,525	-	3,525
- deposits from non-bank customers	2,483,283	-	2,483,283
- loans from banks and central banks	79,601	-	79,601
- other financial liabilities	19,314	-	19,314
Fair value changes of the hedged items in portfolio hedge of interest rate risk	22	-	22

3.8 OPERATIONAL RISK

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

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

The process of operational risk management comprises the identification, measurement or evaluation, control and monitoring of operational risk. The process of operational risk measurement and management is assisted by the risk mitigation tool developed by the parent company designed to support the carrying out of the following activities:
- Loss data collection,
- Business environment evaluation,
- Scenario analysis,
- Mitigation actions management, and
- Monitoring and reporting.

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

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

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

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

3.9.1 Fair value of financial instruments not measured at fair value

(in thousands of euros)

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

(in thousands of euros)

2020	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and current accounts with banks	532,774	-	-	532,774	532,774
Loans to banks	-	18,384	28,680	47,064	47,064
Loans to customers	-	98,258	1,916,997	2,015,255	2,014,185
Financial liabilities					
Deposits from banks and central bank	-	1,192	2,348	3,540	3,525
Deposits from non-bank customers	-	2,298,737	184,523	2,483,260	2,483,283
Loans from banks and central banks	-	-	79,518	79,518	79,601

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

- There are no significant differences between carrying value and fair value of cash; cash balances at central banks and other demand deposits at banks, given the short maturity of such assets, are therefore classified as Level 1.
- Loans to customers are presented net of impairment allowance. The estimated fair value of these loans represents the discounted amount of the estimated future cash flows expected to be received. Expected future cash flows are discounted at current market rates. Valuation of non-performing loans includes estimation of loan receivable and collateral cash-flows.

  - Level 2 includes short-term performing loans with an original maturity of less than one year, excluding receivables from credit cards and allowed overdraft loans.
  - Level 3 includes all non-performing loans and all performing long-term loans and receivables from credit cards and allowed overdraft loans.

- The estimated fair value of fixed-interest term deposits is based on the expected cash flows discounted using current market rates. For demand deposits and deposits with no defined maturity, the fair value is determined to be the amount payable on demand. Deposits and loans received are mainly classified as Level 2 in the fair value hierarchy, since the parameters used in valuation are market observable.

- Majority of loans and deposits from banks carry floating interest rates, which are linked to market and repriced regularly. As such, the management believes that their carrying values approximate their fair values. Due to their short-term nature, received deposits and received loans are harmonised with market interest rates and are thus classified in Level 2, while long-term received loans and received deposits are classified in Level 3 since their deferred adjustments to market interest rates.

3.9.2 Fair value of financial instruments measured at fair value

Derivatives

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

Hedge accounting

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

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

According to the efficiency tests as of 31 December 2021, all interest rate hedges were effective.
As of 31 December 2021, the Bank had 60 interest rate swap (IRS) contracts, 2 of which were underwritten in 2021. Of these, 22 IRS contracts are designated to hedge interest rates arising from fixed rate debt financial instruments, 23 for fixed rate housing loans and 15 for large individual loans. Four IRS contracts are placed in the Bank's trading books, as they are not intended to hedge its own positions. Two of these IRS contracts were concluded with clients and the other two are for the function of hedging interest rates arising from these contracts).

Hedged item	Number of IRS contracts	
	2021	2020
Fixed income bond-micro hedge	22	23
Housing loans packages-macro hedge	23	22
Individual loans-micro hedge	15	18
Total	**60**	**63**

The cumulative fair value of all of the Bank's IRS contracts as of 31 December 2021 amounted to EUR -12.1 mln (2020: EUR -27.8 mln).

Notional of hedging derivatives

(in thousands of euros)

	2021				
	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	12,467	4,237	24,626	-	**41,330**
Debt securities - FVOCI	12,467	4,237	24,626	-	**41,330**
Total LIBOR USD	**12,467**	**4,237**	**24,626**	**-**	**41,330**
EURIBOR (Other benchmarks not affected by the reform)					
Micro Fair Value Hedge	10,000	10,000	83,900	133,852	**237,752**
Loans to customers	-	-	50,000	133,852	**183,852**
Debt securities - FVOCI	10,000	10,000	33,900	-	**53,900**
Macro Fair Value Hedge	-	-	-	168,085	**168,085**
Loans to customers	-	-	-	168,085	**168,085**
Total EURIBOR	**10,000**	**10,000**	**83,900**	**301,937**	**405,837**
Total	**22,467**	**14,237**	**108,526**	**301,937**	**447,167**

(in thousands of euros)

	2020				
	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	-	11,506	26,637	-	**38,143**
Debt securities - FVOCI	-	11,506	26,637	-	**38,143**
Total LIBOR USD	**-**	**11,506**	**26,637**	**-**	**38,143**
EURIBOR (Other benchmarks not affected by the reform)					
Micro Fair Value Hedge	10,000	10,000	87,725	210,206	**317,931**
Loans to customers	-	-	51,325	202,706	**254,031**
Debt securities - FVOCI	10,000	10,000	36,400	7,500	**63,900**
Macro Fair Value Hedge	-	-	-	149,278	**149,278**
Loans to customers	-	-	-	149,278	**149,278**
Total EURIBOR	**10,000**	**10,000**	**87,725**	**359,484**	**467,209**
Total	**10,000**	**21,506**	**114,362**	**359,484**	**505,352**

The amounts relating to items designated as hedging instruments:

(in thousands of euros)

Interest rate risk	Nominal amount		Carrying amount			
			2021	2020	2021	2020
	2021	2020	Assets	Assets	Liabilities	Liabilities
Interest rate swaps - hedge of bonds	95,230	102,043	-	-	1,229	3,309
Interest rate swaps - hedge of loans - MICRO HEDGE	183,852	254,031	7	-	6,875	14,290
Interest rate swaps - hedge of loans - MACRO HEDGE	168,085	149,278	540	21	4,501	10,247
Total	**447,167**	**505,352**	**547**	**21**	**12,605**	**27,846**

The amount relating to items designated as hedged item:

(in thousands of euros)

	Carrying amount		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item	
	2021	2020	2021	2020
	Assets	Assets	Assets	Assets
Bonds	101,988	112,595	841	2,733
Loans - micro hedge	252,051	268,185	6,164	13,666
Loans - macro hedge	196,765	167,725	3,997	10,219
Total	**550,804**	**548,505**	**11,002**	**26,618**

IBOR reform

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

Mortgage loans linked to 6-month CHF Libor (stipulated with retail clients in the past; outstanding gross amount as of 31.12.2021 is EUR 2,255 million and net amount is EUR 2.22 million);

Interest Rate Swaps linked to 6-month USD Libor, for hedging bonds denominated in USD (outstanding nominal amount of hedged bonds as of 31.12.2021 is USD 46,843 million).

A major part of the reform affecting the Bank occurred in 2021. In early March 2021, the competent authority for Libor, FCA (Financial Conduct Authority), publicly announced to the market participants the cessation of all CHF Libor interest rates in 2022. With regard to USD Libor interest rates, they announced a further 18-month extension period of publication and representativeness for some tenors, i.e. until 30.06.2023, including also the 6-month USD Libor where the Bank has some exposures in interest rate swaps. As of 31.12.2021, the total nominal amount of interest rate swaps in USD (for hedging investments in USD bonds), with maturity beyond 30.06.2023, is USD 27,911 million. The most likely alternative reference interest rate for replacement of USD Libor is the compound SOFR (Secured Overnight Financing Rate), but the Bank will monitor the market developments and follow the parent bank's recommendations before implementing it in potential new business.

Based on the Implementing act of the European Commission, the COMMISSION IMPLEMENTING REGULATION (EU) 2021/1847 of 14 October 2021 on the designation of a statutory replacement for certain settings of CHF LIBOR, the statutory solution for CHF Libor replacement rates was adopted for four tenors, including also the 6-month CHF Libor, where the Bank has exposures in mortgage loans in CHF. This Regulation is binding in its entirety and directly applicable in all Member States. Thus, from 1.1.2022 onwards, the Bank applies the new statutory replacement rate instead of 6-month CHF Libor in all related outstanding contracts: defined as the 3-month SARON Compound Rate, as observed over the 3-month period preceding the interest period, increased by a fixed spread adjustment of 0.0741%. As the new reference interest rate resulted to be slightly higher than 6-month CHF Libor, the Bank expects a slightly higher interest income from outstanding loans (in November 2021 the rough estimate was +7.9 bps, i.e. approx. EUR 1.8 thousand, on the then current volume of loans, on an annual level). However, the Bank expects that the volume of these loans will further decrease in 2022 due to early repayments and also potential conversions into loans in EUR.

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

Derivative products are generally governed worldwide by the rules established by the International Swaps and Derivatives Association (ISDA). ISDA launched a special IBOR Fallback Protocol for existing derivatives contracts and the IBOR Fall-back Supplement for new contracts to provide derivatives contracts with a hardwired fall-back language, which will be triggered at the time of an IBOR discontinuation or, in case of LIBOR, if the Financial Conduct Authority declared that the rate is no longer representative of the underlying market. In 2021, the Bank adhered to the Protocol and included adequate contractual clauses on fall-back interest rates in the framework agreement for derivatives with clients.
The Bank established an internal working group and opened a BMR Project to manage its transition to alternative rates, where activities are supported also by the ISP Milan Head Office working group and Compliance department. The main objectives of the internal working group include monitoring regulatory and market evolution on this matter and evaluating the extent to which the Bank's deals/products reference IBOR cash flows, whether such contracts need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. The working group regularly reports about major changes to the PMO and collaborates with other business functions as needed. It provides reports to ALCO to support the management of interest rate risk and works closely with the ISP Milan Group Operational Risk Committee to identify operational risks arising from IBOR reform. The Bank is also actively participating in a working group, organised by the Slovenian Banking Association together with other Slovenian Banks.
The main risks to which the Bank is exposed as a result of IBOR reform are operational. For example, related to the updating of contractual terms (inclusion of fall-back clause), updating of internal applications and systems that use IBOR values and curves and revision of operational controls related to the reform.

