INTESA SANPAOLO BANK
Slovenia

2019 Annual Report

Bank of INTESA SANPAOLO

ANNUAL REPORT 2019

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Financial Report 2019

Management overview

1. MANAGEMENT BOARD'S FOREWORD

Last year's spring was characterised by numerous new beginnings, as is only appropriate for that time of year. The growth strategy we adopted in 2018 began to take shape in the first months of the previous year, when our renovated branch, operating in line with the new service model of the Intesa Sanpaolo group, was ceremoniously opened in Koper. The opening, which was accompanied by a photography exhibition with the symbolic title, Transformations, was followed by the openings in Ljubljana and Maribor. But the highlight of the year was the grand opening of our new business centre in the Rotonda building behind Bežigrad, where the entire management board of the bank has been relocated, along with colleagues from business and several key support organisational units. With this move, our bank, known for its rich and indelible tradition in the Coastal-Karst Region, has seized new business opportunities. Retaining deep connections with the home region, where the head office of the bank remains, we arrived in the capital so that we could be closer to the many successful businesses and inhabitants in other Slovenian regions.

Along with strengthening our physical presence in the all-Slovenian area, and making some organisational changes within our sales networks, we are also steadily conquering the digital dimension. Managing vast amounts of data and various digital distribution channels allows us to become even closer to our clients and to better understand their needs. There is a short step from here to business excellence – but progress can stall if a company does not have highly qualified and professionally trained people, who can use technology and new knowledge to create better value for our clients. That is why we paid special attention last year to human resource development and the recruitment of new employees to join our team. We developed a special Onboarding programme for our new recruits, which can help them gradually learn about the Group to which we belong, our bank, and their new work environment, where they will have an opportunity to help fulfil our common mission.

In our business, where digitalisation has become a daily mantra, we continue to discover an increasing need for new knowledge, the characteristics of which are sometimes not yet completely formed. Preserving a reputation and image as one of the most advanced banks in Slovenia is no easy task. It is linked to significant investment, not only in technology, but also know-how, and the dedication and perseverance of our employees. But innovativeness and forward vision are part of our genetic code, which is why we made sure to confirm these statements in the previous year by introducing Apple Pay, a prestigious mobile payment service. We were once again the first Slovenian bank to do so.
In the same period, we also renovated our website, while our completely new customer relationship management system and a new internet and mobile banking system are almost ready for launch. The individual pieces of this great jigsaw puzzle are starting to offer an image of an efficient and modern multi-channel distribution model that will allow us to provide a comprehensive and unique user experience in the coming years.

Of course the economic situation at home and abroad and the events that have marked the Slovenian banking sector in the previous year have not allowed us to merely focus on making plans for the future. The improvements we made to the loan approval process have led to record results in the sales of consumer loans, which is why we are already intensively working on implementing a similar process for our other products and services for individuals and small companies. Thus, we have managed to increase the volume of retail loans by 8.2% compared with the previous year. Similarly, compared to 2018, we have increased the volume of loans in the corporate client segment. We have also decreased the volume of non-performing loans by nearly 40%, thus reaching a record low level of such loans in the bank's portfolio, which further improved the quality of its assets. Furthermore, we have also increased the volume of performing loans by 10%. In general, we were successful in providing loans to the non-banking sector, and also at the expense of other business measures and financial operations this was reflected in the operational result, which was more than double in comparison to the previous year.

For every company, profit is the measurement of its past work and investment in various areas. This also applies to us. We are aware that the 2019 results, of which we are very proud, are mainly a reflection of the path we have taken, which starts with our people and continues all the way to satisfied clients. We are certain that 2020 will be an even better manifestation of our vision to create all that is new, improved, and perhaps even unique, for the benefit of our clients.

2. CHAIRMAN OF THE SUPERVISORY BOARD FOREWORD

The environment has significantly changed in past years and changes in business model and operations of banks are necessary to stay competitive on the market. Intense consolidation of the banking sector in last year, with some new players on the market, is setting even higher pace of adjustments needed to keep up. Additionally, regulatory requirements and current and forecasted very low level interested rated are challenges that the banks should compensate with alternative offers and innovative approaches to the market, combines with optimised processes that will allow them to provide faster and even more efficient service.

New business strategy of Intesa Sanpaolo Bank, set in 2018, is the answer to changing environment, but also provides solid ground for commercial revamp and customer base growth. The main goal of the strategy is to outgrew the regional frameworks and to transform itself to a modern, innovative national bank until 2021. From the time perspective the bank is in the middle of the transformation, investing a lot of resources towards more automated, more lean and more responsive bank. Activities for reducing non-commercial and non-value added activities in branches, together with network redesign, are already improving customer experience. And new technologic solutions, automatic approval process for consumer loans and new CRM application are putting it on an even higher level.

The progress of strategic initiatives is visible in many areas and already reflected in the business results. Improvements and changes proves that Management board of the bank invested time and resources in right direction, supporting key pillars of transformation.

Strong capital base and high quality of assets are good foundations bank can build on. With focus on development of strategic products and services on one side, and optimisation of internal processes on the other, bank will not just strengthen the position on the Slovene market, but will also continue to play the role of national innovator and digital trend setter.

Chairman of the Supervisory Board
Uroš Čufer

Intesa Sanpaolo Bank at a glance

In 2018 Intesa Sanpaolo Bank started the new journey setting new business strategy to become a national lightweight innovator. 2019 was the first year when signs of transformation began to emerge. Bank has already invested a great deal of time and effort into different project activities and took the first steps towards leaner and more responsive bank.
Bank continued the activities to grow, develop further, and strengthen its position in the markets that are not traditionally domicile.

Move to the centre of Slovene economy in April was a first big step in the strategic direction and an important milestone towards renewed branding and positioning. New business center in Ljubljana is located in Rotonda, where management board of the bank and some strategic and supportive departments work together under the same roof. Modern communication technology is providing very efficient collaboration with Koper, where some functions and employees are still located.
With the new business strategy, the Bank wishes to outgrow the regional frameworks and transform itself as a modern and innovative bank in the all-Slovenian territory.

Beside renewed branding and positioning, pillars of the business strategy are:

- National light footprint and improved service model with renovated branch network and dedicated service model for strategic segments
- New cutting-edge digital channels and offer for revamping customer experience and attracting new ones

- Light and agile operating model with automatized key business processes and activities towards lean bank
- Empowered and engaged organization with focused resources on activities with added value

Key initiatives in the bank will allow us to achieve commercial revamp in strategic business segments, sustainability in changing banking environment and to strengthen our position on the market.

Intesa Sanpaolo Bank was the first bank in Slovenia to have shifted its business to the digital platforms. Currently bank is in final testing phase of new digital channels that will create a seamless experience, enhance both sales and transactional experiences and provide a common improved customer experience. It will also help employees in branches to efficiently manage their daily activities, to enhance the sales experience of products, leveraging the Digical services and pursuing a fully paperless model with Digital Branch concept.
In 2019, the Bank pioneered the development again, by enabling the most up-to date payment services in the form of Apple Pay to its customers.

The Bank operates through 49 branches, covering the whole territory of Slovenia. Rapid technological development and digitalisation represent also a big challenge for the future role and business model of the branches. In 2019, the Bank completed a total renovation of its four branches, transforming them into modern meeting places where customers feel good and they get proper, effective services. New distribution model already introduces in 15 branches in 2019 is showing positive results, offering improved sales experience for customers as part of new service model. This is reflected not only in ability to attract new customers and in sales boost in strategic segments, but also in customers satisfaction.
With project activities and with continuous reduction of administrative tasks bank improved commercial performance in sales network bank will continue also in 2020.
Contribution to overall positive results in 2019 came also from completely automatized process of approval of customers loans, which was implemented in the sales network in September. Digitalisation efforts will even strengthen in the future with additional products to be fully automatized.

In 2019 bank succeeded to significantly improve the non-performing loan portfolio (NPL) for almost 40% in comparison to the year 2018 and landed at NPL ratio of 3,1% at the end of the year.

Ownership structure of Intesa Sanpaolo Bank

	Equity holding in per cent	
Shareholders	**31.12.2019**	**31.12.2018**
Privredna banka Zagreb d.d.	51.0%	51.0%
Intesa Sanpaolo S.P.A	48.1%	48.1%
Minority shareholders	0.9%	0.9%

International credit ratings

	2019	2018
Long-term	BBB-	BBB-
Short-term	F3	F3
Viability	bb+	bb+
Support	2	2

In April 2019, Fitch Ratings London confirmed Intesa Sanpaolo Bank's long-term and short-term rating, an also the viability and support rating remained the same as in 2018. Hence, the long-term rating is BBB-, short-term rating is F3, viability rating is bb+ and support rating is 2.

Milestones in the Bank's corporate history

2019

Opening of a new business centre in Ljubljana.

The first among Slovenian banks to offer the use of Apple Pay.

2018

Confirmation and implementation of the Bank's new development strategy.

Implementing the management of the 'My Pillar" Umbrella Pension Fund and its three sub-funds.

2017

INTESA SANPAOLO BANK

New name Intesa Sanpaolo Bank and the start of a revamp of our business activities.

New ownership structure of the bank within PBZ.

Transition of the most widely used payment card Activa Visa Inspire to contactless mobile payments.

New Advisory Service based on MIFID II.

2016

As the first bank in Slovenia, Banka Koper introduced the contactless mobile payments with smartphones, enabled by the mobile wallet Wave2Pay, which is based on Host Card Emulation technology.

WAVE2PAY

2015

The merger by absorption of the subsidiary Finor Leasing into the Bank's organisational structure.

As the first bank in Slovenia, Banka Koper has created a brand-new cashless payment service using smartphones and QR code technology.

2014

banka IN

Launch of the mobile and internet banking – Banka IN for Businesses.

2013

Launch of the mobile banking - Banka IN for Individuals.

Beginning of the Inspire debit card issuing.

2012

Establishing of entrepreneurship centers for small businesses.

2011

The first green branch and introduction of electronic signing of bank transactions.

The exclusive issue of the American Express cards.

2008

banka IN

The Bank launches a new online banking solution - Banka IN.

2007

INTESA SANPAOLO

Banka Koper became a member of Intesa Sanpaolo Group.

2005

Introduction of the first smart payment card.

2002

The bank joins the Sanpaolo IMI Group - its majority shareholder.

2001

Preparations for strategic alliance with the Sanpaolo IMI, S.p.A banking group, establishment of the Open-ended Mutual Pension Fund.

1998

The developement of the i-Net Banka internet banking solution.

1997

New name and a new corporate identity for Banka Koper.

Banka Koper

1996

The branch network expands to other Slovenian regions.

1992

Withdrawal from the LB bank system and launch of the first Slovenian payment card - Activa.

1955

Foundation of Istrska komunalna the bank.

3. BODIES OF CORPORATE GOVERNANCE

Supervisory Board

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

In 2019, the composition of the Supervisory Board changed. On 20 June 2019, the 39th Annual General Shareholders Meeting of Banka Intesa Sanpaolo d.d. was informed that on 27 June 2019 the term of office expired to the members of the Supervisory Board: Uroš Čufer, Alessio Cioni, Elena Breno, Emanuele Collini, Dražen Karakašić, Andreja Pavlović and Silvia Rinaldi. On the same day Uroš Čufer, Alessio Cioni, Elena Breno, Emanuele Collini, Miroslav Haližan, Andrea Pavlović and Silvia Rinaldi were elected new members to the same body. At the Supervisory Board meeting held on 28 June 2019, Uroš Čufer was elected as chairman and Alessio Cioni as deputy chairman of the Supervisory Board.

Members of the Supervisory Board

As at 31 December 2019:	
Uroš Čufer	*Chairman*
Alessio Cioni	*Deputy Chairman*
Elena Breno	*Member*
Emanuele Collini	*Member*
Dražen Karakašić	*Member*
Andrea Pavlović	*Member*
Silvia Rinaldi	*Member*

Management Board

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

In 2019, the term of office of Irena Džaković as the member of the Management Board expired. She was re-appointed by the Supervisory Board on its meeting held on 30 April 2019 for a period of five years.

Members of the Bank's Management Board

As at 31 December 2019:	
Jozef Kausich	*President*
Irena Džaković	*Member*
Ivan Ivičić	*Member*
Drago Kavšek	*Member*

4. ECONOMIC AND BANKING ENVIRONMENT

In 2019, economic conditions in Slovenia have remained favourable, however, growth was more steady than that in 2018. Household consumption was significant contributing factors to the growth. Unemployment continued to decrease, and an increase in salaries and social transfers was again recorded, which, together with a greater volume of consumer loans, contributed to the rise in in several segments. The growth in exports slowed down in 2019. Apart from specific domestic factors, this is mainly due to the lower growth in economic activity of Slovenia's main trading partners.

The conditions on the labour market have remained positive. The downward trend in the number of unemployed has continued. The number of unemployed persons registered at the end of December 2019 was 75,292, which is 4.1% less than the year before.

Slovenia faces the process of population ageing, which is expected to be even more intense than in the EU. The growing proportion of population aged over 65 will have a significant upward effect on expenditure on pensions, health care, long-term care and other costs related to ageing. Out of total 2,1 million citizen population aged over 55 years represent almost 35%.

The annual inflation rate grew to 1.8% (1.4% at the end of 2018). As private consumption continued to recover, the prices of goods and services rose further. The annual inflation rate is largely the result of increased prices of food and other goods and services.

In 2019, the fiscal position of the state has slightly deteriorated with the governmental debt being reduced. Expenditure growth was significant mainly due to increase of salaries, number of employees and social transfers.

Loans to the non-banking sector continued to rise in 2019. Lending activity strengthened the most in households' segments as a result of improved conditions on the labour market, low interest rates and the rise in real estate prices. Loans to non-financial sector are still noticeably lagging behind the household segment both in growth rate and volume. The quality of banks' credit portfolio further improved as the banks continued reducing their non-performing exposures. Banks stay very good capitalized and quality of assets remains in high level.

The consolidation of the Slovenian banking sector continued with some mergers and completed selling process of NLB and SKB Banka being sold to Hungarian OTP Bank in May 2019.

Balance sheet liabilities show continued growth of deposits made by the non-banking sector also in 2019, despite the fact that interest rates on deposits remain at historically low levels. Deposits grew primarily in the household segment, while non-financial companies allocated the profits generated to current spending, financial restructuring and investments rather than savings. With low interest rates on deposits, the maturity of deposits continued to shorten, while the share of demand deposits was substantially on the increase.

Banks' profitability has persisted for the fifth year in a row. The largest portion of the revenue of banks came from net interest income. On the other hand, net fees and releases of provisions contributed the most to the growth of total income and profit.