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

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

The Bank has already introduced adequate fall-back clauses for Euribor in the new loan agreements with clients in 2020. In year 2021, they have been revised and confirmed as adequate. In 2022, they might be further updated, following the final recommendations of the ECB's Euro Risk Free working group.

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

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

The Bank monitors the progress of transition from IBORs to new benchmark rates by reviewing the total amounts of contracts that have yet to transition to an alternative benchmark rate and the amounts of such contracts that include an appropriate fall-back clause.

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

Financial instruments held at fair value through other comprehensive income

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

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

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

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

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

The share value is based on the following price multiples of comparable enterprises:
- EV/S (enterprise value / sales);
- EV/EBITDA (enterprise value / EBIT + depreciation);
- P/E (price-to-earnings);
- P/BV (price / book value);

The bases for the estimation are the financial statements of the comparable enterprises:
- balance sheet (for the preceding 3 financial years);
- income statement (for the preceding 3 financial years).

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

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

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

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

(in thousands of euros)

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

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

(in thousands of euros)

	2020			
	Level 1	Level 2	Level 3	Total
Asset				
Derivatives held for trading	-	174	-	**174**
Financial assets at FVOCI:	200,050	70,638	194	**270,882**
- debt	197,133	59,899	-	**257,032**
- equities*	2,917	10,739	194	**13,850**
FVTPL mandatorily:	-	3,283	635	**3,918**
- equities	-	699	-	**699**
- debt	-	2,584	-	**2,584**
- loans	-	-	635	**635**
Derivatives – hedge accounting	-	21	-	**21**
Liabilities				
Derivatives held for trading	-	170	-	**170**
Derivatives – hedge accounting	-	27,846	-	**27,846**

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

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

Movement of financial instrument included in Level 3

(in thousands of euros)

Financial assets	Mandatorily FVTPL		FVOCI	
	Equities	*Loans*	*Equities*	*Securities*
As at 01 January 2021	**-**	**635**	**194**	**-**
Sale/Disposals	-	(635)	-	**-**
Purchases	-	-	-	**-**
Unrealised gains/losses recorded in P&L	-	-	-	**-**
Unrealised gains/losses recorded in revaluation reserve	-	-	-	**-**
Realised gains/losses recorded in P&L	-	-	-	**-**
Transfer from Level 3	-	-	-	**-**
As at 31 December 2021	**-**	**-**	**194**	**-**

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

(in thousands of euros)

Financial assets	Mandatorily FVTPL		FVOCI	
	Equities	*Loans*	*Equities*	*Securities*
As at 01 January 2020	**693**	**703**	**194**	**-**
Sale/Disposals	-	(107)	-	-
Purchases	-	39	-	-
Unrealised gains/losses recorded in P&L	-	-	-	-
Unrealised gains/losses recorded in revaluation reserve	-	-	-	-
Realised gains/losses recorded in P&L	-	-	-	-
Transfer from Level 3	(693)	-	-	-
As at 31 December 2020	**-**	**635**	**194**	**-**

As of 31 December 2021, the Bank held in the investment portfolio 15 bonds and treasury bills measured at fair value through other comprehensive income (FVOCI), out of which 4 are due to illiquidity measured with marked to model approach, while 11 were measured at market prices (Level 1).

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

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

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

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

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

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

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

As market data, yield and rents movement for main submarkets and by macro-location were considered. Based on the market survey mentioned above and analysed key-drivers, the obtained results have shown that none of the properties has registered a possible movement in capital values above 10%. Therefore, the Bank did not perform any change in fair value of its properties in use. Regarding the investment properties, the valuations performed in October 2021 confirmed the already determined fair value from the year 2020.

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

(in thousands of euros)

	2021			
	Level 1	Level 2	Level 3	Total
Property in use	-	-	24,610	**24,610**
Investment property	-	-	1,580	**1,580**
Non – current assets held for sale	-	-	2,207	**2,207**
Property in stock	-	-	2,040	**2,040**

(in thousands of euros)

	2020			
	Level 1	Level 2	Level 3	Total
Property in use	-	-	26,302	**26,302**
Investment property	-	-	1,720	**1,720**
Non – current assets held for sale	-	-	10,795	**10,795**
Property in stock	-	-	3,258	**3,258**

4. NET INTEREST INCOME

(in thousands of euros)

	2021	2020
Interest income calculated using the effective interest rate	**39,847**	**38,630**
Derivatives – hedge accounting*	(5,033)	(4,768)
Financial assets at fair value through other comprehensive income	1,354	1,674
Financial assets at amortised cost:	41,984	41,707
- debt securities	-	38
- to banks	229	-
- to other customers (without financial lease)	40,324	40,186
- financial lease	1,431	1,474
- other financial assets	-	9
Other assets (sight deposits within banks)	11	17
Interest from financial liabilities with negative interest rate	1,531	-
- Interest from loans received	1,531	-
Other interest income	**144**	**115**
Held for trading (derivatives)	55	54
Non-trading financial assets mandatorily at fair value through profit or loss	89	61
Total income	**39,991**	**38,745**
Interest expense		
Derivatives – held for trading	45	44
Derivatives – for hedge	-	-
Financial liabilities measured at amortised cost:	476	982
- Bank deposits and borrowings	-	-
- Other customers	378	763
- Other borrowed funds	96	211
- Leasing	2	8
Other	4	2
Financial assets (negative interest rate)	3,529	1,469
- Loans to banks	2,925	1,062
- FVOCI securities	604	407
Total expense	**4,054**	**2,497**
Total	**35,937**	**36,248**

* *Interest expenses on derivatives designated for hedge are in the income statement shown under interest income from derivatives designated for hedge, since they adjust the economic effect of interest of hedged items (loans and bonds with fixed interest rate) – Note 2.29.*

Interest income includes EUR 1,063 thousand of interest income on impaired loans (2020: EUR 1,277 thousand).

5. DIVIDEND INCOME

(in thousands of euros)

	2021	2020
Financial assets FVTPL	15	-
Financial assets FVOCI	103	128
Total	**118**	**128**

6. NET FEE AND COMMISSION INCOME

(in thousands of euros)

	2021	2020
Fee and commission income		
Current account management	5,341	4,109
Payment services	11,341	11,582
Credit card business	5,345	4,813
Interbanking operations	4,363	4,672
Loans granted (not included in EIR)	6,444	5,034
Management fee on current accounts and deposits	1,937	654
Guarantees given	1,101	994
Safe renting	138	129
Pension fund management	570	550
Depositary services	636	800
Payment systems management	1,053	1,028
Sale and management of investments funds	834	557
Sale of insurance contracts	406	348
Other	14	23
Total fee and commission income from contracts with customers	**39,523**	**35,293**
Fee and commission expense		
Security trading	49	68
Loan brokerage on behalf of others	46	24
Custody services	186	212
Credit card processing	8,387	8,504
Payment transactions	826	817
Guaranties received	810	470
Prepayment of loans	202	-
Total fee and commission expense	**10,506**	**10,095**
Total	**29,017**	**25,198**

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

(in thousands of euros)

	2021	2020
Net gains or losses of financial assets measured at fair value through other comprehensive income	**-**	**2,419**
Equity	**-**	**2,419**
• Gains	-	2,419
• Losses	-	-
Debt	-	-
• Gains	**-**	**-**
• Losses	-	-
Net gains or losses of financial assets measured at amortised cost	**820**	**-**
• Gains	820	-
- Sale of loans	820	**-**
• Losses	-	-
- Sale	-	-
Total	**820**	**2,419**

Write offs and recoveries from write offs for the year 2020 were subject to reclassification (Note 2.29).

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

(in thousands of euros)

	2021	2020
Trading of derivatives	24	1
• Realised	(203)	259
• Unrealised	227	(258)
Currency trading	1,042	784
Total	**1,066**	**785**

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

(in thousands of euros)

	2021	2020
Gains	**658**	**1,674**
• Realised	336	-
• Unrealised	322	1,674
Losses	**(280)**	**(698)**
• Realised	-	-
• Unrealised	(280)	(698)
Total	**378**	**976**

10. NET GAINS OR LOSSES FROM HEDGE ACCOUNTING

(in thousands of euros)

	2021	2020
Net effect on derivatives used as hedging instruments	15,674	(11,243)
Net effect on hedged items	(15,576)	9,920
Total	**98**	**(1,323)**

Derivatives used as hedge instruments and the nature of hedged items are additionally explained in Note 21 and in Note 3.9. Fair value of assets and liabilities that are not measured at fair value (in the paragraph hedge accounting).

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

(in thousands of euros)

	2021	2020
Profit from sale of property and equipment	27	37
Net income from sale of investment property	230	-
Profit from sale repossessed assets on stock	889	-
Total	**1,146**	**37**

12. OTHER OPERATING INCOME/EXPENSES

12.a Other operating income

(in thousands of euros)

	2021	2020
Rents	953	1,151
Proceeds from the sale of repossessed leased assets	38	27
Credit card processing	131	4
Other	271	168
Total operating income	**1,393**	**1,350**

12.b Other operating expenses

(in thousands of euros)

	2021	2020
Maintenance expenses arising from leased assets	(13)	(32)
Expenses from investment property under the operating lease	(13)	(3)
Expenses related to services from credit card business	(68)	(42)
Fraud from credit card business	(65)	(31)
Licences	(22)	(22)
Other	(344)	(196)
Total other operating expenses	**(525)**	**(326)**
Net operating income/expenses	**868**	**1,024**

13. ADMINISTRATIVE EXPENSES

(in thousands of euros)

	2021	2020
Staff cost	**28,161**	**27,864**
Salaries	19,087	19,429
Social security	1,457	1,473
Contributions to the pension scheme	1,773	1,792
Other*	5,679	4.987
Provisions for retirement severance pay and long service bonuses	165	183
Other administrative expenses	**12,664**	**12,380**
Material costs	958	1,022
IT costs	4,699	4,807
Rents		
Rental of low value assets (not included in IFRS16)	*841*	*800*
Short term premises rental (not included in IFRS 16)	-	*40*
Professional services	914	1,056
Advertising and marketing	676	539
Consulting, auditing, legal and notarial fees**	509	247
Maintenance, governance and security of tangible fixed assets	1,479	1,475
Postal services and rent of communication lines	1,302	1,329
Travel costs	23	21
Education, scholarships and tuition fees	110	119
Bank's supervision	797	549
Other expenses	356	376
Total	**40,825**	**40,244**

* *Other staff costs relate to holiday incentives and accruals for bonuses.*

** *The Bank paid EUR 59 thousand for the statutory audit of financial statements and EUR 60 thousand for other assurance services. Assurance services relate mostly to quarterly audit of reporting package inputs for the preparation of the consolidated financial statements of the Intesa Sanpaolo Group and for providing assurances for reports to the Regulatory Authorities.*

14. DEPRECIATION AND AMORTISATION

(in thousands of euros)

	2021	2020
Depreciation	2,951	2,868
Amortisation	1,759	1,381
Total	**4,710**	**4,249**

[*] *Within depreciation is included depreciation of rights to use in the amount of EUR 1,166 thousand (2020: EUR 1,165 thousand).*

15. PROVISIONS

(in thousands of euros)

	2021	2020
Additional / Release of provisions for off-balance sheet exposures (Note 45)	(78)	427
Additional / Release of provisions for legal proceedings	(139)	505
Additional /Release of provisions for cash returns to clients	(150)	754
Release / Additional provisions for maintain minimum yield of Pension Fund	15	(34)
Total	**(352)**	**1,652**

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

16. IMPAIRMENTS

(in thousands of euros)

	2021	2020
Impairments of financial assets, not measured at fair value through profit and loss	**-**	**9**
- impairments of financial assets at fair value through other comprehensive income (Note 23)	-	9
Impairments on assets measurement at amortised cost:	**634**	**(5,236)**
- debt securities	-	1
- loans to banks	(8)	9
- loans to customers[*] (Note 25)	1,038	(5,369)
- impairments on advances	(143)	162
- impairments on other assets	(253)	(39)
Impairment of non-financial assets	**-**	**(622)**
- impairment on real estate in use (Note 28)	-	(444)
- impairment on investment property (Note 29)	-	(178)
Net write offs	**25**	**1,945**
Total	**659**	**(3,904)**

[*] *Write offs and recoveries from write offs for the year 2020 were subject to reclassification (Note 2.29).*

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)

	2021	2020
Rents	9	43
Maintenance expenses	(209)	(195)
Impairments	(64)	(712)
Gains from sale	1,282	501
Losses from sale	-	(40)
Total	**1,018**	**(403)**

In 2021, the Bank performed the package sale of its real estate in the amount of EUR 1,281 thousand, realising EUR 1,282 thousand of profit from sales. In addition, the Bank individually sold one real estate in the amount of EUR 3,273 thousand and did not realise any effect from the sale, since the real estate sold was valued at the selling price of the previous year.

18. TAX EXPENSE

(in thousands of euros)

	2021	2020
Current tax expense	3,872	2,608
Deferred tax (Note 38)	(19)	102
Total	**3,853**	**2,710**

Further disclosures of deferred taxes are presented in Note 38. The tax actually calculated differs from the theoretical one in the following matters:

(in thousands of euros)

	2021	2020
Total profit before tax	**21,562**	**15,547**
Prima facie tax calculated at a tax rate of 19%	4,097	2,954
Income form already taxed dividends	(29)	(28)
Expenses not deductible for tax purposes:		
- staff costs not assessable for tax	167	173
- other expenses not deductible for tax purposes	17	27
- other non-tax-deductible expenses	(3)	(1)
Tax reliefs	(396)	(415)
Total income tax	**3,853**	**2,710**
Effective tax rate	*17.87%*	*17.43%*

For 2021, the income tax rate was 19% (2020: 19%).

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

Changes in income tax from items that are recognised in FVOCI

(in thousands of euros)

	31. 12. 2021		
	Before tax	Tax (expense) benefit	After tax
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**(522)**	**96**	**(426)**
Fair value changes of equity instruments measured at fair value through other comprehensive income	132	(24)	108
Tangible assets	(617)	117	(500)
Actuarial gains or losses on defined benefit pensions plans	(37)	3	(34)
	(628)	119	(509)
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	**(2,520)**	**478**	**(2,042)**
Valuation gains or losses taken to OCI	1,892	(359)	1,533
Transferred to profit or loss	(1,150)	215	(935)
TOTAL	**(1,150)**	**215**	**(935)**

Changes in income tax from items that are recognised in FVOCI

(in thousands of euros)

	31. 12. 2020		
	Before tax	Tax (expense) benefit	After tax
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**3,732**	**(710)**	**3,022**
Fair value changes of equity instruments measured at fair value through other comprehensive income	221	(41)	180
Tangible assets	3,520	(670)	2,850
Actuarial gains or losses on defined benefit pensions plans	(9)	1	(8)
	(1,066)	203	(863)
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	**2,346**	**(445)**	**1,901**
Valuation gains or losses taken to OCI	(3,412)	648	(2,764)
Transferred to profit or loss	2,666	(507)	2,159
TOTAL	**2,666**	**(507)**	**2,159**

19. EARNINGS PER SHARE

Dobiček na delnico

(in thousands of euros)

	2021	2020
Net profit for the year	17,709	12,837
Weighted average number of ordinary shares in issue	530,398	530,398
Basic and diluted profit per share (in EUR per share)	**33,39**	**24,20**

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares issued during the year, excluding the average number of ordinary shares purchased by the Bank and held as treasury shares (961 lots). There are no dilutive potential ordinary shares; there are no share options schemes.

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

(in thousands of euros)

	2021	2020
Cash in hand	20,067	18,631
Balances with central banks	841,361	493,581
Other sight deposits	19,868	20,571
Gross cash, cash balances at central banks and other demand deposits at banks	**881,296**	**532,783**
Impairment	(7)	(9)
Net cash, cash balances at central banks and other demand deposits at banks	**881,289**	**532,774**
Including: mandatory reserve liability to central banks	26,598	23,531

The Bank is required to maintain a mandatory reserve with the central bank (Bank of Slovenia), relative to the volume and structure of its customer deposits. The current requirement of the Bank of Slovenia regarding the calculation of the amount to be held as mandatory reserve is 1% of sight and time deposits and issued debt securities with maturities up to two years.

The Bank maintains sufficient liquid assets to fully comply with the central bank requirements.

21. DERIVATIVE FINANCIAL INSTRUMENTS

The majority of derivative contracts is entered into for the purpose of interest-rate risk management. A derivative instrument is entered into as an economic hedge where its terms and conditions are a mirror image of the terms and conditions of the hedged financial instruments. In addition, the Bank also uses fair value hedge accounting techniques, where interest rate swaps hedge long-term financial assets (bonds and loans) with a fixed interest rate.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of these instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in the reference rate or index relative to their terms. The aggregate contractual or notional amount of derivative financial instruments, the extent to which instruments are favourable or unfavourable and thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The notional amount and fair values of derivative instruments held for trading and designated as hedges are set out in the following tables:

(in thousands of euros)

As at 31 December 2021	Notional amount	Fair value	
		Assets	Liabilities
HFT derivatives			
Foreign exchange rate			
Forwards (sale)	9,705	10	260
Forwards (purchase)	9,705	262	9
Interest rate options			
Interest rate cap (CALL)	3,151	20	-
Interest rate cap (PUT)	-	-	-
Interest rate swaps			
IRS - purchase	6,000	55	-
IRS - sale	6,000	-	55
Total held for trading derivatives	**34,561**	**347**	**324**
Hedging derivatives			
Interest rate swaps (IRS) – micro hedge	279,082	7	8,104
Interest rate swaps (IRS) – macro hedge	168,085	540	4,501
Total derivative for hedge accounting	**447,167**	**547**	**12,605**

(in thousands of euros)

As at 31 December 2020	Notional amount	Fair value	
		Assets	Liabilities
HFT derivatives			
Foreign exchange rate			
Forwards (sale)	262	9	-
Forwards (purchase)	261	-	9
Interest rate options			
Interest rate cap (CALL)	3,439	3	-
Interest rate cap (PUT)		-	-
Interest rate swaps			
IRS - purchase	7,056	162	-
IRS - sale	7,056	-	161
Total held for trading derivatives	**18,074**	**174**	**170**
Hedging derivatives			
Interest rate swaps (IRS) – micro hedge	356,074	-	17,599
Interest rate swaps (IRS) – macro hedge	149,278	21	10,247
Total derivative for hedge accounting	**505,352**	**21**	**27,846**

In a financial environment of low interest rates, the Bank promoted its commercial activities by launching long term loans with fixed interest rates. To mitigate the interest rate risk, interest rate swaps were made.

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

(in thousands of euros)

	2021	2020
Equities:		
• listed	699	699
• unlisted	283	-
Debt securities:		
• listed	-	-
• unlisted*	2,800	2,584
Loans	-	635
Total financial assets mandatorily at fair value through profit or loss	**3,782**	**3,918**

* *The amount relates to Visa preferred bond.*

(in thousands of euros)

	2021		2020	
Company	Fair value	Dividend income	Fair value	Dividend income
Privredna banka Zagreb d.d.	283	15	-	-
Total	**283**	**15**	**-**	**-**

Movement

(in thousands of euros)

	2021	2020
At beginning of the year	**3,918**	**1,396**
Sale/ Disposals of loans	(635)	(107)
Valuation of loans	-	39
Valuation of shares	7	6
Exchange rate differences	209	-
New recognition / purchase of shares	283	2,584
At end of year	**3,782**	**3,918**

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(in thousands of euros)

	2021	2020
Equities:		
• listed	-	14
• unlisted	13,958	13,836
Debt securities:		
Government securities:		
• listed	214,152	229,053
• unlisted	-	-
Other debt securities:		
• listed	7,495	28,025
• unlisted	-	-
Total financial assets FVOCI (Gross)	**235,605**	**270,928**
Impairment	(46)	(46)
Total financial assets FVOCI	**235,559**	**270,882**

The Bank adopted its own valuation model in cases where investments are not listed or measures such investments at cost less impairments.