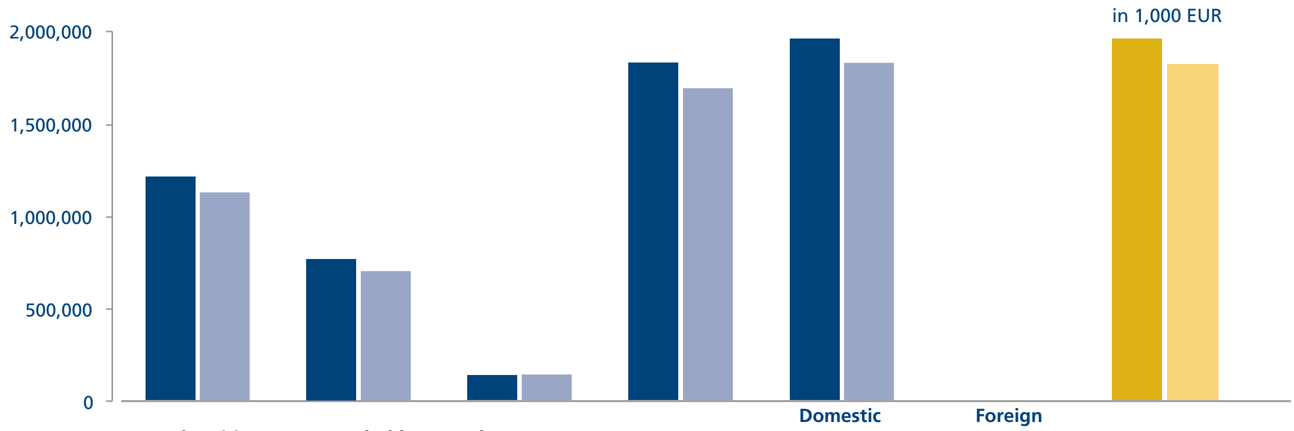
5. AN OVERVIEW OF THE BANK'S OPERATIONS IN 2019

5.1 LENDING OPERATIONS

Gross loans by Intesa Sanpaolo Bank to the non-banking sector increased by EUR 136.1 million in 2019 or 7.4% compared to 2018. The Bank's market share in lending to the non-banking sector grew by 28 basis points in 2019, thus achieving 8.2%.

In terms of currency, most loans are in domestic currency (99.6%), while long-term loans prevail in terms of maturity (93.6%). As for the maturity structure, the share of short-term loans decreased from 7.5% to 6.4%.

An overview of gross lending to the non-banking sector in thousands of euros



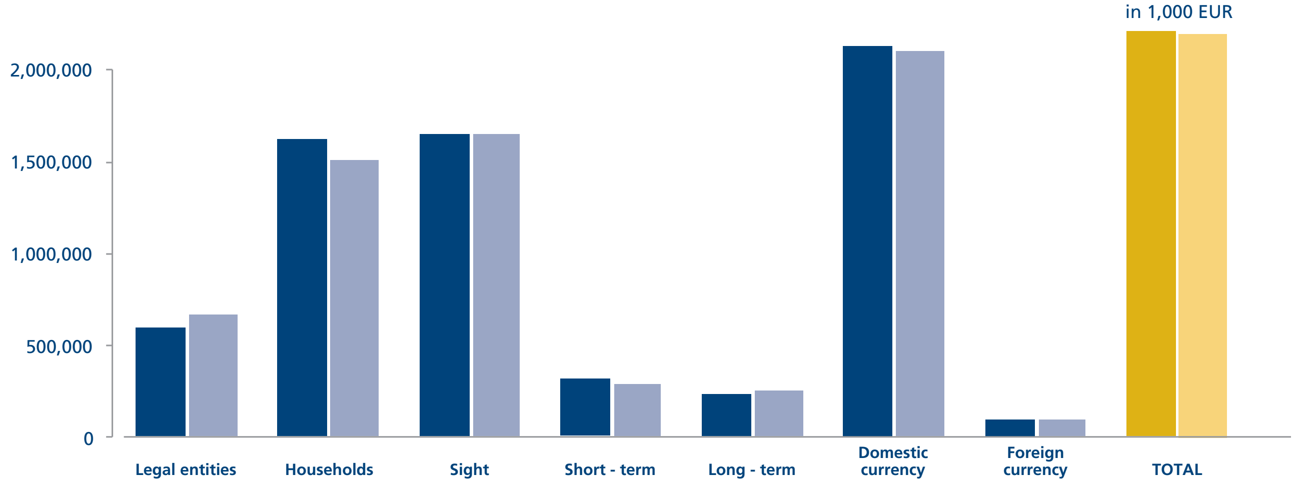
	Legal entities	Households	Short - term	Long - term	Domestic currency	Foreign currency	TOTAL
2019	1,215,336	766,739	127,690	1,854,385	1,973,463	8,612	**1,982,075**
2018	1,137,443	708,392	139,125	1,706,711	1,843,329	2,507	**1,845,836**

Loans to the corporate sector amounted to EUR 1,215.3 million or 61.3%, 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 is steadily increasing in the period of last two years and thus positioning our bank among top corporate lending institutions in Slovenia.

Lending to households (private individuals and sole proprietors) reached EUR 766.7 million or 38.7% of total lending to the non-banking sector. Lending to this customer segment increased by EUR 58.3 million or 8.2% on yearly basis. As in 2019, 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 2019, the Bank increased its market share in the segment of private individuals and sole proprietors, which amounts to 7.0%.

5.2 DEPOSITS

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



	Legal entities	Households	Sight	Short - term	Long - term	Domestic currency	Foreign currency	TOTAL
2019	596,195	1,629,773	1,666,471	324,453	235,044	2,135,761	90,207	**2,225,968**
2018	687.211	1.520.491	1.661.270	290.144	256.288	2.115.793	91.908	**2.207.702**

In 2019, the Bank increased deposits and loans received from the non-banking sector by 0.8% or EUR 18.3 million. Despite an increase in volumes, market share decreased by 45 basis points, to 7.2%, market share of household deposits fell by 13 basis points and amounted to 7.7% at the end of 2019, and market share of deposits by legal entities decreased by 109 basis points, thus amounting to 6.2%.

The sight deposits account for a 74.9% share of total deposits and loans received from the non-banking sector. They are followed by short-term deposits (14.6%) and long-term deposits (10.5%). In terms of currency, deposits in domestic currency prevail with a 95.9% share. With respect to the previous year, demand deposits increased by 0.3% in 2019. Short-term deposits grew by 11.8%, while long-term deposits decreased by 8.3%.

The volume of the deposits placed by legal persons decreased by 13.9% (by EUR 87.5 million) comparing with 2018. Also in 2019, the deposit structure in terms of currency was dominated by deposits denominated in euro.

Household deposits accounted for 73.2% of all non-bank deposits and at the end of 2019 totaled EUR 1,629.8 million, i.e. EUR 109.3 million more year-on-year. Household deposits were mainly denominated in local currency.

Loan to deposit ratio grew by 7,3% in comparison to 2018.

5.3 OTHER SERVICES

5.3.1 Card business and digital banking

In 2019, as the first banking institution in Slovenia, the Bank has offered to its own Visa Inspire cardholders the possibility to perform payments at points of sale with Apple mobile wallet – Apple Pay. Besides the users of Android devices, who can perform card mobile payments already since 2016 (using Wave to Pay application), mobile payments are now available also to users of suitable Apple devices.

Bank has started a thorough overhaul of its digital sales and communication channels (web and mobile bank and web pages), which will be completed in 2020 and which will enable prospect and existing customers to do business with the Bank even more efficient and faster. In parallel, the Bank is implementing the digitalization of branches, where the customers will be able to benefit from an equivalent user experience in doing business to that of the digital channels.
In cards business, Bank's promotional activities have been directed mainly towards acquisition of new business cards and points of sale. Additionally, a marketing campaign has been carried out in order to promote the usage of Activa co-branded payment cards.

5.3.2 Marketing and sale of mutual investment funds

In 2019, interest rates on deposits persisted at low levels. On the other hand, both shares and bonds capital markets experienced a very good year with high growth rates. Developments on the capital markets have had a positive effect on investors and consequently on payments made into mutual funds. It follows from the Reports published by Slovenian asset management companies on the Securities Market Agency's website that the net inflows into Slovenian funds amounted to EUR 82.5 million in 2019. According to the data provided by the Bank of Slovenia, mutual funds managed by foreign asset management companies recorded net outflows of EUR 0.2 million between January and November 2019.

Considering the above circumstances, the Bank completed 2019 with EUR 8.0 million of net payments in the foreign funds marketed by the Bank. The increase was also the result of the product called "Super kombinacija": a deposit with a better interest rate and payment in funds with lower costs.

In January 2019, the Bank discontinued marketing the funds of Franklin Templeton Investments S. A. In September, the Bank broadened its offer by three new funds of Eurizon Capital S.A. (Eurizon Fund Bond Corporate EUR R, Eurizon Fund Bond High Yield R, Eurizon Fund Sustainable Global Equity R). Therefore, as of the end of 2019, the Bank's offer comprised the following funds:
- Eurizon Capital S. A. (14 mutual Eurizon Funds and 4 mutual Eurizon Manager Selection Funds)
- ALTA Skladi (19 funds).

In 2019, the Bank has continued the marketing activities on saving plans, i.e. monthly payments into the mutual funds. There were more than 3,200 new savings plans made in 2019 thus totaling in over 6,900 saving plans provided by the Bank.

The Bank upgraded its services of investment counselling with more sophisticated methodology for investment portfolio recommendations. 1,676 contracts on investment services were concluded in this respect in 2019.

5.3.3 Leasing

The leasing business segment is part of the SME network and it specializes in the sale of financial leasing throughout Slovenia, both for individuals and legal entities.

In line with the market trends new volume of leasing contracts is increasing mostly focusing on commercial vehicles, followed by passenger cars and other equipment, while vessels and real estate remains marginal with a decreasing trend.

Compared to 2018, the volume of investments decreased by 7.4%, caused by rapid change of the structure of the leasing products while the total amount of real estate leasing decreased by EUR 9.1 million. Other strategic segments are growing in line with the market development.

5.3.4 Open-ended mutual pension funds by Intesa Sanpaolo Bank

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

In 2018, the Bank upgraded its offer on voluntary supplementary pension insurance. It launched to the market a new type of saving for old age in the form of a life cycle investment policy. The Bank offers such form of a life cycle investment policy through the management of the 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 the younger insured persons with a riskier, share-oriented investment. With the ageing of insured persons and their approaching retirement, the level of risk reduces up to the last and lowest risk level, where insured persons are, as before, again part of a guaranteed pension sub-fund and its members until they choose the supplementary pension payer or, rather, until they retire.

The year 2019 has been characterized by substantial growth of world stock markets, despite big uncertainties caused by the cooling of European economies, Brexit, trade disputes (USA – China and others), etc. Developments on stock markets have had a limited effect on the performance of Moj Steber fund of pension funds due to its investments policy which limits the share of higher risk securities.

The value of the unit amounted to EUR 9.74 as at 31 December 2019 and increased by 1.80% within a year, thus exceeding the guaranteed return, which amounted to 0.53%. The 5-year return rate of the Moj Steber Guaranteed sub-fund amounted to 5.58%, while the value of unit grew by 133.4 % from the establishment of the sub-fund to 31 December 2019.

As at 31 December 2019, Moj Steber Guaranteed sub-fund disclosed total assets amounting to EUR 45.3 million, which is a 6.5% increase YoY. The increase is primarily the result of somewhat higher net payments into the fund compared to net cash outflows and of reached return. Tax treatment does not encourage exceptional withdrawal from the second pillar compared to regular withdrawal, but exceptional withdrawals (single disbursement) from the second pillar still prevail over regular withdrawals (supplementary pension). A positive trend in the use of the saved assets in the form of a supplementary pension (the rent) was noticed in 2019.

At the end of 2019, Moj Steber fund of pension funds included 7,321 insured persons, 6,779 of whom were included in collective voluntary supplementary pension insurance, while 542 were individually insured persons.

5.3.5 Depositary banking

Banka Intesa Sanpaolo was the first bank in Slovenia that provided depositary services for investment funds in 2004. Since then, the Bank has obtained a great deal of knowledge and experiences. The provision of depositary services is a very responsible task, since the accuracy of items in the funds' books of account need to be checked on a daily basis, along with the accuracy of net asset value and unit value calculation, conversion of payments in the funds, claims for disbursement, and investment compliance with the provisions of investment policy.

All assets of investment funds are held in accounts opened by the custodian in the name and for the account of the individual fund – the owner. The custodian is responsible for the assets and for compliance of the investment fund's operations with the provisions of the prospectus, taking over the responsibility and concern for investors.

To ensure that administrative tasks 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 2019, the Bank expanded the spectrum of services and it was selected as provider of depositary services to an alternative investment fund, which cooperates with EBRD. This selection additionally affirms high quality of Bank's services.

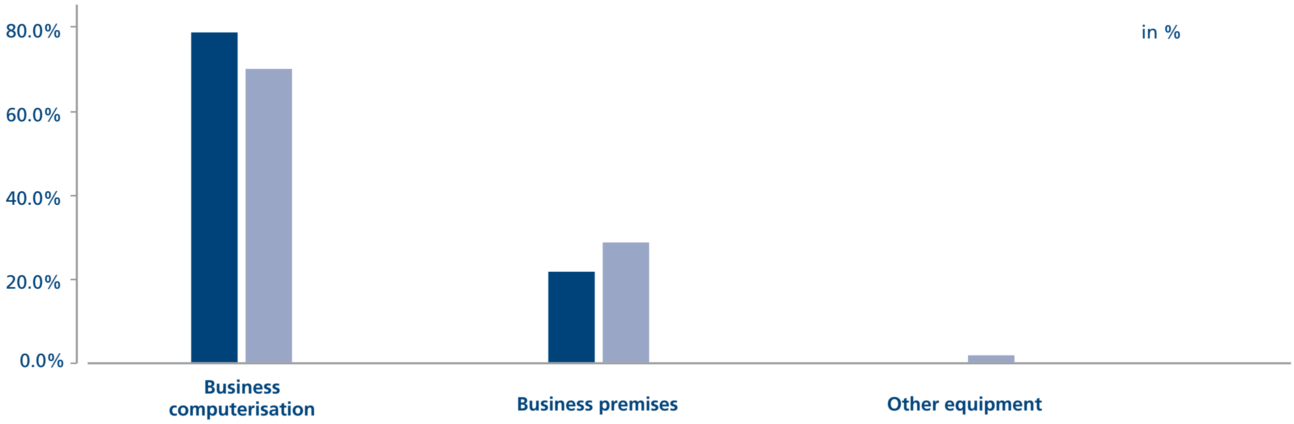
At the end of 2019, the Bank performs depositary services for mutual funds (UCITS), alternative investment funds (AIF), pension funds and internal funds at insurance companies. At the end of the year the volume of assets under custody totaled close to EUR 0.9 billion.

6. THE BANK'S ORGANIC GROWTH AND DEVELOPMENT

6.1 CAPITAL INVESTMENTS

In 2019, the Bank has continued its long-term development programme and invested EUR 3.9 million in total in the computerization of business operations, commercial premises and other equipment. Bank's capital investments in 2019 were higher by EUR 0.5 million compared to the previous year.

Structure of capital investments in 2019



	Business computerisation	Business premises	Other equipment
2019	78.1%	21.9%	0.0%
2018	69.5%	28.9%	1.6%

The majority of investments (EUR 3.1 million or 78.1%) was allocated to business computerisation. Increasingly stricter rules regarding banking safety require continuous investments in ensuring the safety of services.

The Bank allocated EUR 0.9 million or 21.9% of total investments for further renovation and rearrangement of business premises into a modern banking service and for the design of its branches pursuant to the corporate identity of the banking group, especially new business centre in Ljubljana and the branch in Izola.

6.2 INFORMATION TECHNOLOGY AND TECHNOLOGICAL DEVELOPMENT

As regards **business solutions**, in 2019, the Bank pioneered among Slovenian banks as the first to launch the Apple Pay application which ensures secure, fast and simple payments to clients using the Apple's gadgets.

The Bank continued activities in the **optimisation of key business processes**:
- Implementation of an entirely automatised loan approval process for individuals, resulting in greater efficiency and promptness. The project shall continue in 2020, focusing on the solutions for loan approval for legal entities and also in relation to other Bank's products;
- Automation of annual review process for legal entities.
- Solution for the management of court enforcements and credit ratings.
- Solution for cash and bills of exchange management.
- Implementation of solutions dedicated to the management of incoming mail virtually (ePisarnica) and to the monitoring of processes and documents of the Bank's governing bodies (eBoard).
- Upgrade of technological support for investment advisory services in compliance with Mifid regulations (Wealth Shaper) intended to align with regulative requirements and to facilitate the creation of investment proposals involving combined products.

In the **electronic commerce** field, the Bank entirely renewed the applications on all marketing and communication channels: web pages, e-banking, mobile banking, e-commerce in Bank's branches. The new ecosystem brings a prompt and comprehensive treatment of the client, providing a more coherent user experience across all distribution channels.

In the area of **customer relationships**, the Bank developed a new CRM system, internally called CR-ISP, which enables surveying and analysing clients' needs and their feed-back. Since the end of 2019, the implementation of the system into retail network has started with pilot phase in selected branches. New CRM represents a power tools that will significantly help and support the colleagues in branches in efficient sales activities.

In **regulatory affairs and compliance** in 2019, the Bank implemented API interfaces, which provide access to the Bank through third party providers of payment services, as well as other regulatory requirements related to PSD2 (Revised Payment Service Directive). The Bank also upgraded the existing tools for fraud monitoring and detection on all electronic channels. In line with PBZ Group strategy, the Bank implemented a central data warehouse (GDWH as a single database for analysis and reporting. Moreover, the Bank automatized and upgraded the reporting processes aligning them with ISP Group requirements (Tagetik).

In the **information security** field the Bank formed a dedicated team SOC, responsible for detection and prevention of cyber threats. Moreover, the Bank upgraded its solution for protection against advanced informatics attacks (Advanced Threat Prevention) and implemented a solution for detection and prevention of frauds related to web and mobile banking services (Web Application Firewall).

The investments in the field of **physical security** were dedicated to the upgrade of existing security systems, to improvements of the video surveillance systems and to the upgrade of communications between alarm systems and security control centres (SCC). In 2020, the Bank will continue with the investments in these fields. In the renovated branches the Bank will introduce more efficient security standards, which comprise new security systems and separation of specially protected areas (vault, spaces with ICT equipment) from public access areas.

7. ACTIVITIES IN THE FIELD OF SUSTAINABLE DEVELOPMENT

The Intesa Sanpaolo Bank Code of Ethics presents the management guidelines and key values that represent the basis for the Bank's compliant operations. As a corporate entity, the Bank must be 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 accordance with the principles of the code of ethics and the principles of the ISO 26000 standard, the Bank conducted an assessment of compliance by January 2019 and noted concrete improvements compared to the previous assessment. By carrying out this assessment on yearly basis the Bank aims to identify any deficiencies that could represent a risk to its reputation, while also obtaining more detailed information and findings that are important for non-financial reporting.

7.1 RESPONSIBILITY TOWARDS EMPLOYEES

7.1.1 Basic data and HR guidelines in 2019

Human Capital transformation is one of the key strategic pillars in the bank. In 2019 we have started with activities with the aim of changing the culture in company. We have also intensified the dialogue with employees and performed some organisational changes that will allow us follow the strategic objectives even faster.

In 2019, the company radically changed its personnel structure, reducing the average age of employees at the end of the year. As of December 31, 2019, Intesa employed 698 active employees reached the target number that was planned for year end. In the bank there is 74% of women employed.

The company had a relatively high employee turnover rate of 16.6%, which was mainly the result of the staff transformation program and changes resulting from the introduction of the new business model and the consequently restructured organizational structure of the company. We recorded a large number of departures from the actuarial record in the field of employee retirement. Personnel fluctuation goes hand in hand with a staffing strategy that included increasing the number of employees in higher-level jobs and requiring greater levels of competence and reducing the workforce in jobs where processes have been partially replaced by modern technology.

In 2019, the company redesigned its work processes, verified human capital and IT management, strengthened the management of modern marketing channels and customer relationships (CRM, digital business redevelopment), updated the HR and internal communications management model, introduced the PMO project office, reorganized management in the broader field of risk management, as well as changes in the area of small, medium and large enterprises and in the business network. These services are starting fresh in 2020.

Major staffing events include the change of headquarters for many support services and the relocation of functions from Koper to Ljubljana, as well as high staff retention rates. Without a fluctuation rate, as of April 2019, 49 employees have been arriving in Ljubljana from former services in Koper.

Compared to the previous year, we increased the percentage of women in top management to 37% and also the percentage of women in management positions to 57%.

7.1.2 Employee relations

Flexible forms of work
In 2019, the company transitioned from a testing period to a more regular form of more flexible work for certain functions that perform work in support and professional services and occupy more responsible jobs. Compared to 2018, many employees no longer have a prescribed work schedule and are driven by confidence in people. This was only the first step towards a more modern approach to work. In a business network and in collaboration with the company union, the Bank has taken a decision after stopping work on Saturdays, promoting family life for its employees.

Career Opportunities
In 2019, 4.7% of employees had the opportunity to move to a more responsible job. Many of these promotions include promotions to managing a group of people. In this way, the Bank promotes career development and provides an opportunity for the internal public.

The Bank created quite a few new jobs in 2019 that did not exist in the previous year. Only 2% of all employees of the company as of December 31, 2019 who entered these newly created jobs came from the external personnel labor market. It should be emphasized that all posts were advertised to internal public.

In cooperation with the Intesa Sanpaolo Group, this year we advertised the opportunity to work in foreign markets for as many as 9 jobs, within which our employees had the opportunity to advance to more responsible jobs.

Training and development of employee skills
Systematic training is the cornerstone of the development of the Bank's employees. In 2019, 17,035 hours of training were completed, with an average of 24.4 hours per employee. Most of the training (87.3%) was internal. As much as 67% of in-house training was contributed by in-house lecturers, both live and through an online learning portal, where the majority of trainings are directed towards knowledge of internal processes and rules.

Senior management employees have received numerous international trainings organized by the parent company. In 2019, such were NOVATON, Moving Conversations, participation in WOBI Milan and many other world-renowned experts.

We have organized, in cooperation with the Intesa Group, an international sales academy, the so-called Corporate Business School, aimed at corporate banking employees, which will continue in 2020. Such an academy is just an example of how we strengthen knowledge transfer between countries and take care of staff skills development, in contact with businesses and customers.

Ensuring smooth and secure operations in 2019 also required constant awareness of all employees about the importance of preventing money laundering and terrorist financing and the consistency of the Bank's overall operations. An important part of the educational content was related to the preparation of a new digital business strategy. Employees were introduced to the new business model and innovative ways of doing business, both in branch offices and through digital channels.

Onboarding of employees to the bank
In 2019, 7.4% of all employees received a more in-depth presentation of the company's content and business data through the induction program. We have launched a new practice where we bring our employees closer to content that is crucial to society and encourage them to think about topics such as the circular economy, how we live our

company values, what is the importance of managing risk and protecting personal information, and familiarize them with our vision , performance indicators and establish a dialogue between the Company's Management Board, the President of the Management Board and employees. Such actions reinforce knowledge about the non-financial indicators of the company's success and their importance.

Dialogue with employees
The Bank adheres to the principles of the Code of Ethics and has therefore intensively informed its employees through internal channels of changes in the company. In developing relationships with its employees, the Bank consistently respects the values of trust, fairness and cooperation, which contributes to more effective cooperation and a more unified working environment. In 2019, with the refurbishment of internal communication, the bank significantly increased the number of staff posts on internal portals and provided a more transparent flow of information.

7.2 RESPONSIBILITY TOWARDS CUSTOMERS

The Bank is aware that its clients must always be the focus of their attention and that only by have an open and continuous dialogue can meet their expectations, learn about new habits and maintain excellent interpersonal relationships. The Bank listens to its clients in a variety of ways, as well as on the basis of comments and suggestions, and adapts the way it operates to the needs of specific target groups. Clients can express their comments and suggestions using the website, submit them at designated places in the branches or directly through Bank's consultants. An important overview of customer satisfaction is also got through our annual Customer Satisfaction Retail Benchmarking Survey, where the Bank consistently achieves good results.

At the end of 2019, the Bank completed the implementation phase for Instant Feedback mechanism which will be in use from the first quarter of 2020. It focuses on information about clients' satisfaction with Bank's products and services and on further improvements.

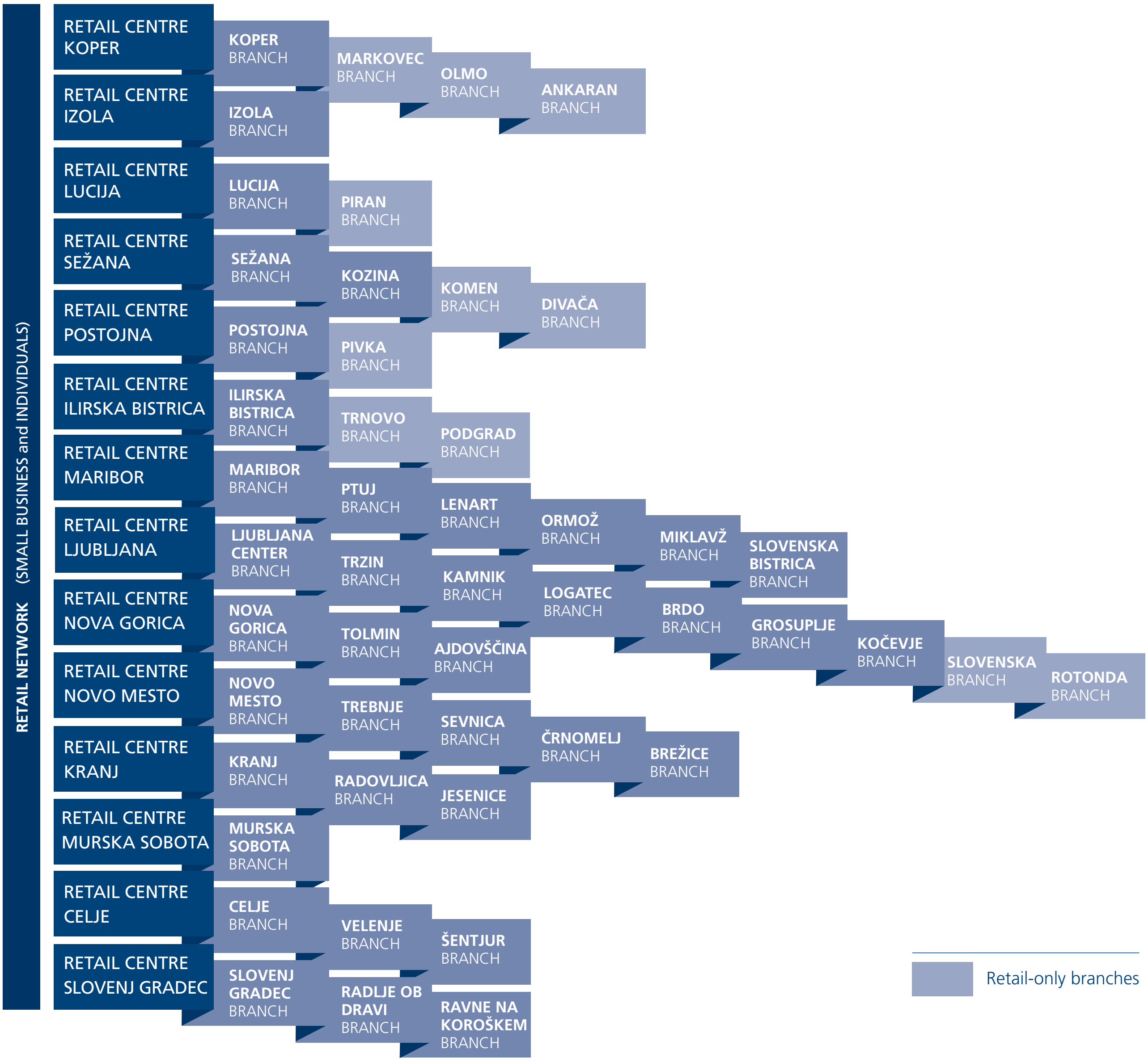
Implementation of the new 2018-2021 Business Plan that uses simplified and more agile business model, making it easier to adapt to new client needs and expectations, as well as the increasingly quick advances in technology has already reflected on the results in 2019. Some key business processes were simplified due to their automation, shortening the period from customer's demand to complete financial solution. Based on positive experience, the activities will continue in 2020, mainly through two identified strategic projects.

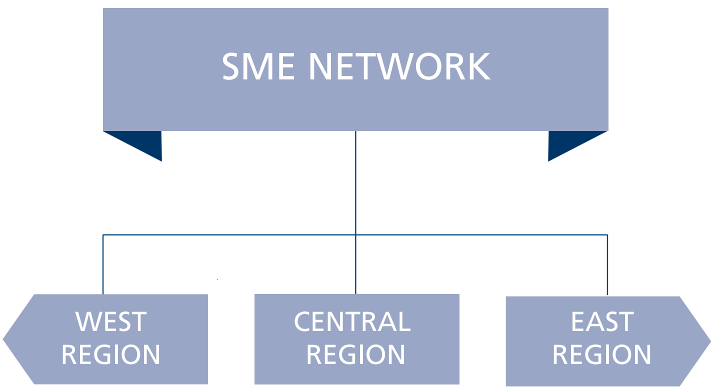
An important milestone on the way to Business Plan's targets was the opening of a new business centre in Ljubljana and relocation of the top Management to Ljubljana in April 2019. The Bank's presence in the Slovene capital was complemented by opening of the new branch. In total, four branches have been renovated in line with ISP Group rules, offering the customers even better experience than before.