In order to comply with the requirements of the National Bank Resolution Fund, Slovenian government bonds in the amount of EUR 10.9 million are encumbered (2020: EUR 11.3 million)

(in thousands of euros)

Company	2021		2020	
	Fair value	Dividend income	Fair value	Dividend income
Visa INC US	3,117	23	2,903	4
Intesa Sanpaolo S.p.A.	-	-	14	-
Bankart	194	80	194	123
Sklad za reševanje bank	10,607	-	10,699	-
Swift	40	-	40	-
Total	**13,958**	**103**	**13,850**	**127**

Movement

(in thousands of euros)

	2021	2020
At beginning of the year	**270,882**	**332,539**
Acquisitions	120,210	54,911
Impairment (Note 16)	-	(9)
Interest accrual	3,806	6,395
Paid interests	(6,113)	(6,866)
Disposals (sale and redemption)	(154,721)	(109,770)
Valuation	(2,396)	2,577
Exchange differences	3,891	(4,214)
Derecognition (VISA shares)	-	(4,681)
At end of year	**235,559**	**270,882**

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 2020)	**55**	**-**	**-**	**55**
Transfer to stage 1	-	-	-	**-**
Transfer to stage 2	-	-	-	**-**
Transfer to stage 3	-	-	-	**-**
Release of impairments	(9)	-	-	**(9)**
At the end of year (31 December 2020)	**46**	**-**	**-**	**46**
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Release of impairments	-	-	-	-
At the end of year (31 December 2021)	**46**	**-**	**-**	**46**

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

24. LOANS TO BANKS

(in thousands of euros)

	2021	2020
Placements with other banks	107,875	47,086
Gross loans to banks	**107,875**	**47,086**
Impairment	(32)	(22)
Net loans to banks	**107,843**	**47,064**

As at 31 December 2021, EUR 12,431 thousand is pledged to cover liabilities from interest rate swaps due to negative fair value (2020: EUR 28,206 thousand).

25. LOANS TO CUSTOMERS

(in thousands of euros)

	2021	2020
Loans to individuals:	**802,392**	**732,866**
- Overdrafts	18,724	20,387
- Credit cards	9,229	9,060
- Term loans	156,725	151,562
- Mortgages	614,478	547,554
- Financial leases	3,236	4,303
Loans to sole proprietors	**55,322**	**53,207**
Financial leases	8,044	7,253
Other loans	47,278	45,954
Loans to corporate entities	**1,374,144**	**1,282,656**
Financial leases	44,366	37,967
Other loans	1,329,778	1,244,689
Gross loans	**2,231,858**	**2,068,729**
Less provision for impairment	(46,303)	(54,544)
Net loans	**2,185,555**	**2,014,185**

Movement in provisions for impairments

(in thousands of euros)

2021	Corrected Opening balance	Increases due to origination and acquisition	Decreases due to derecognition	Changes due to change in credit risk (net)	Changes due to modifications of the methodology*	Decrease in allowance account due to write-offs	Other adjustments	Closing balance
Allowances for financial assets (Stage 1)	**13,102**	**4,521**	**(1,997)**	**(1,973)**	**(743)**	**-**	**6**	**12,916**
Individuals	7,236	1,819	(898)	(384)	(1,626)	-	6	6,153
Sole proprietors	1,221	597	(206)	(54)	(106)	-	(2)	1,450
Corporate entities	4,645	2,105	(893)	(1,535)	989	-	2	5,313
Allowances for debt instruments (Stage 2)	**6,521**	**1,398**	**(661)**	**1,472**	**902**	**-**	**-**	**9,632**
Individuals	4,117	847	(368)	189	1,155	-	-	5,940
Sole proprietors	490	76	(64)	531	(341)	-	-	692
Corporate entities	1,914	475	(229)	752	88	-	-	3,000
Allowances for credit-impaired debt instruments (Stage 3)	**34,756**	**600**	**(7,005)**	**1,245**	**1,552**	**(7,470)**	**18**	**23,696**
Individuals	10,117	273	(797)	2,129	303	(893)	18	11,150
Sole proprietors	1,442	3	(96)	32	26	(98)	-	1,309
Corporate entities	23,197	324	(6,112)	(916)	1,223	(6,479)	-	11,237
POCI	**165**	**-**	**(164)**	**58**	**-**	**-**	**-**	**59**
Individuals	-	-	-	-	-	-	-	-
Sole proprietors	-	-	-	-	-	-	-	-
Corporate entities	165	-	(164)	58	-	-	-	59
Total	**54,544**	**6,519**	**(9,827)**	**802**	**1,711**	**(7,470)**	**24**	**46,303**

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

* *Impact on LLP reported under the category 'Changes due to modifications of the methodology" derives from update of the forward-looking information as part of PD and LGD calculation and inclusion of reconstructed historical data based on the new default definition for legal entities, which resulted in updated transition matrices. Additionally, the result was affected by the modification of early warning detection criteria.*

(in thousands of euros)

2020	Corrected Opening balance	Increases due to origination and acquisition	Decreases due to derecognition	Changes due to change in credit risk (net)	Changes due to modifications of the methodology*	Decrease in allowance account due to write-offs	Other adjustments	Closing balance
Allowances for financial assets (Stage 1)	**10,463**	**3,491**	**(1,164)**	**(2,846)**	**3,157**	**-**	**1**	**13,102**
Individuals	4,694	1,473	(248)	(518)	1,835	-	-	7,236
Sole proprietors	792	465	(139)	(360)	466	-	(3)	1,221
Corporate entities	4,977	1,553	(777)	(1,968)	856	-	4	4,645
Allowances for debt instruments (Stage 2)	**3,305**	**680**	**(402)**	**2,095**	**843**	**-**	**-**	**6,521**
Individuals	1,450	327	(172)	1,787	725	-	-	4,117
Sole proprietors	279	117	(44)	93	45	-	-	490
Corporate entities	1,576	236	(186)	215	73	-	-	1,914
Allowances for credit-impaired debt instruments (Stage 3)	**36,808**	**784**	**(2,941)**	**1,720**	**1,304**	**(2,837)**	**(81)**	**34,756**
Individuals	10,671	203	(308)	952	311	(1,712)	-	10,117
Sole proprietors	2,195	31	(71)	(90)	135	(121)	(637)	1,442
Corporate entities	23,942	550	(2,562)	857	858	(1,004)	556	23,197
POCI	**-**	**1**	**-**	**164**	**-**	**-**	**-**	**165**
Individuals	-	-	-	-	-	-	-	-
Sole proprietors	-	-	-	-	-	-	-	-
Corporate entities	-	1	-	164	-	-	-	165
Total	**50,576**	**4,956**	**(4,507)**	**1,132**	**5,304**	**(2,837)**	**(80)**	**54,544**

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

** In year 2020, the Bank adopted a new version of the Corporate model, which resulted in a EUR 1.4 million increase of loan loss provisions. Other impacts on LLP reported under the category "Changes due to modifications of the methodology" are the results of changes in the calculation of LLP according to IFRS9 standards. The main change has been produced with the update of forward-looking information as part of PD and LGD calculation, which was strongly influenced by the deteriorated macroeconomic outlook due to health crisis, leading to higher expected credit risk losses, while the PDs calculated with Satellite model for Corporate and Small business were increased by a Margin of conservatism of 20%.*

Customer loan portfolio by economic sector

(in thousands of euros)

	2021	2020
Non-financial entities	1,051,649	985,695
- transport and storage	248,763	259,947
- manufacturing	255,146	211,807
- wholesale and retail trade	195,268	196,287
- information and communication	72,255	46,171
- hospitality and other related services	24,003	27,035
- construction	13,742	14,485
- other non-financial entities	242,472	229,963
Government	8,402	12,407
Other public entities	216,729	184,097
Financial entities	95,364	99,008
Individuals	802,392	732,866
Sole proprietors	55,322	53,208
Non-profit institutions serving households	2,000	1,448
Gross loans to customers	**2,231,858**	**2,068,729**
Less provision for impairment	(46,303)	(54,544)
Net loans to customers	**2,185,555**	**2,014,185**

At the end of 2021, the share of loans to customers on the domestic market amounted to 90.9%; the remaining share of 6.5% related to the EU market and 2.7% to other markets.

Analysis of financial leases by residual maturity:

(in thousands of euros)

	2021	2020
Future minimum lease payment (finance lease)		
Not later than 1 year	17,103	14,893
Later than 1 year and not later than 5 years	35,144	29,418
Later than 5 years	3,399	5,212
Total	**55,646**	**49,523**
Impairment	(4,285)	(6,207)
Present value of future minimum lease payments:		
Not later than 1 year	15,528	13,298
Later than 1 year and not later than 5 years	33,111	26,608
Later than 5 years	2,722	3,410
Total	**51,361**	**43,316**

Forborne exposures as at 31.12.2021

(in thousands of euros)

	Corporates	Individuals	Total
Performing exposures	11,210	6,745	17,955
Non performing - instruments with modifications in their terms and conditions	4,554	3,069	7,623
Non performing - Refinancing	1,388	931	2,319
Total gross carrying amount	**17,152**	**10,745**	**27,897**
Performing exposures	(980)	(1,621)	(2,601)
Non performing - instruments with modifications in their terms and conditions	(3,785)	(2,213)	(5,998)
Non performing - Refinancing	(1,298)	(901)	(2,199)
Accumulated impairment, and provisions	**(6,063)**	**(4,735)**	**(10,798)**
Performing exposures	10,230	5,124	15,354
Non performing - instruments with modifications in their terms and conditions	769	856	1,625
Non performing - Refinancing	90	30	120
Net carrying amount	**11,089**	**6,010**	**17,099**

Forborne exposures as at 31.12.2020

(in thousands of euros)

	Corporates	Individuals	Total
Performing exposures	8,069	6,159	14,228
Non performing - instruments with modifications in their terms and conditions	21,430	2,752	24,182
Non performing - Refinancing	1,056	1,105	2,161
Total gross carrying amount	**30,555**	**10,016**	**40,571**
Performing exposures	(667)	(1,995)	(2,662)
Non performing - instruments with modifications in their terms and conditions	(11,483)	(2,033)	(13,516)
Non performing - Refinancing	(842)	(985)	(1,827)
Accumulated impairment, and provisions	**(12,992)**	**(5,013)**	**(18,005)**
Performing exposures	7,402	4,164	11,566
Non performing - instruments with modifications in their terms and conditions	9,947	719	10,666
Non performing - Refinancing	214	120	334
Net carrying amount	**17,563**	**5,003**	**22,566**

Forbearance measures are concessions made to a borrower facing or about to face financial difficulties by agreeing to change agreed contractual terms and conditions, so as to make them for the borrower more favourable than those that would be granted under normal conditions. Forbearance measures are conceded in order to maximise collection and minimise the risk of default. A 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 which meet the above described definition. The forborne flag is therefore an additional element for classification of credit exposures for the purpose of credit portfolio monitoring and reporting. Taking into account the internal rules for the performing and non-performing exposures classification, rules governing the 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 46.