7.3 CORPORATE SOCIAL RESPONSIBILITY

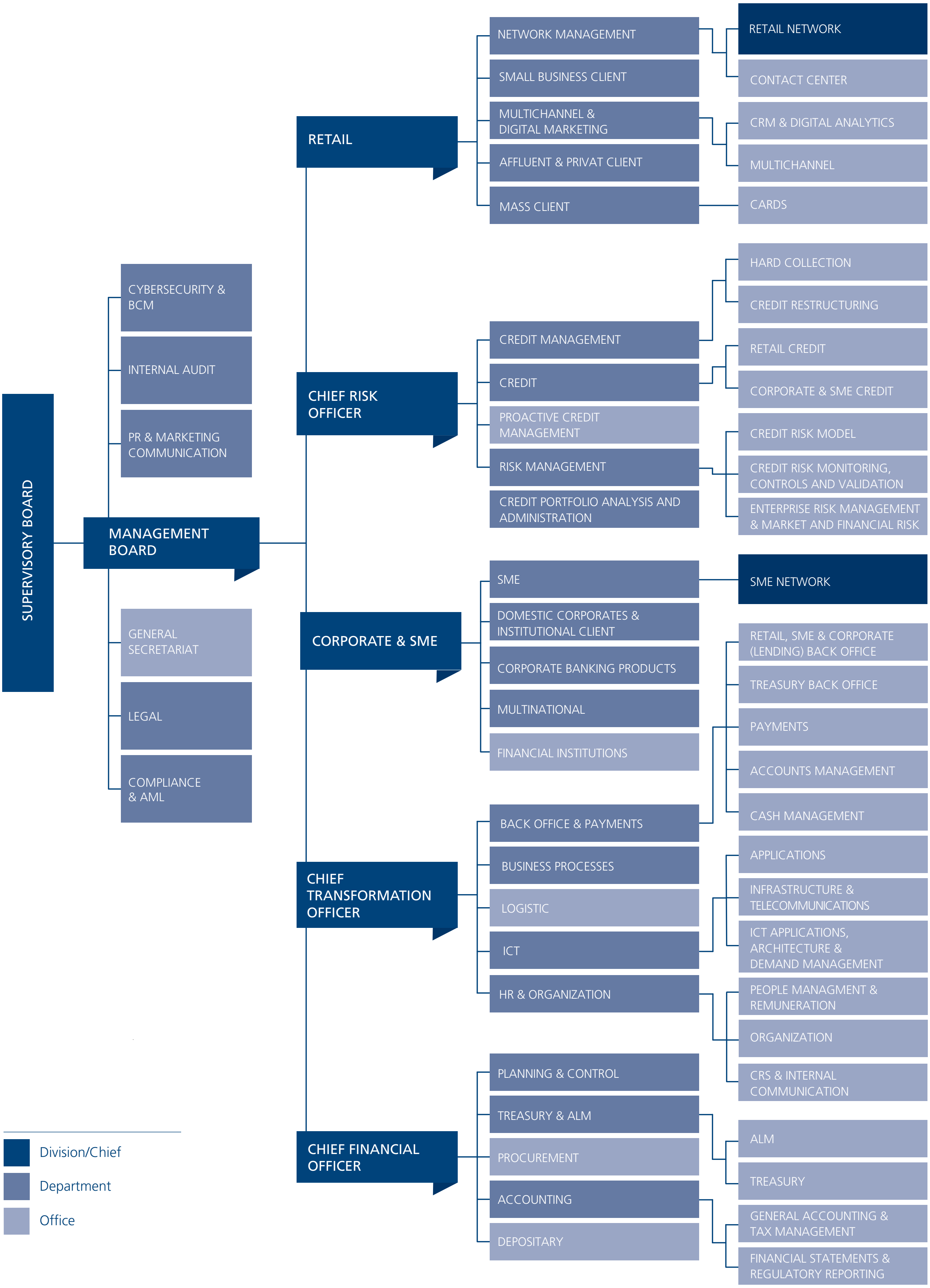
One of the values of Intesa Sanpaolo Bank is also being an active player in the local environment. It supports the protection of historical, artistic and cultural heritage as well as good interpersonal relationships, which are nurtured by many cultural, tourism, sports societies and charities. The Bank proves its commitment through donations and sponsorships that represent an important source of income for various organisations and continues its cooperation with national education and research institutions.

8. TERRITORIAL CHART OF COMMERCIAL UNITS





9. INTERNAL ORGANISATION CHART



10. THE CORPORATE GOVERNANCE STATEMENT OF BANKA INTESA SANPAOLO D.D.

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 2019 and it is available on the website of the company http://www.intesasanpaolobank.si/.

1. The corporate governance code which 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

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

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

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

With the aim of ensuring appropriate financial reporting procedures Banka Intesa Sanpaolo d.d. pursues the Rules of procedure on accounting and accounting policies of the group. Accounting control in the broader sense is provided through the system of internal controls. It shall encompass adequate and effective internal controls, its implementation and monitoring. 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 mayor areas of bank´ s business, namely landing, accepting deposits, current accounts and trading business are laid down. The processes related to financial reporting or 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 at 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, 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	31.12.2019	31.12.2018
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 31.12.2019, 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 31.12.2019, 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 31.12.2019, the members of the supervisory board are elected by simple majority and discharged by the general meeting of shareholders with a two-thirds vote of the represented share capital. The management board is appointed and dismissed by the supervisory board with simple majority of votes. The general meeting of shareholders decides on amendments to the articles of association with a two-thirds vote of the represented share capital.

8. Information on authorisations to the members of management

The members of management do not have any special authorisations.

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

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

At the general meeting of shareholders of Banka Intesa Sanpaolo d.d. held on 20 June 2019, the shareholders were notified of the annual report of the company for the financial year 2018, 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 management board and of the supervisory board in 2018. The shareholders passed the resolution on the distribution the accumulated profit and gave discharge to the management board and to the supervisory board.

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

The supervisory board
The members of the Supervisory board as of 31. 12. 2019 are:

Uroš Čufer	*Chairman*
Alessio Cioni	*Deputy chairman*
Elena Breno	*Member*
Emanuele Collini	*Member*
Dražen Karakašić	*Member*
Andrea Pavlović	*Member*
Silvia Rinaldi	*Member*

There were three committees of the supervisory board at the bank at the end of 2019: the Audit Committee, the Risk Committee and the Nomination Committee

Audit Committee
The members of the Audit Committee as of 31. 12. 2019 are:

Elena Breno	*Chairman*
Andrea Pavlović	*Member*
Silvia Rinaldi	*Member*

Risk Committee
The members of the Risk Committee as of 31. 12. 2019 are:

Andrea Pavlović	*Chairman*
Elena Breno	*Member*
Emanuele Collini	*Member*

Nomination Committee
The members of the Nomination Committee as of 31. 12. 2019 are:

Uroš Čufer	*Chairman*
Alessio Cioni	*Member*
Silvia Rinaldi	*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 assure the aim of achieving the 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

Members of the Bank's Management Board as of 31. 12. 2019:

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

Koper, 14 February 2020

Supervisory Board of Banka Intesa Sanpaolo d.d.

Management Board of Banka Intesa Sanpaolo d.d.

11. REPORT OF THE SUPERVISORY BOARD

REPORT OF THE SUPERVISORY BOARD ON THE EXAMINATION OF THE ANNUAL REPORT FOR THE FINANCIAL YEAR 2019

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 2019,
- The Auditor's Report drawn up by the independent auditor KPMG Slovenija, Limited Liability Company,
- The proposal for the appropriation of profit and
- The report on the relations of the Bank with controlling company and its affiliates including the Auditor's Report drawn up by the independent auditor KPMG Slovenija, Limited Liability Company.

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

R E P O R T

1. The way and scope of verification of the management of the Bank during the financial year 2019

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 2019, the Supervisory Board of the Bank met five times at ordinary meetings and eleven times at extraordinary meetings in which it examined:

- gave prior approval to the budget for the financial year 2019;
- monitored and assessed on a regular basis the compliance with the Bank's business policy for 2019 and the fulfilment of the goals set out within the policy framework;
- monitored the NPL reduction trends;
- gave its consent to the target values for the NPL ratios 2019 – 2021;
- 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;
- discussed the annual plan of the Internal Audit Assignments for the year 2019 and the multiyear plan for the period 2019-2021;
- 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 2018 and the semi-annual for the first half of 2019;
- examined the annual report of the Compliance and AML Department for 2018 and the action plan for 2019;
- examined and approved the annual report of the Internal Audit Department for 2018;
- verified the activities and reviewed the findings of the Internal Audit Department during the current year;
- proposed to the Annual General Meeting a new 3-year term of office of the Supervisory Board which expired in June 2019 and election of a new member of the Supervisory Board;
- re-appointed the Chairman of the Supervisory Board, re-appointed the Deputy Chairman President of the Supervisory Board and appointed the members of the committees of the Supervisory Board within the new 3-year term of office;
- re-extended the term of office of the current member of the Management Board;
- took note of the resignation notice of one member of the Supervisory Board and in December 2019 proposed to the General Meeting to elect a new one (the GM meeting followed in January 2020);
- assessed the collective suitability of the Management Board and Supervisory Board;
- acknowledged the appointment of the head of the Information Security Management Function);
- acknowledged the ISP Group Guidelines on Remuneration, Incentive and Identification of Staff that have a material impact on the Risk Profile of Intesa Sanpaolo Group;
- took note of the minutes of the committees of the Supervisory Board;

- discussed and confirmed the content of the response letter to the JST about the »Deep Dive related to the implementation of remuneration policies";
- discussed the Report of Banka Slovenije on SISBON and SISBIZ systems and two documents of Banka Slovenije related to the oversight of the bank in its capacity as operator of the payment system Multilateralni kliring Activa (the notification with regard to the findings of Banka Slovenije and the letter to the Management Board and Supervisory Board);
- monitored the Bank's capital adequacy;
- took note of Banka Slovenije communication;
- addressed other issues in accordance with powers conferred upon it under law and the Articles of Association.

In 2019, the composition of the Supervisory Board changed. On 20th June 2019, the 39th Annual General Shareholders Meeting of Banka Intesa Sanpaolo d.d. was informed that the term of office to the members of the Supervisory Board expired on 27 June 2019. The following members of the Supervisory Board were re-elected: Uroš Čufer, Alessio Cioni, Andreja Pavlović, Dražen Karakašić, Elena Breno, Emanuele Collini and Silvia Rinaldi while Miroslav Halužan joined them as a new member of the Supervisory Board. At the Supervisory Board meeting held on 28 June 2019 Uroš Čufer was re-appointed as chairman and Alessio Cioni was re-appointed as deputy chairman of the Supervisory Board.

The committees of the Supervisory Board, and more specifically: the Audit Committee, the Risk Committee and the Nomination Committee provided the Supervisory Board with substantive support in 2019. 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 throughout the financial year the Bank's operations with due attention, as well as the internal audit function and supervise the running of the Bank. In February 2020 the members of the Supervisory Board examined the extensive report on the performance and the results posted by the Bank in 2019, 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, Financial Statements, Notes to the Financial Statements, and other notes presented therein. Furthermore, the Supervisory Board assesses that the Annual Report of the Management Board gives a true and fair view of the business events and provide comprehensive information as to operations during the past financial year, and thus complements and expands the information already presented to the Supervisory Board in the course of the financial year. The Bank has safeguarded a high level of operational safety and effectively manages risks it is exposed to in the course of its day-to-day business. Therefore, the Supervisory Board has assessed that considering the circumstances under which the Bank conducted 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 KPMG Slovenija, limited liability company.

3. Approval of the Annual Report for the financial year 2019

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

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

The Annual Report of Banka Intesa Sanpaolo d.d. for the Financial Year 2019.

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. They have found the proposal for the adoption of the distributable profit, to be in line with the dividend policy of the Bank. After due examination of the proposal, the Supervisory Board hereby fully

a g r e e s

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

5. Confirmation of the Report on the relations of the Bank with the controlling company and its affiliates for 2019

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 procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the:
- statements in the report on relations with affiliated companies for the financial year that ended 31 December 2019 are not accurate in all material respects;
- that the Company's execution of legal transactions stated in the Report was disproportionally high in view of circumstances that were known at the time when these transactions were performed;
- that circumstances exist that would in view of other actions mentioned in the Report indicate a significantly different assessment of the disadvantage from the one given by the management,
all by taking into account the above-mentioned 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 KPMG Slovenija.

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 stated that Banka Intesa Sanpaolo d.d. in the circumstances known to it at the time when a legal transaction was carried out or abandoned, the Bank received adequate compensation and by the act of abandonment, it was not to its detriment. The Supervisory Board has no objection with regard to the Statement.

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   a n d   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.

Koper, 14 February 2020

Chairman of the Supervisory Board
Uroš Čufer

Independent auditors' report on financial statements

KPMG Slovenija, podjetje za revidiranje, d.o.o.
Železna cesta 8a
SI-1000 Ljubljana
Telefon: +386 (0) 1 420 11 60
Internet: http://www.kpmg.si

Independent Auditor's Report

To the owners of Banka Intesa Sanpaolo d.d.

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Banka Intesa Sanpaolo d.d. ("the Bank"), which comprise the statement of financial position as at 31 December 2019, the income statement and the statements of other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and EU Regulation (EU) No 537/2014. Our responsibilities under those standards are further described in the *Auditor's Responsibility for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with both the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and 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 Matters

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 a separate opinion on these matters.

The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene and is not to be signed. This translation is provided for reference purposes only.