26. OTHER FINANCIAL ASSETS

(in thousands of euros)

	2021	2020
Commissions receivables	454	405
Cheques	3	1
Receivables	470	707
Claims to Europay	2,939	4,710
Claims to citizens	811	656
Claims relating to interbank settlement for Visa card	1,638	1,198
Claims due to recovery procedures	580	478
Other	2,457	3,421
Gross other financial assets	**9,352**	**11,576**
Impairments	(921)	(841)
Net other financial assets	**8,431**	**10,735**

Movement of impairment:

(in thousands of euros)

As at 31 December 2019	**1,054**
Additional provision for impairment	48
Amounts recovered during the year	(210)
Included in income statement	(162)
Write off of impairment	(51)
Release of impairments due to sale	-
Stanje na dan 31. 12. 2020	**841**
Additional provision for impairment	175
Amounts recovered during the year	(32)
Included in income statement	143
Write off of impairment	(63)
As at 31 December 2021	**921**

27. NON-CURRENT ASSETS HELD FOR SALE

(in thousands of euros)

	2021	2020
At the beginning of the year	**6,558**	**9,191**
Sale	(4,554)	(362)
Transfer to inventories repossessed assets	-	(1,559)
Impairments	(64)	(712)
At the end of the year	**1,940**	**6,558**

The premises held for sale were valued in accordance with offered prices from the identified buyer.
Although the sale of real estate lasts more than one year, the management of Intesa Sanpaolo d.d. does not have an intention to reclassify the remaining premises to the original portfolio. The sales activities are continuing intensively and are planned to be concluded in 2022.

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.

Real estate appraisal was performed by an independent real estate appraiser, based on cash-generating units (by individual locations). In the valuation, the market comparison method and the method based on the capitalisation of returns were used. The appraiser also assessed value in use, but this method was not applied because it was lower than fair value less costs of selling. The valuation was performed according to the condition of the real estate on 31.12.2020. In 2021 (as at 31 December 2021), an expert analysis of changes in market values compared to the estimated values as at 31 December 2020 was performed. As the market values of none of the properties changed in 2021 by 10% or more, in accordance with the Group's policy, it was not necessary to perform a new revaluation as at 31 December 2021.

Location	Type of asset	Valuation technique	Assumptions and parameters used (inputs for the Level 3)
Coastline areas of Slovenia (Koper, Izola, Piran , Nova Gorica, Sežana)	Commercial – retail & offices	The Income Approach through a capitalisation approach	EUR 9 - 25 per sq. m per month for the office area Non-recoverable costs: 3.0% of gross rental income CAPEX: 0 -100 EUR per sq. m of gross area for office space Cap Rate: 7.50%-9%
Central region area- excluding Ljubljana (Postojna, Pivka, Logatec, Ilirska Bistrica)	Commercial – retail & offices	The Income Approach through a capitalisation approach	average rent of EUR 5 - 9 per sq. m per month Non-recoverable costs: 3.0% of gross rental income CAPEX: EUR 0 -100 per sq. m of gross area for office space Cap Rate: 9%-10%
	Parking	A Direct Sales Comparison approach	EUR 8,000 per parking space
Ljubljana	Commercial – retail & offices	The Income Approach through a capitalisation approach	Rent of EUR 11 per sq. m per month for office space Non-recoverable costs: 3.0% of gross rental income CAPEX: 0 Cap Rate: 8.25%- 8.75%
Maribor; Celje, Jesenice	Commercial – retail & offices	The Income Approach through a capitalisation approach	Rent of EUR 8 - 11 per sq. m per month for office space and EUR 60 per parking space per month Non-recoverable costs: 3.0% of gross rental income CAPEX: 0 Cap Rate: 8.75%

The recoverable amount for cash-generating units is based on fair value less costs of selling, which has been estimated using the return capitalisation method. Because land is valued at fair value, the fair value of land was determined using market comparisons. The value of buildings was estimated as the difference between the value of the cash-generating unit less the fair value of the land.

(in thousands of euros)

	Land and buildings	Hardware equipment	Other equipment	Right of use	Total
Movement in year 2021					
Opening net book amount	**28,031**	**975**	**1,191**	**3,136**	**33,333**
Additions	5	513	101	140	759
Disposals	(236)	(17)	(10)	(15)	(278)
Depreciation charge	(1,115)	(352)	(318)	(1,166)	(2,951)
Closing net book amount before valuation	**26,685**	**1,119**	**964**	**2,095**	**30,863**
Revaluation of properties recognised in OCI	(596)	-	-	-	(596)
Impairment of properties	-	-	-	-	-
Closing net book amount	**26,089**	**1,119**	**964**	**2,095**	**30,267**
As at 31 December 2021					
Cost	29,446	5,318	9,917	5,466	50,147
Accumulated depreciation	(3,357)	(4,199)	(8,953)	(3,371)	(19,880)
Net book amount as at 31 December 2021	**26,089**	**1,119**	**964**	**2,095**	**30,267**

(in thousands of euros)

	Land and buildings	Hardware equipment	Other equipment	Right of use	Total
Movement in year 2020					
Opening net book amount	**26,000**	**926**	**1,274**	**4,161**	**32,361**
Additions	44	394	186	172	796
Disposals	-	-	-	(32)	(32)
Depreciation charge	(1,089)	(345)	(269)	(1,165)	(2,868)
Closing net book amount before valuation	**24,955**	**975**	**1,191**	**3,136**	**30,257**
Revaluation of properties recognised in OCI	3,520	-	-	-	3,520
Impairment of properties	(444)	-	-	-	(444)
Closing net book amount	**28,031**	**975**	**1,191**	**3,136**	**33,333**
As at 31 December 2020					
Cost	30,791	5,155	10,116	5,364	51,426
Accumulated depreciation	(2,760)	(4,180)	(8,925)	(2,228)	(18,093)
Net book amount as at 31 December 2020	**28,031**	**975**	**1,191**	**3,136**	**33,333**

The right of use refers to the lease of business premises and vehicles. Leases of small value assets and short-term leases are included in administrative expenses (Note 14).

In 2021, the Bank has in use EUR 3,448 thousand of already amortised hardware equipment and EUR 8,275 thousand of other equipment.

In 2021 there was no property, plant and equipment pledged (2020: nil).

Based on the accounting policy about the revaluation model, the Bank assesses the fair value of premises every year.

29. INVESTMENT PROPERTY

(in thousands of euros)

	2021	2020
As of 1 January	**1,720**	**1,898**
Transfer from non-current assets held for sale	-	-
Derecognition (sale)	(140)	-
Decreases	-	-
Impairments	-	(178)
As at 31 December	**1,580**	**1,720**

The valuation of investment property was performed by an independent real estate appraiser. In estimating value, the method of market comparisons and the yield-based capitalisation method were used. The appraiser also assessed value in use, but this method was not applied because it was lower than fair value less costs of sell. The valuation was performed according to the condition of the real estate on 31.12.2021.

The recoverable amount for cash-generating units is based on fair value less costs of selling, which has been estimated using the return capitalisation method. Because land is valued at fair value, the fair value of land was determined using market comparisons. The value of buildings was estimated as the difference between the value of the cash-generating unit less the fair value of the land.
In 2021, the Bank generated EUR 187 thousand in rental income from investment property (2020: EUR 186 thousand). The cost of maintaining investment property amounted to EUR 13 thousand (2020: EUR 3 thousand).

30. INTANGIBLE ASSETS

(in thousands of euros)

	Development-internally generated software	Licenses	Software and other	Total
Movement in year 2020				
Opening net book amount	5,067	397	244	5,708
Additions	2,001	63	129	2,193
Amortisation	(1,083)	(175)	(123)	(1,381)
Closing net book amount	**5,985**	**285**	**250**	**6,520**
As at 31 December 2020				
Cost	20,722	3,211	3,962	27,895
Accumulated amortisation	(14,737)	(2,926)	(3,712)	(21,375)
Net book amount as at 31 December 2020	**5,985**	**285**	**250**	**6,520**

(in thousands of euros)

	Development-internally generated software	Licenses	Software and other	Total
Movement in year 2021				
Opening net book amount	5,985	285	250	6,520
Additions	2,001	28	70	2,099
Amortisation	(1,489)	(144)	(126)	(1,759)
Closing net book amount	**6,497**	**169**	**194**	**6,860**
As at 31 December 2021				
Cost	22,723	2,940	3,682	29,345
Accumulated amortisation	(16,226)	(2,771)	(3,488)	(22,485)
Net book amount as at 31 December 2021	**6,497**	**169**	**194**	**6,860**

The Bank has in use EUR 18,298 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 2021, the Bank has not recognised any expenditure related to development in the income statement. All development expenditure in 2021 was capitalised as intangible fixed assets, out of which staff expenses amounted to EUR 735 thousand (2020 EUR 739 thousand).

31. OTHER ASSETS

(in thousands of euros)

	2021	2020
Accruals	927	825
Inventory	5	5
Taxes and contributions	873	381
Repossessed assets	4,791	5,756
Prepayments	633	2,246
Other	3	3
Impairment on repossessed assets	(3,182)	(2,929)
Total	**4,050**	**6,287**

The prepayments are mainly related to acquisition of goods for finance leases.
Repossessed assets related mainly to assets subject to leasing contracts. These are mainly real estate. In 2021, the Bank sold one property in the amount of EUR 964 thousand. From this transaction, the Bank realised the profit in the amount of EUR 889 thousand. Other seized premises that are still in stock will be subject to sale in coming periods.

Movement in impairment

(in thousands of euros)

	2021	2020
At beginning of year	**2,929**	**224**
Additions included in Income statement under impairments	253	39
Transfer from Non –current assets held for sale	-	2,666
At end of the year	**3.182**	**2,929**

32. DEPOSITS FROM BANKS AND CENTRAL BANKS

(in thousands of euros)

	2021	2020
Demand deposits	490	1,191
Term deposits	-	2,334
Total	**490**	**3,525**

33. DEPOSITS FROM NON-BANK CUSTOMERS

(in thousands of euros)

	2021	2020
Individuals		
- demand deposits	1,359,713	1,184,711
- term deposits	465,267	485,522
Sole proprietors		
- demand deposits	122,975	112,259
- term deposits	870	2,207
Corporate customers		
- demand deposits	819,429	648,703
- term deposits	20,705	49,881
Total	**2,788,959**	**2,483,283**

As at 31 December 2021, deposits in the amount of EUR 4,243 thousand have been pledged for covering potential credit risk on assets (2020: EUR 5,075 thousand). These are deposits that bear interest at the interest rate agreed in the contract and are blocked until the loan obligations are repaid. If the client does not repay, the loan obligation is offset with the deposit.

34. LOANS FROM BANKS AND CENTRAL BANKS

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

(in thousands of euros)

	2021		2020	
	Short term	Long term	Short term	Long term
In local currency	-	299,280	-	79,601
In foreign currency	-	-	-	-
Total	-	**299,280**	**-**	**79,601**

In June 2021, the Bank participated in TLTRO III auction, obtaining EUR 285 million loan facility from ECB with the maturity till June 2024, with possibility of early repayment in June 2022. TLTRO III are targeted operations, because the amount that banks can borrow, as well as the borrowing rate, are linked to their loans to non-financial corporates (excluding sovereign entities) and households (excluding loans for house purchase), residents in Eurozone countries (i.e. benchmark loans).

The TLTRO III's borrowing rate depends on the growth of these benchmark loans in the reference period from 1.10.2020 till 31.12.2021. If the Bank at least maintains (or increases) the amount of benchmark loans in the reference period (i.e. reach zero or positive loan growth), the rate can be as low as 50 basis points below the average interest rate on the deposit facility over the period from 24 June 2020 to 23 June 2022 (currently -1.00%) and as low as the average interest rate on the deposit facility (currently -0.50%) during the rest of the life of the respective TLTRO III. At the end of year 2021, the Bank realised the increase of benchmark loans, therefore the target interest rate of -1% is assured.

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

35. OTHER FINANCIAL LIABILITIES

(in thousands of euros)

	2021	2020
Unpaid commissions	243	312
Liabilities form credit card business	4,763	2,045
Not yet processed payment*	14,176	5,948
Creditors	1,676	1,241
Deferred income	5,523	5,122
Lease liabilities	2,130	3,151
Other	328	1,495
Total	**28,839**	**19,314**

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

The salaries for the year 2020 were subject to reclassification (Note 2.29).

36. PROVISIONS FOR LIABILITIES AND CHARGES

(in thousands of euros)

	2021	2020
Provisions for restructuring	217	785
Provisions for legal proceedings	400	321
Provisions for off-balance sheet liabilities	2,191	2,113
Provisions for cash returns from discontinued products (AMEX)	165	15
Reservation for maintain min yield on Pension Fund	8	25
Total	**2,981**	**3,259**

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 undrawn loans. For off balance sheet exposures, there are applied regulatory (CRR) credit conversion factors (CCF) which adjust the off-balance sheet exposures to on-balance sheet exposure level. For the rest, the same principles as for impairments on loans are applied.

As at 31 December 2021, the Bank was involved in several legal proceedings against it. Contingent liabilities in this respect are estimated in the amount of EUR 466 thousand. To this end, on the basis of its best estimation on the outcome of the legal proceedings, the Bank established provisions in the amount of EUR 400 thousand.

Movement in provisions 2021:

(in thousands of euros)

	Off balance sheet commitments	Litigation	Restructuring and other commitments towards employees	Other	Reservation to maintain min yield on Pension Fund	Total
At beginning of year (1 January)	**2,113**	**321**	**785**	**15**	**25**	**3,259**
Additional provision	3,148	154	-	150	22	3,474
Releases	(3,070)	(15)	-	-	(37)	(3,122)
Included in income statement	78	139	-	150	(15)	352
Utilised	-	(60)	(568)	-	(2)	(630)
As at 31 December 2021	**2,191**	**400**	**217**	**165**	**8**	**2,981**

Movement in provisions 2020:

(in thousands of euros)

	Off balance sheet commitments	Litigation	Restructuring and other commitments towards employees	Other	Reservation to maintain min yield on Pension Fund	Total
At beginning of year (1 January)	**2,540**	**833**	**2,234**	**776**	**-**	**6,383**
Additional provision	3,562	246	13	-	34	3,855
Releases	(3,989)	(751)	-	(754)	-	(5,494)
Included in income statement	(427)	(505)	-	(754)	34	(1,652)
Utilised	-	(7)	(1,449)	(7)	(9)	(1,472)
As at 31 December 2020	**2,113**	**321**	**785**	**15**	**25**	**3,259**

37. RETIREMENT BENEFIT OBLIGATIONS

(in thousands of euros)

	2021	2020
Retirement severance pay and long service bonuses	3,006	2,871
Total	**3,006**	**2,871**

Movements

(in thousands of euros)

	2021	2020
At beginning of year	**2,871**	**2,866**
Additional provisions (included staff costs)	165	183
Amounts recovered during the year	-	-
Charged to income statement	**165**	**183**
Change in actuarial gains/loss	37	9
Utilised provisions	(67)	(187)
At end of year	**3,006**	**2,871**

The actuarial calculation of long-term benefits is based on the Book Reserve Method. The calculation estimates the liability to employees incurred in the accounting period (current service cost) and the increase in the present value of the liability in the period due to the approaching of time for fulfilment of obligations (interest cost). The increase of liabilities in the period exceeding the abovementioned two estimates less payments in the period represents the actuarial loss/gain of the period.

In the actuarial calculation, the following assumptions were used:

- 1.8% salary growth in the Bank, 2.5% average salary growth in the country;
- the fluctuation of employees in 2021 by age classes;
- discount rate in line with 10-year high-rated corporate bonds in the Euro area (0.94% 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.

38. DEFERRED INCOME TAXES

Deferred tax liabilities

(in thousands of euros)

	2021	2020
Valuation of tangible fixed assets	3,172	3,289
Valuation and impairments of assets FVOCI	327	328
Actuarial gain	69	72
Total	**3,568**	**3,689**

Deferred tax assets

(in thousands of euros)

	2021	2020
Retirement and other employee benefits	354	345
Provisions for reorganisation	1	6
Valuation and impairments of assets FVOCI	113	19
Loan impairments from leasing contracts	11	12
Other (depreciation above tax prescribed rate)	74	57
Total	**553**	**439**
Net deferred tax liabilities	**(3,015)**	**(3,250)**

Movement in deferred taxes (offsetting of assets and liabilities)

(in thousands of euros)

	2021	2020
At beginning of year	**3,250**	**3,166**
Deferred taxes charged in income statement	(19)	102
Realisation of valuation of FVOCI shares	1	(525)
Valuation and impairment of FVOCI (Note 18)	(97)	(162)
Valuation of tangible fixed assets (Note 18)	(113)	670
Realisation of valuation of premises valued at fair value due to sale(Note 18)	(4)	-
Actuarial gain (Note 18)	(3)	(1)
At end of year	**3,015**	**3,250**

Deferred taxes charged in income statement

(in thousands of euros)

	2021	2020
Retirement and other employee benefits	(9)	-
Provisions for reorganisation	5	113
Impairment on FVOCI financial assets	-	2
Loan impairments from leasing contracts	1	4
Other (depreciation above tax prescribed rate)	(16)	(17)
Total (Note 18)	**(19)**	**102**

39. OTHER LIABILITIES

(in thousands of euros)

	2021	2020
Accruals	530	1,064
Prepayments received	654	1,133
Taxes and contributions	1,775	1,174
Salaries	2,221	2,272
Total	**5,180**	**5,643**

The salaries for the year 2020 were subject to reclassification (Note 2.29).

40. SHARE CAPITAL

(in thousands of euros)

	Number of shares	Ordinary shares	Share premium	Treasury shares
As at 31 December 2019	531,359	22,173	7,499	(49)
As at 31 December 2020	531,359	22,173	7,499	(49)
As at 31 December 2021	531,359	22,173	7,499	(49)

The share capital of the Bank is divided into 531,359 ordinary shares. Each share has an equal proportion in the share capital of the Bank and its participating value in the share capital as well. The proportion of each share in the share capital of the Bank is determined on the basis of the number of the issued shares.