KPMG

Impairment of loans to non-bank customers	
As at 31 December 2019, loans to non-bank customers amount to EUR 1,933,921 thousand (31 December 2018: EUR 1,757,088 thousand), related impairment allowance amounts to EUR 47,450 thousand (31 December 2018: EUR 87,865 thousand) and impairment loss recognized in the income statement amounts to EUR 4,869 thousand (2018: EUR 12,031 thousand). We refer to the financial statements: Note 2.4 Financial assets and liabilities, Note 2.4.7 Impairment of financial assets, Note 3.3 Credit risk, Note 16 Impairment and Note 26 Loans to non-bank customers.	
Key audit matter	**How the matter was addressed in our audit**
Impairment allowances represent the Management Board's best estimate of the expected credit losses within the loans and receivables at the reporting date. The determination of impairment allowances requires significant judgment from the Management Board over both the timing of recognition and the amounts of any such impairment. The impairment requirements of IFRS 9 *Financial Instruments* are based on the expected credit loss (ECL) model. Under the model, impairment allowance is measured as either 12-months expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. Impairment allowances for performing exposures (Stage 1 and Stage 2 in the IFRS 9 hierarchy) and non-performing exposures (Stage 3) below EUR 0.25 million individually (together "collective impairment allowance") are determined by modelling techniques. Historical experience, identification of exposures with a significant deterioration in credit quality, forward-looking information and management judgment are incorporated into the model assumptions. The Bank is continuously recalibrating the model parameters which also requires our increased attention in the audit. For non-performing exposures exceeding EUR 0.25 million individually, the impairment assessment is based on the knowledge of each individual borrower and often on estimation of the fair value of the related collateral. Related impairment allowances are determined on an individual basis by means of a discounted cash flows analysis.	Our audit procedures in this area, performed, where relevant, with the assistance of our own financial instruments specialists, included, among others: - Updating our understanding of the Bank's ECL methodology and our assessment of its compliance with the relevant requirements of IFRS 9. As part of the above, we challenged the Management Board on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level and portfolio-level factors; - Making inquiries of the Bank's risk management and information technology (IT) personnel to update our understanding of the provisioning process, IT applications used therein, key data sources and assumptions for data used in the ECL model. Also, assessing and testing of IT control environment for data security and access, assisted by our own IT specialists; - Testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans and receivables, including the controls relating to the identification of loss events and default, appropriateness of classification of exposures between performing and non-performing and their segmentation into homogenous groups, calculation of days past due and calculation of the impairment allowances.

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Due to the significant of the amounts and complexities involved, impairment of loans and receivables from non-bank customers was considered by us to be a significant risk in our audit, which required our increased attention. Accordingly, we considered the area to be our key audit matter.	With respect to the impairment accounting under IFRS 9: - Assessing the consistency of application of the definition of default and the Standard's staging criteria; - Evaluating the overall ECL modelling approach, including the Bank's approach to estimating main risk parameters (probability of default (PD) and loss given default (LGD)). For impairment allowances calculated individually: - For a sample of individual exposures above EUR 0.25 million; - critically assessing, by reference to the underlying documentation (loan files) and through discussion with the loan officers and credit risk management personnel, the existence of any triggers for increased credit risk; - based on the outcome of the above procedure, assessing the appropriateness of the Bank's classification of loans to the IFRS 9 stages; - where triggers for classification in Stage 3 were identified, challenging key assumptions applied in the Bank's estimates of future cash flows used in the impairment calculation, such as, primarily, collateral values and related haircut adjustments, by reference to our analysis of the Bank's proceeds from historical sales of similar repossessed assets. For collective impairment allowance: - Evaluating the forward-looking and macroeconomic assumptions used in the ECL assessment, by making corroborating inquiries of the Management Board, and by reference to our analysis of publicly available market data; - Challenging LGD and PD parameters used in the collective impairment model, by performing back-testing of historical defaults and by reference to historical realized losses on such defaults;

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	- For a sample of exposures, assessing whether model parameters and staging are appropriately applied in the calculation of expected credit losses, based on the individual characteristics of credit exposures; - Critically assessing the rationale for any changes in the model parameters in 2019, by reference to our understanding of the business, current economic trends and market practices. For the totality of allowances: - Challenging the overall reasonableness of the impairment allowances, including both the share of the gross non-performing exposure in total gross exposure and the non-performing loans provision coverage; - Assessing impairment-related disclosures in the financial statements against the requirements of the financial reporting standards.

Other Information

Management is responsible for the other information. The other information comprises the Business Report included in the Annual Report but does not include the financial statements and our auditor's report thereon. Other information was obtained before the date of issuance of the auditor's report, except for the Minutes of the Supervisory Board's meeting on the approval of the Annual Report of Banka Intesa Sanpaolo d.d. for the year ended 31 December 2019.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, 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.

With respect to the Business Report, we considered whether the Business Report includes the disclosures required by the Company's Act, dated 4 May 2006, (official gazette of Republic of Slovenia No.42/2006 with amendments) (hereafter referred to as "the applicable legal requirements").

Based solely on the work required to be undertaken in the course of the audit of the financial statements and the procedures above, in our opinion, in all material respects:

- the information given in the Business Report for the financial year for which the financial statements are prepared, is consistent with the financial statements; and
- the Business Report has been prepared in accordance with the applicable legal requirements.

In addition, in light of the knowledge and understanding of the Bank and its environment in which it operates, obtained in the course of our audit, we are required to report if we have identified material misstatements in the Business Report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

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Responsibility of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the IFRS as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of 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 of the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibility for the Audit of 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 ISAs and with EU Regulation (EU) No 537/2014 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 ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

Report on Other Legal and Regulatory Requirements

We were appointed by shareholders of Banka Intesa Sanpaolo d.d. on shareholders meeting dated 12 June 2018 to audit the Bank's financial statements for the year ended 31 December 2019. Our total uninterrupted period of engagement is 8 years, covering the periods ending 31 December 2012 to 31 December 2019.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Bank's Audit Committee dated 12 February 2020;
- we have not provided any prohibited non-audit services (NASs) referred in Article 5 of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

For the period to which our statutory audit relates, in addition to the audit, we have not provided the any services to the Bank which are not disclosed in the Business Report or in the financial statements of the Bank.

On behalf of the auditing company

KPMG SLOVENIJA,

podjetje za revidiranje, d.o.o.

Polona Repinc Kofol
Certified Auditor

Barbara Kunc
Certified Auditor
Partner

Ljubljana, 18 February 2020

KPMG Slovenija, d.o.o.
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Statement Of Management's Responsibilities

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 2017. The management also confirms that the financial statements have been prepared on the going concern basis and in accordance with the applicable laws and International Financial Reporting Standards, as adopted by the EU.

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

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

Koper, February 2020

Financial Statements

1. INCOME STATEMENT

(in thousands of euros)

	Notes	For the year ended 31 December	
		2019	2018
Interest income calculated using effective interest rate	4	48,446	45,683
Other interest income	4	100	1,139
Interest expenses	4	(7,737)	(8,234)
Net interest income		**40,809**	**38,588**
Dividend income	5	161	166
Fee and commission income	6	39,031	37,198
Fee and commission expenses	6	(12,433)	(12,057)
Net fee and commission income		**26,598**	**25,141**
Net gains or losses on financial assets and liabilities not measured at fair value through profit or loss	7	6,893	2,761
Net gains or losses on financial assets and liabilities held for trading	8	929	876
Net gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	9	610	8,469
Net gains or losses from hedge accounting	10	(105)	53
Net exchange differences		(144)	(228)
Net gains and losses on derecognition of non-financial assets	11	287	380
Other operating income	12a	2,593	1,451
Other operating expenses	12b	(2,946)	(3,367)
Administrative expenses	13	(42,567)	(41,527)
Depreciation and amortisation	14	(3,951)	(2,954)
Net modification gains or losses		(4)	-
Provisions	15,38,39	1,513	(3,738)
Impairments	16,26,27	(5,130)	(13,542)
Profit or loss from non-current assets and disposal groups classified as held for sale, not qualifying as discontinued operations	17	3,417	614
Total profit or loss before tax		**28,963**	**13,143**
Tax expense	18	(5,209)	(2,429)
Total profit or loss after tax		**23,754**	**10,714**
Basic earnings per share	19	44.79	20.20
Diluted earnings per share		44.79	20.20

The accompanying notes on pages 47 to 120 are an integral part of these financial statements.

2. STATEMENT OF OTHER COMPREHENSIVE INCOME

(in thousands of euros)

	For the year ended 31 December	
	2019	**2018**
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAX	**23,754**	**10,714**
OTHER COMPREHENSIVE INCOME AFTER TAX	**3,702**	**(3,149)**
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**1,242**	**1,709**
Actuarial gains on defined benefit pensions plans	(33)	1,417
Revaluation of properties	-	(10)
Fair value changes of equity instruments measured at fair value through other comprehensive income	1,570	539
Income tax relating to items that will not be reclassified to profit or loss	(295)	(237)
ITEMS THAT ARE OR MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS	**2,460**	**(4,858)**
Debt instruments at fair value through other comprehensive income	**3,037**	**(6,000)**
- fair value loss on debt instrument at FVOCI	4,606	**(4,830)**
- realised loss on FVOCI financial assets transferred to profit or loss	(1,569)	(1,170)
Income tax relating to items that may be reclassified to profit or loss	(577)	1,142
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX	**27,456**	**7,565**

3. STATEMENT OF FINANCIAL POSITION

(in thousands of euros)

	Notes	As at 31 December	
		2019	2018
ASSETS			
Cash, cash balances at central banks and other demand deposits at banks	20	276,905	390,660
Financial assets held for trading	21	118	29
Non-trading financial assets mandatorily at fair value through profit or loss	22	1,396	3,019
Financial assets at fair value through other comprehensive income	23	332,539	314,631
Derivatives - hedge accounting	21	1,139	1,023
Financial assets at amortised cost:		2,016,332	1,830,704
-debt securities	24	1,262	1,266
-loans to banks	25	61,034	53,623
-loans to non-bank costumers	26	1,933,921	1,757,088
-advances	27	20,115	18,727
Fair value changes of the hedged items in portfolio hedge of interest rate risk*		6,810	1,203
Tangible assets		34,259	27,974
- Property, plant and equipment	29	32,361	27,974
- Investment property	30	1,898	-
Intangible assets	31	5,708	4,071
Other assets	32	4,221	8,580
Non-current assets classified as held for sale	28	9,191	14,592
Total assets		**2,688,618**	**2,596,486**
LIABILITIES			
Financial liabilities held for trading (derivatives)	21	110	-
Financial liabilities measured at amortised cost:		2,348,961	2,289,275
- deposits from banks and central banks	33	6,774	15,517
- deposits from non-bank customers	34	2,225,968	2,207,670
- loans from banks and central banks	35	88,996	37,484
- loans from non-bank customers	36	-	32
- other financial liabilities	37	27,223	28,572
Derivatives – hedge accounting	21	18,950	4,055
Fair value changes of the hedged items in portfolio hedge of interest rate risk*		344	626
Provisions:		9,249	12,635
- Provisions for liabilities and charges	38	6,383	9,737
- Retirement benefit obligations	39	2,866	2,898
Tax liabilities:		6,392	2,789
- current tax liabilities		3,226	818
- deferred tax liabilities	40	3,166	1,971
Other liabilities	41	3,038	2,782
Liabilities included in disposal groups classified as held for sale		-	-
Total liabilities		**2,387,044**	**2,312,162**
EQUITY			
Basic equity	42	22,173	22,173
Share premium	42	7,499	7,499
Accumulated other comprehensive income	43	16,149	12,447
Reserves from profit	44	231,299	230,111
Treasury shares		(49)	(49)
Retained earnings (including net profit for the current year)	44	24,503	12,143
Total equity		**301,574**	**284,324**
Total liabilities and equity		**2,688,618**	**2,596,486**

**For detail explanation please see note 3.9. Table 'The amount relating to items designated as hedged item*

The accompanying notes on pages 47 to 120 are an integral part of these financial statements.

4. STATEMENT OF CHANGES IN EQUITY

(in thousands of euros)

For the year ended 31 December 2019	Notes	Basic equity	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings or loss (including profit from the current year)	Treasury shares (equity deduction item)	Total equity
OPENING BALANCE FOR THE REPORTING PERIOD	42,43,44	22,173	7,499	12,447	230,111	12,143	(49)	284,324
Comprehensive income for the financial year after tax	-	-	-	3,702	-	23,754	-	27,456
Appropriation of (accounting for) dividends	-	-	-	-	-	(10,178)	-	(10,178)
Transfer of net profit to reserves from profit	-	-	-	-	1.188	(1.188)	-	-
Other *** (realized losses upon derecognition of FVOCI shares)	-	-	-	-	-	(28)	-	(28)
CLOSING BALANCE FOR THE REPORTING PERIOD	**42,43,44**	**22,173**	**7,499**	**16,149**	**231,299**	**24,503**	**(49)**	**301,574**
DISTRIBUTABLE PROFIT for the financial year		-	-	-	-	**22,566**	-	**22,566**

(in thousands of euros)

For the year ended 31 December 2018	Notes	Basic equity	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings or loss (including profit from the current year)	Treasury shares (equity deduction item)	Total equity
OPENING BALANCE (BEFORE RESTATEMENT)	42,43,44	22,173	7,499	16,023	229,574	10,009	(49)	285,229
Effects of changes in accounting policies (introduction IFRS9)		-	-	(427)	-	(4,027)	-	(4,454)
OPENING BALANCE FOR THE REPORTING PERIOD	42,43,44	22,173	7,499	15,596	229,574	5,982	(49)	280,775
Comprehensive income for the financial year after tax	-	-	-	(3,149)	-	10,714	-	7,565
Appropriation of (accounting for) dividends	-	-	-	-	-	(3,999)	-	(3,999)
Transfer of net profit to reserves from profit	-	-	-	-	537	(537)	-	-
Other *** (realized losses upon derecognition of FVOCI shares)	-	-	-	-	-	(17)	-	(17)
CLOSING BALANCE FOR THE REPORTING PERIOD	**42,43,44**	**22,173**	**7,499**	**12,447**	**230,111**	**12,143**	**(49)**	**284,324**
DISTRIBUTABLE PROFIT for the financial year		-	-	-	-	10,178	-	**10,178**

The accompanying notes on pages 47 to 120 are an integral part of these financial statements

5. STATEMENT OF CASH FLOWS

(in thousands of euros)