41. ACCUMULATED OTHER COMPREHENSIVE INCOME

(in thousands of euros)

	2021	2020
Revaluation reserves:		
- Debt securities	616	1,125
- Equity securities	335	227
- Tangible fixed assets	13,523	14,023
- Actuarial gain / losses	655	689
Total	**15,129**	**16,064**

(in thousands of euros)

Movement	Revaluation reserves
As at 1 January 2020	**16,149**
Equity securities	**(2,064)**
- Fair value adjustment, net of tax	180
- Derecognition	(2,244)
Debt securities	**(863)**
- Fair value adjustment, net of tax	1,901
- Disposals and realised gains	(2,073)
- Valuation of hedge items transferred to profit or loss	(691)
Other comprehensive income	**2,842**
Actuarial gain/loss	(9)
Gain from valuation of tangible fixed assets, net of tax	2,851
As at 31 December 2020	**16,064**
Equity securities	**108**
- Fair value adjustment, net of tax	102
- Derecognition of valuation due to sale	6
Debt securities	**(509)**
- Fair value adjustment, net of tax	(2,041)
- Disposals and realised gains	-
- Valuation of hedge items transferred to profit or loss	1,532
Other comprehensive income	**(534)**
Actuarial gain/loss	(34)
Gain from valuation of tangible fixed assets, net of tax	(484)
Derecognition of valuation of premises due to sale	(16)
As at 31 December 2021	**15,129**

42. RESERVES FROM PROFIT AND RETAINED EARNINGS

(in thousands of euros)

	2021	2020
Legal reserves	18,722	17,837
Statutory reserves	244,310	214,055
Other reserves from retained earnings	-	22,566
Treasury share`s reserves	49	49
Retained earnings	18,819	16,376
Total	**281,900**	**270,883**

(in thousands of euros)

Movement in reserves	Legal reserves	Statutory reserves	Other reserves from earnings	Treasury shares	Retained earnings	Total reserves
As at 1 January 2021	**reserves**	**Retained earnings**	**Total reserves**	**49**	**16,376**	**270,883**
Net profit for the financial year	-	-	-	-	17.709	17.709
Allocation of profit 2020 (June AGM)		-	14.393	-	(14.393)	-
Dividends	-	-	(6.704)	-	-	(6.704)
Transfer to other reserves from earnings	-	-	-	-	-	-
Transfer to legal reserves	885	-	-	-	(885)	-
Transfer to statutory reserves (Dec add. GM)	-	30.255	(30.255)	-	-	-
Net profit from reclassification of FVOCI equity instrument	-	-	-	-	12	12
As at 31 December 2021	**18,722**	**244,310**	**-**	**49**	**18,819**	**281,900**

(in thousands of euros)

Movement in reserves	Legal reserves	Statutory reserves	Other reserves from earnings	Treasury shares	Retained earnings	Total reserves
As at 1 January 2020	**17,195**	**214,055**	**-**	**49**	**24,503**	**255,802**
Net profit for the financial year	-	-	-	-	12,837	12,837
Dividends	-	-	-	-	-	-
Transfer to other reserves from earnings	-	-	22,566	-	(22,566)	-
Transfer to legal reserves	642	-	-	-	(642)	-
Net profit from reclassification of FVOCI equity instrument	-	-	-	-	2,244	2,244
As at 31 December 2020	**17,837**	**214,055**	**22,566**	**49**	**16,376**	**270,883**

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 equals twice the amount of the Bank's share capital.

Statutory reserves

The Bank, according to its Statute, creates statutory reserves until they achieve an amount which is fifteen times that of the Bank's registered capital stock. In each financial year, a part of the net profit that remained after any losses carried forward, legal reserves and reserves for own shares have been covered can be allocated to statutory reserves.

43. DIVIDENDS PER SHARE

Dividends payable are not accounted for until they have been ratified by the Annual General Meeting. By the date the financial statements were authorised by the Management Board, no dividends were proposed or declared. For the year 2020, the Bank paid out the dividend in the amount of EUR 12.64 per share.

(in thousands of euros)

Distribution of the profit of the year	2021	2020
Net profit for the period	17,709	12,837
Net profit from reclassification of FVOCI instrument recognised in retained earnings	12	2,197
Allocation of the profit to the legal reserves (5%)	(885)	(642)
Net profit of the period available for distribution	**16,836**	**14,392**
Total net profit available for distribution at the AGM	**16,836**	**14,392**

44. CASH AND CASH EQUIVALENTS

(in thousands of euros)

	2021	2020
Cash and balances with central bank*	854,691	509,243
Loans to banks up to 90 days	17,764	17,136
Total	**872,455**	**526,379**

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

45. CONTINGENT LIABILITIES AND COMMITMENTS

Capital commitments. At 31 December 2021, the Bank had no capital commitments (2020: nil).

Credit related commitments. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, are exposed to credit risk, as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw funds from the Bank up to a stipulated amount under specific terms and conditions, are secured by the underlying shipments of goods to which they relate and therefore have significantly less risk, also because the Bank doed not generally expect the third party to draw funds under such agreements.
With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to losses in an amount equal to the total unused commitments. However, the credit risk is lower than the total unused commitments, since most commitments to extend credit are contingent upon customers' fulfilment of specific credit standards which need to be met before the carrying out of the drawing. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The following table indicates the contractual amounts of the Bank's off-balance sheet position by type of instrument.

(in thousands of euros)

	2021	2020
Documentary and commercial letters of credit	160	160
Guarantees	169,816	112,519
Credit commitments:	405,227	361,968
- original maturity up to 1 year	243,760	243,049
- original maturity over 1 year	161,467	118,919
Total	**575,203**	**474,647**
Provisions for off-balance sheet liabilities:		
Guarantees	(866)	(913)
Credit commitments	(1,325)	(1,200)
Total	**573,012**	**472,534**

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 2020	**1,253**	**138**	**1,149**	**2,540**
Additional impairments	662	124	159	**945**
Release of impairments	(824)	(65)	(483)	**(1,372)**
Included in income statement	**(162)**	**59**	**(324)**	**(427)**
Transfer from/to stage 1	-	(5)	(34)	**(39)**
Transfer from/to stage 2	5	-	1	**6**
Transfer from/to stage 3	34	(1)	-	**33**
As at 31 December 2020	**1,130**	**191**	**792**	**2,113**
Additional impairments	1,965	429	754	3,148
Release of impairments	(1,811)	(181)	(1,078)	(3,070)
Included in income statement	**154**	**248**	**(324)**	**78**
Transfer from/to stage 1	0	(69)	(39)	(108)
Transfer from/to stage 2	69	0	13	82
Transfer from/to stage 3	39	(13)	-	26
As at 31 December 2021	**1,392**	**357**	**442**	**2,191**

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

46. RELATED PARTY TRANSACTIONS

(in thousands of euros)

	Employees with managerial contract		Management board		Supervisory board	
	2021	2020	2021	2020	2021	2020
Loans						
At beginning of the year	**18**	**21**	**95**	**78**	**-**	**-**
Loans issued during the year	-	-	24	24	-	-
Loan repayments during the year	(3)	(3)	(59)	(7)	-	-
At end of year	**15**	**18**	**60**	**95**	**-**	**-**
Impairment as at 31 December	-	-	1	1	-	-
Collateral received as at 31 December	15	18	88	88	-	-
Interest expense on deposits	-	1	-	1	-	-
Interest income earned	-	1	3	5	-	-
Other revenue – fee income	2	4	1	2	-	-
Salary	471	685	1,277	1.280	-	-
Bonuses	120	-	470	-	-	-
Benefits in kind	24	80	102	104	-	-
Severance	191	-	-	221	-	-
Supplementary pension insurance	8	12	11	11	-	-
Meeting fee	-	-	-	-	1	5
SB bonus	-	-	-	-	100	100
Remuneration	**814**	**777**	**1,860**	**1,616**	**101**	**105**

(in thousands of euros)

	Intesa SanPaolo Group without PBZ Group		PBZ Group		Intesa SanPaolo Group	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Loans						
At beginning of the year	65,373	44,815	77,765	97,585	143,138	142,400
Loans issued during the year	1,225,889	1,114,099	53,525	50,834	1,279,414	1,164,933
Loan repayments during the year	(1,154,938)	(1,093,541)	(70,257)	(70,654)	(1,225,195)	(1,164,195)
At end of year	**136,324**	**65,373**	**61,033**	**77,765**	**197,357**	**143,138**
Impairments	46	31	14	37	60	68
Collateral received	108,991	40,000	53,131	45,765	162,122	85,765
Deposits						
At beginning of the year	70,003	76,794	-	-	70,003	76,794
Deposits received during the year	146,859	66,773	-	-	146,859	66,773
Deposits repaid during the year	(209,605)	(73,564)	-	-	(209,605)	(73,564)
At the end of the year	**7,257**	**70,003**	**-**	**-**	**7,257**	**70,003**
Guarantees						
Guarantees issued by the bank and commitments	6,241	9,837	470	174	6,711	10,011
Interest expense on deposits	369	496	-	-	369	496
Interest income earned	422	92	510	814	932	906
Other revenue – fee income	116	80	22	26	138	106

**In 2017, the majority shareholder became Privredna Banka Zagreb d.d., however the ultimate parent company is Intesa SanPaolo Bank.*

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

47. POST BALANCE SHEET EVENTS

The only post balance sheet event relates to the Law on the Limitation and Distribution of Currency Risk between Creditors and Borrowers in Swiss Francs

Summary of Law requirements

The National Assembly of Slovenia as the holder of legislative power in the Republic of Slovenia adopted the Law on the Limitation and Distribution of Currency Risk between Creditors and Borrowers in Swiss Francs (CHF law) on 2 February 2022.

The CHF law regulates relations between creditors, retail borrowers (as consumers) and guarantors (surety) who entered into a loan agreement between 28 June 2004 and 31 December 2010:
- denominated in Swiss francs (CHF) or
- with a currency clause in Swiss francs (CHF).

The CHF law applies retroactively to all retail loan agreements regardless of:
- the current balance of the loan (the loan was repaid in total or not),
- whether the agreement has been terminated
- whether the claim was assigned to the purchaser.

The CHF law requires to the commercial banks to cover borrowers' losses in cases where instalment or total amount deviates from the initial repayment plan by more than 10% (currency cap) due to the change in the CHF exchange rate.