	Notes	For the year ended 31 December	
		2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Total profit or loss before tax		28,963	13,143
Depreciation	14	3,951	2,954
Impairments / (reversal of impairments) of financial assets at fair value through other comprehensive income	16	(18)	(71)
Impairments / (reversal of impairments) of financial assets measured at amortised cost	16	5,011	12,284
Impairments of tangible assets, investment property, intangible assets and other assets	16	138	1,329
Net (gains) / losses from exchange differences		144	227
Net (gains) / losses from sale of tangible assets		(44)	182
Net (gains) / losses from non-current assets and disposal groups classified as held for sale, not qualifying as discontinued operations		604	671
Other adjustments to total profit or loss before tax (provisions)		(1,513)	3,738
Cash flow from operating activities before changes in operating assets and liabilities		**37,236**	**34,457**
(Increases) / decreases in operating assets (excl. cash & cash equivalents)		**(242,117)**	**(106,761)**
Net (increase) / decrease in financial assets held for trading		(89)	31
Net (increase) / decrease in financial assets mandatorily at fair value through profit or loss		1,623	17,161
Net (increase) / decrease in financial assets measured at fair value through other comprehensive income		(17,360)	2,494
Net (increase) / decrease of financial assets measured at amortised cost		(227,426)	(123,434)
Net (increase) / decrease in assets-derivatives - hedge accounting		(5,724)	359
Net (increase) / decrease in non-current assets and disposal groups classified as held for sale, not qualifying as discontinued operations			3,894
Net (increase) / decrease in other assets		6,859	(7,266)
Increases / (decreases) in operating liabilities		**73,036**	**201,958**
Net increase / (decrease) in financial liabilities held for trading		110	(8)
Net increase / (decrease) in deposits and loans measured at amortised cost		56,590	201,462
Net increase / (decrease) in liability – derivatives – hedge accounting		14,613	2,890
Net increase / (decrease) in other liabilities		1,723	(2,386)
Cash flow from operating activities		**(131,845)**	**129,654**
Income taxes (paid) / refunded		(2,419)	(214)
Net cash flow from operating activities		**(134,264)**	**129,440**
CASH FLOWS FROM INVESTING ACTIVITIES		**9,902**	**183**
Receipts from investing activities		**55**	**183**
Receipts from the sale of property and equipment and investment properties		9,847	-
Cash payments on investing activities		**(4,035)**	**(2,251)**
Cash payments to acquire tangible assets, and investment properties		(1,789)	(815)
Cash payments to acquire intangible assets		(2,246)	(1,436)
Net cash flow from investing activities		**5,867**	**(2,068)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash payments on financing activities		**(10,178)**	**(3,999)**
Dividends paid		(10,178)	(3,999)
Net cash flow from financing activities		**(10,178)**	**(3,999)**
Effects of change in exchange rates on cash and cash equivalents		2,129	1,158
Net increase in cash and cash equivalents		**(138,575)**	**123,373**
Opening balance of cash and cash equivalents	46	415,539	291,008
Closing balance of cash and cash equivalents	46	**279,093**	**415,539**

(in thousands of euros)

Operational cash flows of interest and dividends	As at 31 December	
	2019	2018
Interest paid	7,685	(9,733)
Interest received	40,297	48,464
Dividends received	161	166

As at 31 December 2019, the Bank did not have undrawn credit lines (2018: nil).

The accompanying notes on pages 47 to 120 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 the 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. is member of the Intesa Sanpaolo Group (originally SanpaoloIMI), one of the leading banking groups in Italy. As of January 1 1 2007, the Sanpaolo IMI Group merged with Banca Intesa. Since July 2017, the Bank is also part of Privredna Banka Zagreb banking group, which holds 51% stake.

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 cost basis, except fort 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)

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 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.

Standards, Interpretations and amendments to published Standards as adopted by the EU that are not yet effective for annual periods beginning on 1 January 2019

Standard/Interpretation [IAS 8.31 (a), 8.31(c)]	Nature of impending change in accounting policy [IAS 8.31 (b)]	Example wording regarding the possible impact on financial statements [IAS 8.30 (b); 31 (e)]
Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Effective for annual periods beginning on or after 1 January 2020)	The amendments clarify and align the definition of ' material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.	The Bank does not expect the Amendments to have a material impact on its financial statements when initially applied.
Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments and IFRS 7 Financial Instruments: Disclosures (Effective for annual periods beginning on or after 1 January 2020) These amendments are not yet endorsed by the EU.	The amendments are mandatory and apply to all hedging relationships directly affected by uncertainties related to the IBOR reform. The amendments provide temporary relief from applying specific hedge accounting requirements to the hedging relationships with the effect that IBOR reform should not generally cause hedge accounting to terminate. The key reliefs provided by the amendments relate to: - ' Highly probable' requirement. - Risk components - Prospective assessments - Retrospective effectiveness test (for IAS 39) - Recycling of the cash flow hedging reserve. The amendments also require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.	The Bank expects that the amendments, when initially applied, will require additional disclosures of hedging relationships which are affected by uncertainties caused by the IBOR reform.

Standards and interpretations not yet endorsed by the EU as at 1 January 2020

Standard/Interpretation	Nature of impending change in accounting policy	Possible impact on financial statements
Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (The European Commission decided to defer the endorsement indefinitely.)	The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that: - a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while - a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.	The Bank does not expect that the amendments, when initially applied, will have material impact on the financial statements as it has no subsidiaries, associates or joint ventures.
IFRS 17 Insurance Contracts (Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively. Early application is permitted.)	IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values, instead of historical cost.	The Bank expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements because the Bank does not operate in the insurance industry.
Amendments to IFRS 3 Business Combinations (Effective for annual periods beginning on or after 1 January 2020)	The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business.	The Bank does not expect the Amendments to have a material impact on its financial statements when initially applied.

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, 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.
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 realizing 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 (SPP 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 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:
continge
- 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.

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 reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.
- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as '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.

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.

Fair value hedge
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.

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, which 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 I s the case, the Bank first applies IFRS 9 to separate and measure that part and on the residual apply IFRS 15.

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

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

2.11 INTANGIBLE ASSETS

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

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

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

Intangible assets	Estimated useful lives in 2019	Estimated useful lives in 2018
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 dismantlement, 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 2019	Estimated useful lives in 2018
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	-

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 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 management of the Intesa Sanpaolo Group reclassified real estate into a portfolio of held-for-sale assets at the end of 2017, the sale began to take place only in 2019 and is still ongoing. Since that sales-related activities are continuing intensively, real estate subject to sale were not reclassified. Only real estates that are not any more on sale plans (3 properties) were returned to the original classification.

2.14 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.

2.15 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.

2.16 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**

From 1 January 2019, a lease agreement which conveys the right to control the use of a particular asset for a specified period in return of remuneration is recognized in the balance sheet. Such contracts require from the lessee to recognize the asset as the right to use and the liability from lease contract. The asset representing the right of use is depreciated and interest are accrued on the lease liability. At transition date, the Bank recognized additional lease liabilities and the right to use in the amount of EUR 4,606 thousands.

The following table reconciles the Company's operating lease obligations at December 31, 2018, as previously disclosed in the Company's consolidated financial statements, to the lease obligations recognized on initial application of IFRS 16 at January 1, 2019.
For leases with duration less than 12 months and leases where the leases asset in low value asset (less than EUR 5000) the contractually agreed lease payments continue to be recognized as an expense in the income statement in proportion to the lease term.

	(in thousands of euros)
Operating lease commitments at December 31, 2018	6,416
Discounted using the incremental borrowing rate at January 1, 2019	6,385
Variable lease payments that do not depend on an index or a rate	(1,734)
Recognition exemption for short-term leases	(45)
Lease obligation recognized at January 1, 2019	4,606

(in thousands of euros)

	As reported 1.1.2019	IFRS 16	2018 prior IFRS 16
Assets			
of which Property, plant and equipment	32,580	4,606	27,974
of which Rights of use assets	4,606	4,606	-
Total	**32,580**	**4,606**	**27,974**
Liabilities and total Shareholder Equity			
of which Liabilities measured at amortised cost	2,293,881	4,606	2,289,275
of which other financial liabilities	33,178	4,606	28,572
of which Lease obligations	4,606	4,606	-
Total	**2,601,092**	**4,606**	**2,596,486**

Furthermore, leases that do not transfer to the Bank's rights to control the leased asset continue to be treated as operating leases. Lease payments under operating lease are recognised as an expense in profit or loss on a straight line basis over the lease term. Contingent rents are charged as expenses in the periods in which they are incurred.

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership to the lessee. An item of property, plant and equipment acquired by way of finance lease is recorded as an asset and a liability at the lower of the fair value of the asset and the present value of the minimum lease payments at the commencement of the lease term, less accumulated depreciation and any impairment losses. An item of property, plant and equipment acquired under a finance lease is depreciated over the useful life of the asset. If there is no reasonable certainty that the lessee will obtain ownership of the leased asset by the end of the lease term, the leased assets shall be fully depreciated over the shorter of the lease term and its useful life.

- **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.

2.17 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.

2.18 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.

2.19 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.

2.20 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.

2.21 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.

2.22 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.

2.23 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.

2.24 COMPARATIVE INFORMATION

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

2.25 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 represents the major source 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, assessment of whether credit risk on financial assets has increased significantly since initial recognition and incorporation of forward looking information in measurement of ECL is 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 0.9 % (2018: 1.88%), and
- Future salary increases 2.5% p.a. from 2019 onwards (2018: 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.

As stated in Note 39, the Bank provided EUR 833 thousand (2018: EUR 1,733 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 have to be amortized on the basis of new revalued value.

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.

3. RISK MANAGEMENT ORGANISATION

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

The Bank prudently manages all risk that could affect the safe, profitable and continuous operations as a going concern. The moist important risk for the bank are:
- Credit risk;
- Interest rate risk;
- Liquidity risk
- Operational risk.

Credit risk is the most important risk for the bank because it arises from the uncertainty of repayment of granted credit. The Bank deploys a vigorous and effective credit approval process to minimize credit risk whilst at the same time does the utmost to remain competitive in the market.

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 with interest rate swaps.

Liquidity risk is the risk of the Bank not being able to meet its short term obligations towards third parties. The Bank maintains a substantial liquidity buffer that ensures ample liquidity.

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 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 analyses,
- Risk measurement,
- Risk mitigation and monitoring.

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

Risk analyses 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 actual the implementation of concrete changes in the Banks internal processes and portfolio risk exposure. The Bank constantly monitors the timeliness and quality of implementation of the mitigation actions.
In 2019 significant steps were undertaken to even further improve the interconnectedness of the Banks business strategy with the principles of sound and prudential institution wide risk management. A comprehensive transformation of the Bank processes and culture is one of the key predispositions to achieving the Banks ambitious business goals. The Bank approached this task with a high awareness that such a transformation inevitably influences the Banks' exposure to various types of risk. Regardless of all changes that were initiated, the fundamental principle, to stay a reliable and trustworthy financial institutionstays unchanged. To achieve this principle, the Bank adopted a comprehensive Risk Management strategy, which supports and complements the Banks business strategy. The purpose of the Risk management strategy is to outline and raise awareness about all risks arising

from new business initiatives as well as to analyze the impact of those initiatives on the overall risk profile of the Bank. It determines at the level of the Bank the 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 Bank operates, taking into consideration the status of business cycle. The Bank is preparing the Risk management strategy on a yearly basis to keep up with and take into account the changes in the internal and external environment.
In addition, and to complement the provisions and principles defined in the Risk Management strategy, in 2019 the Bank prepared a separate Credit Risk Management Policy, which was adopted by the Bank and represents the transposition of the Risk Management Strategy in the area of credit risk management for the purpose of an effective management of credit risk appetite in the underwriting and collection process. The Policy, prepared once a year by business lines and risk functions, and approved by the relevant Corporate Bodies of the Bank, sets a direction and plan for development of the credit portfolio of the Bank in the relevant financial year. The Policy comprises of review of credit portfolio management limits, definition of portfolio structural targets and definition of execution levers. The Policy seeks to provide guidelines to lower organizational units on how to structure transactions and achieve the portfolio and budget goals, thereby fulfilling its role in the education and embedding a credit risk management culture at all organizational levels of the Bank.

3.1 CORPORATE RISK MANAGEMENT AND ORGANIZATIONAL 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, which 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 give guidance about measures necessary to manage financial exposures.

Credit Risk Governance Committee defines and update 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, whose 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, whose main responsibility consists in taking the necessary measures in order to prevent and mitigate credit losses connected with risky and deteriorated assets.

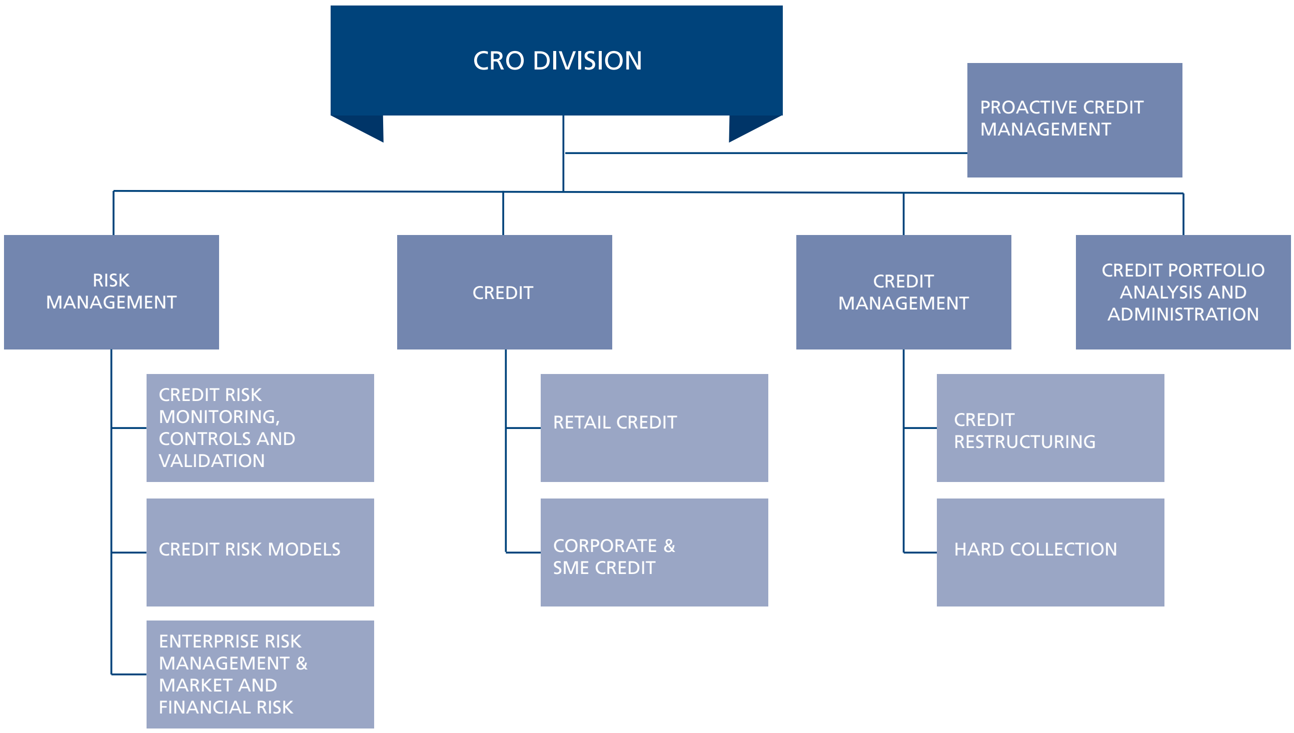
The Internal Audit Department evaluates and reviews processes, procedures, guidelines, policies and all operating activities performed by the Bank with the aim to evaluate the efficiency and effectiveness of the internal controls system and risk management system.