Slovenian banks will lodge a petition/application for the review of the constitutionality of the Law due to breach of:

- principle of non-retroactivity (Art. 155 of the Constitution)
- the constitutional right/principle of the "rule of law"
- the constitutional right of the "Right of access to the court"(Para. 4 Art. 15 and 23.) and of the Treaty of the European convention of human rights - Right to a fair trial (Art. 6).
- the constitutional principle of equality (Art. 14 of the Constitution) and breach of the prohibition of discrimination set in Art. 14 in the Treaty of the European convention of human rights,
- the constitutional right "Right of property"(Art. 33 and 67.) and Art. 1 of the Treaty of the European convention of human rights
- the constitutional right "Right of free enterprises" and breach of the Treaty of the functioning of the EU - Prohibition on restricting the movement of capital (Art. 63) and Freedom to provide services within the Union (Art 63).
- Breach of the constitutional right "Finality of Legal Decisions".

Financial impact for the Bank

The Bank started with the offer of mortgage loans in Swiss Francs in the year 2007 up to 2009. In that period, 159 loans were granted in total amount of CHF 19.2 million. During the years and in parallel with increasing CHF/EUR rate, many of these loans were prepaid early or converted into EUR loans. The outstanding balance at the end of December 2021 amounted to CHF 2.3 million and is linked to 41 loans not yet repaid.

From the first rough impact analysis, it is estimated the refund of loans will represent a loss in the amount of EUR 4 million. The given effect did not consider the eventual amount of penalty interest.
Since the Bank is also expected to generate positive financial results in the next periods, the eventual recognition of CHF related loss, the impact on the capital, capital ratios and consequently other key prudential indicators is expected to be insignificant.

IMPORTANT DATA AND BUSINESS PERFORMANCE INDICATORS

The methodology and business performance indicators rely on Bank of Slovenia instructions in this regard (Official Gazette, no. 184/21).

(in thousands of euros)

	31.12.2021	31.12.2020	31.12.2019	Index 2021/2020	Index 2020/2019
I. BALANCE SHEET					
1. Balance sheet total	3,472,573	2,945,354	2,688,618	118	110
2. Deposits from non-bank clients	2,788,959	2,483,283	2,225,968	112	112
2.1 from legal and other persons	963,979	813,050	695,834	119	117
2.2 from citizens	1,824,980	1,670,233	1,530,134	109	109
3. Loans to customers	2,185,555	2,014,185	1,933,921	109	104
3.1 to legal and other persons	1,406,405	1,302,789	1,235,449	108	105
3.2 to citizens	779,150	711,396	698,472	110	102
4. Overall equity capital	326,652	316,570	301,574	103	105
5. Provisions and impairments	49,499	58,030	54,676	85	106
6. The volume of off-balance sheet business	1,056,931	998,071	1,050,102	106	95
II. PROFIT AND LOSS ACCOUNT					
7. Net interest	35,937	36,248	40,809	99	89
8. Net non-interest income	33,438	28,809	31,396	116	92
9. Costs of labour, materials and services	43,410	43,009	42,567	101	101
10. Amortisation	4,710	4,249	3,951	111	108
11. Impairments and provisions (credit risk)	(307)	1,629	(3,189)	(19)	(51)
12. Profit or loss before taxation	21,562	15,547	28,964	139	54
13. Tax on profit	3,853	2,710	5,209	142	52
14. Other comprehensive income before tax	(1,150)	2,666	4,575	-	58
15. Income tax relating to components of other comprehensive income	215	(507)	(872)	-	58
16. Number of outlets	44	46	49	96	94
17. Number of employees	678	669	698	101	96
18. Number of shareholders	154	155	160	99	97
19. Number of shares	531,359	531,359	531,359	100	100
20. Nominal share value or payed capital per share	41,73	41,73	41,73	100	100
21. Book value per share (in EUR)	615,86	596,85	568,58	103	105
III. INDICATORS					
22. CET1 capital ratio	18.13	18.58	15.76	98	118
23. T1 capital ratio	18.13	18.58	15.76	98	118
24. Total capital ratio	18.35	18.82	15.90	98	118
25. Non performing (balance and off balance sheet) exposure / all balance and off balance sheet exposure	0.86	1.70	2.16	50	79
25. Non performing (balance sheet) exposure / all balance sheet exposure (without cash balances at central banks and other demand deposits)	1.44	2.65	3.21	54	82
27. Non performing (balance sheet) exposure / all balance sheet exposure (with cash balances at central banks and other demand deposits)	1.05	2.13	2.86	49	75
28. All impairment and provisions / non performing impairment and provisions (without cash balances at central banks and other demand deposits)	72.63	64.05	57.45	113	111
29. All impairment and provisions / non performing impairment and provisions (with cash balances at central banks and other demand deposits)	72.63	64.05	52.06	113	123
30.Received collateral / non performing exposure(without cash balances at central banks and other demand deposits)	22.87	31.13	27.36	73	114
31. Interest margin	1.11	1.28	1.56	86	82
32. Financial margin	2.14	2.37	3.02	90	78

	31.12.2021	31.12.2020	31.12.2019	Index 2021/2020	Index 2020/2019
33. Return on assets after taxation	0.55	0.45	0.91	120	50
34. Return on equity before taxation	6.64	5.09	9.86	131	52
35. Return on equity after taxation	5.46	4.20	8.09	130	52
36. Operating costs / assets	1.48	1.67	1.78	89	94
37. Liquidity coverage ratio	261.57	217.36	203.75	120	107
38. Net stable funding Ratio	158.35	153.49	133.68	103	115
39. Leverage Ratio	8.12	9.42	9.15	86	103

OPERATIONS ON BEHALF AND FOR THE ACCOUNT OF THIRD PARTIES

(in thousands of euros)

	2021	2020
ASSETS	**615**	**704**
1. Claims due to customers (settlement and current account)	**13**	**21**
Due to other or settlement account for sold financial instruments (buyers)	13	21
2. Cash assets (customers)	**602**	**683**
On current account	602	683
LIABILITIES	**615**	**704**
3. Liabilities due to customers (settlement and current account)	**615**	**704**
Due to customer (cash and financial instruments)	243	279
Due to other or settlement account for bought financial instruments (sellers)	370	423
Due to bank or settlement account for commission, fees, etc.	2	2
OFF BALANCE SHEET	**1,060,607**	**783,030**
4. Customer financial instruments, diverse by services	**1,060,607**	**783,030**
Assets management services	116,444.	78,554
Custody services	944,163	704,476

FEE AND COMMISSION INCOME AND EXPENSES RELATING TO FIDUCIARY ACTIVITIES

(in thousands of euros)

	2021	2020
1. Fee and commission income related to fiduciary activities	**1,475**	**1,370**
Receipt, processing and execution of orders	834	557
Custody and similar services	641	813
2. Fee and commission expenses related to fiduciary activities	**186**	**212**
Fee and commission related to stock exchange and similar organisations	186	212

GALLERIE D'ITALIA.
FOUR MUSEUMS, A NATIONWIDE CULTURAL NETWORK.

Gallerie d'Italia enables Intesa Sanpaolo to share its artistic and architectural heritage with the general public: the art collections of the Bank, ranging from archaeological artefacts to contemporary works of art, are housed in historic buildings located in four cities, in a unique network of museums.

Gallerie d'Italia - Piazza Scala in Milan hosts, in a highly prestigious architectural setting, a selection of two hundred masterpieces of the nineteenth century in Lombardy, that are part of art collections of Fondazione Cariplo and Intesa Sanpaolo, and an exhibition dedicated to twentieth century Italian art.

Gallerie d'Italia - Palazzo Leoni Montanari, Vicenza is home to art of the region Veneto from the 1700s as well as pottery from Attica and Magna Graecia. It also holds one of the most important collections of Russian icons in the West.

Gallerie d'Italia - Palazzo Zevallos Stigliano, Naples hosts the Martyrdom of Saint Ursula, the last known painting by Caravaggio, alongside more than 120 examples of Neapolitan art dating from the early 17th to the early 20th century. New premises within the majestic building which was formerly the Bank of Naples in Via Toledo mean that the museum space is tripled in size, increasing exhibition opportunities.

There is also the newly-open fourth location of **Gallerie d'Italia in Piazza San Carlo in Turin,** a site which is mainly dedicated to photography and the digital world.

Cover photo:

Gaspar van Wittel (also known as Gaspare Vanvitelli, or Gaspare degli Occhiali)
(Amersfoort, 1652 - Rome, 1736)
A View of the Piazza Navona in Rome, 1688-1721
oil on canvas, 62.5 x 125.5 cm
Intesa Sanpaolo Collection
Gallerie d'Italia -
Palazzo Zevallos Stigliano, Naples

A View of the Piazza Navona in Rome is a work by Gaspar van Wittel. A Dutch painter who relocated to Italy, he is considered the forerunner of modern vedutism, as a result of the almost topographic precision of the scene.

The painting belongs to a series of nine landscapes that van Wittel dedicated to Piazza Navona between 1688 and 1721, the largest square in Rome after St. Peter's Square, and undoubtedly the most picturesque thanks to its market and countless related activities. The piazza, a "grand example of theatrical Baroque" was blessed in the mid-seventeenth century with an architectural renovation that gave it a reputation as one of the most beautiful squares in Rome, famous for the magnificence of its buildings and fountains. The view is from the first floor of Palazzo Lancelotti; on the left, the light highlights a series of buildings including the Church of Sant'Agnese in Agone which was rebuilt under the guidance of Francesco Borromini. On the right, in the shadows and strongly shortened, it is possible to see the sixteenth century façade of San Giacomo degli Spagnoli; the roof terrace of Palazzo Altemps stands out against the background, while in the centre there is the Fontana dei Fiumi by Gian Lorenzo Bernini and the sixteenth-century fountains known as del Moro and dei Calderari. The painting excels for its splendid colours and the clarity of its lines and volumes. The sky is intensely bright with a hue of light blue that is characteristic of the Dutch artist's best works.

The work is part of the art collections on permanent display in Gallerie d'Italia of Intesa Sanpaolo in Naples. The collection traces the most important moments of art in Naples and Campania from the early seventeenth century up to the first decades of the twentieth century, from Caravaggio and the naturalist turning point which took place with the artist's arrival in the city in 1606, right up to the works by Vincenzo Gemito, through the pomp and splendour of the Spanish viceroyalty and the Bourbon era.

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