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

3.1.2. The organisational structure of Risk Division

The Risk Division (CRO area) is responsible for the risk management processes of the Bank. The person in charge of the Risk Division is a Member of the Management Board.

The organisation chart of the Risk Division:



The roles of organisational units within the Risk Division

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

- **Enterprise Risk Management & Market and Financial risk office** is responsible for risk policies, risk methodologies and reporting on risk exposures other than Credit risk. In addition, the Office monitors internal risk limits and external regulatory constraints, including the minimum capital adequacy ratios.
- **Credit Risk Monitoring, Controls and Validation Office** is performing second level controls and monitoring activities over the credit portfolio, in terms of quality, composition and considerable changes. The office is also in charge of evaluating the compliance of the internal systems of risk measurement and management with the regulatory requirements and their alignment with ISP Group guidelines. The Office is responsible for the evaluation of the internal systems of all risk profiles (to be used for both regulatory and internal management purposes) in all the phases of the internal systems lifecycle, also supporting the Supervisory Authorities in their review activities.
- **Credit Risk Model 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 exposure management 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 the most proper action plans.

Proactive credit management 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 the most proper action plans.

The **Credit Department** analyses and approves loans and credit facilities to individual borrowers. There are two offices that operate within the framework of the Department: Small, Medium Enterprises and Retail Credit Underwriting Office and the Large Corporate Credit Underwriting Office.

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

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 CRR Regulation and is determined as a ratio between the Bank's capital and risk-weighted assets. Capital requirements have to be set aside 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 less extent of Tier 2 capital. As of 31 December 2019, the Bank`s capital amounts to 273 million euros, whereas the CET1 ratio was 15.90%. The capital ratio was adequate and above the minimum capital requirement as defined by regulation, as well as with regard to the Pillar II framework, that is 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 regularly vigorously monitored and reported to the highest governance bodies. The Bank additionally prepares an annual and strategic capital planning with the purpose of linking the Bank business strategy and capital position to ensure maximum protection of the bank stakeholders.

(in thousands of euros)

Capital adequacy as at 31 December 2019	Risk weighted amount (unaudited)		Capital	
	2019	2018	2019	2018
Credit risk exposures of banking book				
Exposures to state and central bank	9,479	11,575	758	926
Exposures to local municipalities	16,587	16,037	1,327	1,283
Exposures to public sector	3,956	4,259	316	341
Exposures to development banks				
Exposures to institutions	49,592	22,302	3,967	1,784
Exposures to enterprises	152,440	165,221	12,195	13,218
Exposures to retail banking	513,331	624,629	41,066	49,970
Past due exposures	7,592	13,457	607	1,077
Exposures to highly risk exposures	-	21,604	-	1,728
Exposures to investments funds	1,560	1,455	125	116
Secured by mortgages on immovable property	67,600	-	5,408	-
Exposures to corporates-other IRB	486,660	458,087	38,933	36,647
Exposures to corporates-SME IRB	192,592	164,839	15,407	13,187
Exposures to equity IRB	20,794	20,296	1,664	1,624
Exposures to other assets IRB	56,213	59,807	4,497	4,785
Total	**1,578,396**	**1,583,568**	**126,270**	**126,686**
Credit risk weighted assets	1,578,396	1,583,568	126,270	126,686
Market risk weighted assets	738	368	59	29
Operational risk weighted assets	141,069	131,440	11,286	10,515
Total risk weighted assets	**1,720,203**	**1,715,376**	**137,615**	**137,230**
Regulatory capital				
Ordinary share	22,173	22,173		
Share premium	7,499	7,499		
Treasury shares	(49)	(49)		
Revaluation reserves	16,149	15,471		
Legal reserves	16,007	15,471		
Treasury shares fund reserves	49	49		
Statutory reserves	214,055	214,055		
Retained earning	1,937	1,964		
Less intangible assets	(5,708)	(4,071)		
Other transitional adjustments				
Requirements from prudent valuation of debt securities	(288)	(263)		
Recognised impairments for credit risk during the year	(684)	(2,494)		
Total qualifying Tier 1 capital	**271,140**	**266,781**		
IRB Excess of provisions over expected losses	**2,294**	**4,218**		
Total qualifying Tier 2 capital	**2,294**	**4,218**		
Total regulatory capital	**273,434**	**270,999**		
Capital Adequacy ratio (%)	**15.90**	**15.80**		

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 include:
- Top of the house limits,
- Local specific limits,
- 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. The 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 establishes controls and procedures in case of limit breach.

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, securities andother 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 December 2019 amounted to EUR 2.842 million of which 97% is classified as performing. Total risk portfolio includes all asset and off-balance sheet items, which are subject to credit risk according to the Bank of Slovenia methodology.

Intesa Sanpaolo Bank's credit risk related portfolio as at 31 December 2019

(in thousands of euros)

Counterparties	Total gross credit risk portfolio	Share in %	Performing	Share in %	Non-performing	Share in %	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 in %
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	536,286	17%	536,286	17%	-	-	53	-	-	-	536,233	17%
Corporate entities	1,666,331	52%	1,616,283	52%	50,048	77%	8,86	1%	25,353	51%	1,632,118	52%
Banks	115,893	4%	115,893	4%	-	-	44	-	-	-	115,849	4%
Private individuals	843,028	27%	828,307	27%	14,721	23%	6,494	1%	9,969	68%	826,565	27%
Total	**3,161,538**	**100%**	**3,096,769**	**100%**	**64,769**	**100%**	**15,451**	**0%**	**35,322**	**55%**	**3,110,765**	**100%**

Intesa Sanpaolo Bank's credit risk related portfolio as at 31 December 2018

(in thousands of euros)

Counterparties	Total gross credit risk portfolio	Share in %	Performing	Share in %	Non-performing	Share in %	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 in %
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	644,772	20%	644,772	21%	-	-	77	-	-	-	644,695	21%
Corporate entities	1,605,537	51%	1,512,175	48%	93,362	86%	13,402	1%	66,361	71%	1,525,774	49%
Banks	110,255	3%	110,255	4%	-	-	50	-	-	-	110,205	4%
Private individuals	832,981	26%	818,294	27%	14,687	14%	4,336	1%	9,531	65%	819,114	26%
Total	**3,193,545**	**100%**	**3,085,496**	**100%**	**108,049**	**100%**	**15,451**	**1%**	**75,892**	**70%**	**3,099,788**	**100%**

Analyses by type of collateral

(in thousands of euros)

	2019		2018	
	Collateral up to net loans	Fair value of collateral	Collateral up to net loans	Fair value of collateral
Real estate	528,733	1,636,015	514,552	1,645,940
Bank guarantees	77,368	91,408	41,263	55,199
Personal guarantees	313,341	858,714	286,448	797,616
Debt securities	10,362	27,051	19,341	49,391
Government guarantees	184,589	211,882	200,467	227,260
Other collateral	69,273	183,495	74,491	192,777
Deposits	4,301	5,437	2,236	4,865
Insurance company guarantees	102,780	135,301	106,774	136,030
Total collateralised net loans	**1,290,747**	**3,149,303**	**1,245,572**	**3,109,078**
Unsecured	643,877	-	512,399	-
Total net loans to non-bank customers*	**1,934,624**	**-**	**1,757,971**	**-**

**This amount include also the amount of net loans classified as mandatorily at FV through profit or loss*

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, there is considered the value, assessed by independent evaluators, while in 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 mln EUR or 55% of the capital of the bank, there is obtained a new evaluation every 3 years. Securities and collective investment units, quoted on the market are revalued weekly, whereas movable property collateral are revalued yearly.
Individual valuations and revaluations of real estate collateral shall be undertaken, as from 30 June 2019, by an independent appraiser for non performing exposures whose gross value exceeds EUR 300 thousand on 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	
	2019	**2018**
Credit risk exposures relating to on-balance sheet assets are as follows:		
Loans to banks	61,034	53,623
Loans to non-bank customers: *	1,925,568	1,755,736
Loans to individuals:	698,473	641,579
- overdrafts	23,834	24,652
- credit cards	10,362	13,158
- term loans	144,350	130,396
- mortgages	515,316	467,724
- finance leases	4,611	5,649
Loans to sole proprietors	49,492	48,070
Loans to corporate entities	1,177,603	1,066,087
Debt securities at amortised cost	1,262	1,266
Advances	20,115	18,727
Non-trading financial assets mandatorily at fair value through profit or loss:	1,075	1,461
- loans and advances	1,075	1,461
Financial assets at fair value through other comprehensive income:	316,954	300,494
- debt securities	316,954	300,494
Other assets**	255,814	372,490
Credit risk exposures relating to off-balance sheet items are as follows:		
Guarantees and documentary letters of credit	174,750	163,846
Credit commitments and other credit related liabilities	354,193	432,145
At 31 December	**3,110,765**	**3,099,788**

**Maximum exposure of loans to non-bank 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 2019 and 2018, without taking into account any collateral held or other attached credit enhancements. For off-balance-sheet assets, the exposures set out above are based on net amounts after impairments as reported in the statement of financial position.

Credit Classification

The Bank`s credit portfolio classified as performing assets have to subject to credit analysis and get assigned internal credit rating. For provisioning purposes, a PD rate equivalent to PD rate of internal rating grade S1 (first rating grade of medium risk) is assigned to unrated borrowers. In addition, and according to IFRS9 reporting standards the counterparties are classified in three stages. 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 arrange credit risk counterparts in 15 rating grades according to the probability of default severity. The Bank developed and implemented 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. 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 later 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 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;
- Qualitative information on credit quality deterioration due to which the client is included in the monitoring list;
- Certain 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. Main indicators that are used are transaction classification, Days past due, Forbearance, PCEM (watch list) Indicator and/or Early Warning System (EWS) model for Small Business, SME and Large Corporate portfolios. Considering that, Stage 3 is equal to Non-performing status of the loan, the key element in Stage assignment is recognition of increasing credit risk of a financial instrument. Significant increase of credit risk could be highlighted by quantitative and qualitative indicators as:

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

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

Stage assignment for Loans:

Loan exposures towards Legal entities:

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

Loan exposures towards Retail:

Condition - business condition (event) for assignment of stage	Stage
Risk class is Past Due, Unlikely to pay or Doubtful	3
DPD >30 under new DoD rules[1]	2
Early warning signals for retail exposures show significant deterioration in credit risk:	2
Performing	2

[1] *With the introduction of New Default Definition, the days past due criterion should be determined at client level applying new materiality threshold, that consists of an absoulute and a relative component (1% as relative threshold and 100 EUR for retail exposures or 500 EUR for corporate exposures as absolute one).*

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.

Inclusion of forward-looking macroeconomic effect is based on EBA stress test coefficients. EBA stress test coefficients are used for creation of scenario for the three years, relative to the starting point of every bank. Stress test coefficient are multipliers for risk parameters: PD and, LGD. This step includes calculation of PD conditioned by EBA Stress Test coefficients. Since EBA releases only Baseline and Adverse coefficients, Best scenario coefficients have to be estimated in order to include add-on component into Lifetime PD.

New definition of default

In November 2019 the Bank adopted the new Definition of Default applying the definition set out in the EBA Guideline (EBA/GL/2016/07). The implementation has been accomplished in advance to enforcement date of 1 January 2021, allowing the Bank to be already fully harmonized with the EBA guideline.

Main changes in comparison to previous definition is the rule defining objective default, where after the change the days past due are counted as number of days when the materiality threshold has been continuously exceeded, while previously any amount was considered for that purpose. In addition, the 2% materiality threshold has been lowered to 1%. The Bank has adopted 90 days probation period before the counterparty exits the default status after solving all difficulties that led to default status. The bank also revised the Unlikely to Pay subjective criteria to be fully consistent with EBA Guideline, which had limited tangible effect on counterparties' classification. With introduction of the New Definition of Default the classification criteria have been completely harmonized at ISP Group level. In the next phase the Bank will adjust loan loss parameters (PD and LGD) after collecting one year of data by using the new Definition of default in credit processes. Subsequently a model change application for the PD model for Corporate exposure class will be submitted to the Competent authority for approval.

Re-estimation of managerial LGD model

In 2019 the Bank re-estimated the managerial LGD models for all relevant business segments (Corporate, Small business, Micro and Private Individuals). The activity was carried in two sequential steps. First, the historical data necessary for the development of LGD models have been refined and supplemented with new credit recovery cases. The Bank has set up a single LGD data repository integrating all relevant data for model developing purposes in order to improve data analytics efficiency. The LGD grid has been extended to additional risk drivers, whereby in addition to collateral and customer segments, product lines and tenors of facility have been identified as additional loan recovery performance factors. The methodology has been further improved and aligned with the EBA guideline (Final Guidelines on PD and LGD estimation - EBA-GL-2017-16). Starting with reporting date December of 2019 the LGD model has been implemented for the purpose of assessment of Expected loan loss provisions with necessary adjustments in order to comply with the IFRS9 methodology. The new LGD model is an important milestone for the Bank to bring the risk assessment tolls in line with best practice of Banking industry.

Credit quality analysis

(in thousands of euros)

	2019				
	12 month ECL	**Lifetime ECL – not credit impaired**	**Lifetime ECL - credit impaired**	**POCI**	**Total**
Loans and advances to banks at amortised cost					
Performing	61,063	-	-	-	61,063
Loss allowance	**(29)**	**-**	**-**	**-**	**(29)**
Carrying amount	**61,034**	**-**	**-**	**-**	**61,034**
Loans and advances to customers at amortised cost					
Performing	1,861,695	-	-	-	1,861,695
Watch list	-	58,541	-	-	58,541
Past due impaired	-	-	3,037	-	3,037
Unlikely to pay	-	-	31,262	7,212	38,474
Doubtful	-	-	19,624	-	19,624
Loss allowance	**(10,463)**	**(3,305)**	**(33,682)**	**-**	**(47,450)**
Carrying amount	**1,851,232**	**55,236**	**20,241**	**7,212**	**1,933,921**
Debt investment securities at amortised cost					
Performing	1,263	-	-	-	1,263
Loss allowance	**(1)**	**-**	**-**	**-**	**(1)**
Carrying amount	**1,262**	**-**	**-**	**-**	**1,262**
Debt investment securities at FVOCI					
Performing, low risk	317,009	-	-	-	317,009
Loss allowance	(55)	-	-	-	(55)
Carrying amount - fair value	**316,954**	**-**	**-**	**-**	**316,954**
Loan commitments					
Performing	342,085	-	-	-	342,085
Watch list	-	4,050	-	-	4,050
Past due impaired	-	-	66	-	66
Unlikely to pay	-	-	938	-	938
Doubtful	-	-	50	-	50
Loss allowance	**(698)**	**(32)**	**(496)**	**-**	**(1,226)**
Carrying amount (provision)	**341,387**	**4,018**	**558**	**-**	**345,963**
Financial guarantee contracts					
Performing	161,088	-	-	-	161,088
Watch list	-	14,079	-	-	14,079
Past due impaired	-	-	-	-	-
Unlikely to pay	-	-	322	-	322
Doubtful	-	-	575	-	575
Loss allowance	**(555)**	**(106)**	**(653)**	**-**	**(1,314)**
Carrying amount (provision)	**160,533**	**13,973**	**244**	**-**	**174,750**
Loans mandt. FVTPL					
Unlikely to pay	-	-	703	-	703
Carrying amount (provision)	**-**	**-**	**703**	**-**	**703**

Credit quality analysis

(in thousands of euros)

	2018				
	12 month ECL	**Lifetime ECL – not credit impaired**	**Lifetime ECL - credit impaired**	**POCI**	**Total**
Loans and advances to banks at amortised cost					
Performing	53,655	-	-	-	53,655
Loss allowance	**(32)**	**-**	**-**	**-**	**(32)**
Carrying amount	**53,623**	**-**	**-**	**-**	**53,623**
Loans and advances to customers at amortised cost					
Performing	1,606,888	-	-	-	1,606,888
Watch list	-	136,783	-	-	136,783
Past due impaired	-	-	668	-	668
Unlikely to pay	-	-	40,124	7,812	47,936
Doubtful	-	-	52,678	-	52,678
Loss allowance	**(8,758)**	**(6,741)**	**(72,366)**	**-**	**(87,865)**
Carrying amount	**1,598,130**	**130,042**	**21,104**	**7,812**	**1,757,088**
Debt investment securities at amortised cost (2017: held-to-maturity/LAR)					
Performing	1,267	-	-	-	1,267
Loss allowance	**(1)**	**-**	**-**	**-**	**(1)**
Carrying amount	**1,266**	**-**	**-**	**-**	**1,266**
Debt investment securities at FVOCI (2017: available-for-sale)					
Performing, low risk	300,568	-	-	-	300,568
Loss allowance	(74)	-	-	-	(74)
Carrying amount - fair value	**300,494**	**-**	**-**	**-**	**300,494**
Loan commitments					
Performing	412,694	11,599	-	-	424,293
Watch list	1,462	162	-	-	1,624
Past due impaired	-	-	190	-	190
Unlikely to pay	-	-	519	-	519
Doubtful	-	-	190	-	190
Loss allowance	**(905)**	**(114)**	**(619)**	**-**	**(1,638)**
Carrying amount (provision)	**413,251**	**11,647**	**280**	**-**	**425,178**
Financial guarantee contracts					
Performing	147,367	2,255	-	-	149,622
Watch list	2,010	11,881	-	-	13,891
Past due impaired	-	-	-	-	-
Unlikely to pay	-	-	1,008	-	1,008
Doubtful	-	-	2,099	-	2,099
Loss allowance	**(707)**	**(296)**	**(1,770)**	**-**	**(2,773)**
Carrying amount (provision)	**148,670**	**13,840**	**1,337**	**-**	**163,847**
Loans mandt. FVTPL					
Unlikely to pay	-	-	882	-	882
Carrying amount (provision)	**-**	**-**	**882**	**-**	**882**

Credit quality loan analysis - summary

(in thousands of euros)

	2019				
	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	POCI	Total
Balance exposures					
Gross carrying amount	2,241,030	58,541	54,626	7,212	2,361,409
Loss allowance	(10,547)	(3,305)	(33,682)	-	(47,534)
Net carrying amount	**2,230,483**	**55,236**	**20,944**	**7,212**	**2,313,875**
Off-balance exposure					
Gross carrying amount	503,173	18,129	1,950	-	523,252
Loss allowance	(1,253)	(138)	(1,149)	-	(2,540)
Net carrying amount	**501,920**	**17,991**	**801**	**-**	**520,712**

(in thousands of euros)

	2018				
	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	POCI	Total
Balance exposures					
Gross carrying amount	1,962,378	136,783	94,352	7,812	2,201,325
Loss allowance	(8,865)	(6,741)	(72,366)	-	(87,972)
Net carrying amount	**1,953,513**	**130,042**	**21,986**	**7,812**	**2,113,353**
Off-balance exposure					
Gross carrying amount	563,533	25,897	4,006	-	593,436
Loss allowance	(1,612)	(410)	(2,389)	-	(4,411)
Net carrying amount	**561,921**	**25,487**	**1,617**	**-**	**589,025**

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

Changes in credit-impaired loans to non-bank customers

(in thousands of euros)

	2019	2018
Credit-impaired loans (Stage 3) at 1 January	**28,915**	**59,359**
Change in allowance for impairment	(4,556)	(10,812)
Classified as credit-impaired during the year	21,717	11,136
Transferred to not credit-impaired during the year	(1,005)	(16,851)
Net repayments	(16,357)	(7,216)
Disposals	(1,456)	(6,773)
Other movements	195	72
Credit-impaired loans (Stage 3) at 31 December	**27,453**	**28,915**

Impairment provisions for credit risk

The amount of impairment losses (credit risk allowances) for credit risk are based on the estimated amount of expected credit losses, which is calculated based on borrower's credit rating grade and collateral received in pledge. Provisions are calculated using collective or analytical approach. Credit risk losses are calculated 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 recovered from the obligor's own assets or earnings and by selling 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 (currently for Corporate and Small business segments), while for other obligors (Individuals and Micro business) the respective assets are pooled according to the stage assigned.

Loss Given Default rates are estimated by groups of exposures of different obligors' segments secured with the 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 asset 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 considering the forward-looking view by applying estimates of macroeconomic potential trends. These are estimated with the socalled macroeconomic conditioning of ECL variables by multiplying them with an add-on that is derived from best, most-likely and worst scenario. The worst and most-likely scenarios were taken as equivalent of the EBA coefficients published for the use in the EU-wide stress testing exercise, while the best scenario was calculated with internal methodology equally relying on aforementioned EBA scenarios. The ECL variables have been conditioned for the first three years with respect to the reporting date for exposures classified in stage 2 using the approach described, while the average add-on of those 3 years has been applied for the conditioning of variables over the exposure's remaining lifetime period beyond three years. The conditioning for stage 1 is performed for the first year according to time extension considered in the calculation of ECL.

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.

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 regulatory capital. In case of exposure to banks or banking groups the maximum allowed exposure is EUR 150 million.

Financial instrument`s breakdown by country risk

Country risk

(in thousands of euros)

	Slovenia	EU	*Of which Italy*	Other Europe	Rest of world	Total
Cash, cash balances at Central Banks and other demand deposits at banks	265,497	10,173	8,252	-	1,235	276,905
Financial assets held for trading –derivatives	111	7	7	-	-	118
Non-trading financial assets mandatorily at fair value through profit or loss	693	-	-	703	-	1,396
Financial assets at fair value through other comprehensive income	230,008	97,849	50,592	-	4,682	332,539
Financial assets at amortised cost:	1,785,207	188,979	50,036	32,692	9,454	2,016,332
- Debt securities	1,262	-	-	-	-	1,262
- Loans to banks	1,240	44,793	44,793	15,001	-	61,034
- Loans to non-bank customers	1,769,124	142,598	5,206	17,690	4,509	1,933,921
- Advances	13,581	1,588	37	1	4,945	20,115
Derivatives – hedge accounting	-	1,139	1,139	-	-	1,139
Contingent liabilities and commitments	**497,362**	**22,887**	**3,569**	**411**	**53**	**520,713**
TOTAL EXPOSURES	**2,778,878**	**321,034**	**113,595**	**33,806**	**15,424**	**3,149,142**

(in thousands of euros)

As at 31 December 2018	Slovenia	EU	*Of which Italy*	Other Europe	Rest of world	Total
Cash, cash balances at Central Banks and other demand deposits at banks	369,064	19,546	17,321	-	2,050	390,660
Financial assets held for trading –derivatives	-	29	29	-	-	29
Non-trading financial assets mandatorily at fair value through profit or loss	2,137	-	-	882	-	3,019
Financial assets at fair value through other comprehensive income	189,369	122,050	79,169	-	3,212	314,631
Financial assets at amortised cost:	1,620,809	148,262	21,268	43,868	17,765	1,830,704
- Debt securities	1,266	-	-	-	-	1,266
- Loans to banks	6,444	27,187	15,905	19,992	-	53,623
- Loans to non-bank customers	1,600,948	119,030	5,295	23,874	13,236	1,757,088
- Advances	12,151	2,045	68	2	4,529	18,727
Derivatives – hedge accounting	-	1,023	1,023	-	-	1,023
Contingent liabilities and commitments	**562,031**	**26,416**	**3,438**	**525**	**53**	**589,025**
TOTAL EXPOSURES	**2,743,410**	**317,326**	**122,248**	**45,275**	**23,080**	**3,129,091**

3.4 ANALYSIS OF PAST DUE FINANCIAL INSTRUMENTS

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

Loans and advances are summarised as follows:

Loans and advances by maturity (past due)

(in thousands of euros)

	31 December 2019		31 December 2018	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Neither past due nor impaired (stage 1 and stage 2)	1,919,265	61,063	1,742,044	53,655
Past due but not impaired (stage1 and 2)	968	-	1,627	-
Impaired	61,841	-	102,164	-
Gross	**1,982,074**	**61,063**	**1,845,835**	**53,655**
Impairment losses on loans and advances	(47,450)	(29)	(87,865)	(32)
Net	**1,934,624**	**61,034**	**1,757,970**	**53,623**

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 and advances to customers by maturity and portfolio quality

(in thousands of euros)

31 December 2019	Individuals							Total loans and advances to customers
	Overdrafts	Credit Cards	Term loans	Mortgages	Finance leases	Sole proprietors	Corporate entities	
Neither past due nor impaired (stage 1 and 2)	23,584	10,285	144,125	516,982	4,546	49,616	1,170,127	1,919,265
Not past due but impaired (stage 3)	384	209	1,464	5,209	2	1,173	32,270	40,711
Past due but not impaired (stage 1 and 2)	199	37	155	142	14	171	250	968
Past due and impaired (stage 3)	528	745	1,744	3,644	357	1,424	12,688	21,130
Gross	**24,695**	**11,276**	**147,488**	**525,977**	**4,919**	**52,384**	**1,215,335**	**1,982,074**
Impairment losses on loans and advances	(861)	(914)	(3,138)	(10,661)	(308)	(2,892)	(28,676)	(47,450)
Net	**23,834**	**10,362**	**144,350**	**515,316**	**4,611**	**49,492**	**1,186,659**	**1,934,624**

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

Loans and advances to customers by maturity and portfolio quality

(in thousands of euros)

31 December 2018	Individuals							
	Overdrafts	Credit Cards	Term loans	Mortgages	Finance leases	Sole proprietors	Corporate entities	Total loans and advances to customers
Neither past due nor impaired (stage 1 and 2)	24,452	12,852	129,920	467,028	5,320	48,146	1,054,326	1,742,044
Not past due but impaired (stage 3)	406	74	1,016	3,500	-	782	43,350	48,128
Past due but not impaired (stage 1 and 2)	187	413	138	147	22	146	575	1,628
Past due and impaired (stage 3)	587	784	2,447	4,272	751	5,002	39,193	53,036
Gross	**25,632**	**14,123**	**133,521**	**474,947**	**6,093**	**54,076**	**1,137,443**	**1,845,835**
Impairment losses on loans and advances	(980)	(965)	(3,125)	(7,222)	(444)	(6,006)	(69,123)	(87,865)
Net	**24,652**	**13,158**	**130,396**	**467,725**	**5,649**	**48,070**	**1,068,320**	**1,757,970**

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

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

(in thousands of euros)

31 December 2019	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	144	19	23	1	140	65	133	46	11	5	587
Past due 30 - 60 days	37	5	11	3	13	102	7	23	2	5	208
Past due 60 - 90 days	13	4	3	5	2	32	2	78	1	2	142
Past due over 90 days	5	500	-	736	-	1,545	-	3,497	-	345	6,628
Total	**199**	**528**	**37**	**745**	**155**	**1,744**	**142**	**3,644**	**14**	**357**	**7,565**

(in thousands of euros)

31 December 2019	Sole proprietors		Corporate entities		Total
	Not impaired	Impaired	Not impaired	Impaired	
Past due up to 30 days	134	36	218	378	766
Past due 30 - 60 days	34	22	13	2,243	2,312
Past due 60 - 90 days	3	67	19	849	938
Past due over 90 days	-	1,299	-	9,218	10,517
Total	**171**	**1,424**	**250**	**12,688**	**14,533**

Decrease of past due loans and advances in 2019 is mainly due to sale of non-performing loans (EUR 35,944 thousand) and write-offs in the amount of EUR 11,187 thousand (2018: write offs EUR 11,969 thousand).

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

(in thousands of euros)

31 December 2018	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	127	7	312	24	123	41	131	25	19	6	815
Past due 30 - 60 days	49	3	76	10	12	34	11	59	3	5	262
Past due 60 - 90 days	9	8	25	26	3	36	4	124	-	6	241
Past due over 90 days	2	569	-	724	-	2,336	1	4,064	-	866	8,562
Total	**187**	**587**	**413**	**784**	**138**	**2,447**	**147**	**4,272**	**22**	**883**	**9,880**

(in thousands of euros)

31 December 2018	Sole proprietors		Corporate entities		Total
	Not impaired	Impaired	Not impaired	Impaired	
Past due up to 30 days	128	41	411	475	1,055
Past due 30 - 60 days	15	37	113	262	427
Past due 60 - 90 days	3	23	51	263	340
Past due over 90 days	-	4,901	-	38,193	43,094
Total	**146**	**5,002**	**575**	**39,193**	**44,916**

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

(in thousands of euros)

31 December 2019	Individuals	Sole proprietors	Corporate entities	Total
impaired loans	14,282	2,597	44,958	61,837
Fair value of collateral	22,733	3,382	36,209	62,324

(in thousands of euros)

31 December 2018	Individuals	Sole proprietors	Corporate entities	Total
impaired loans	13,836	5,785	82,543	102,164
Fair value of collateral	18,335	7,693	57,823	83,851

In 2019, the Bank received EUR 4,892 thousand from the sale of pledged collateral (2018: EUR 18,368 thousand).

3.5 LIQUIDITY RISK

Liquidity risk is defined as the risk of not being able to meet payment obligations as they fall due, due to difficulties to finance liquidity needs, or 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, št. 72/17).

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 long-term balanced funding of banks. Beside the mentioned indicators, the Bank as well calculates the so-called "Stress LCR", which is meant for monitoring the Bank's liquidity position in uncertain (stress) situation. It measures the stress LCR over a 3-month period. LCR is calculated in accordance with the Delegated Act regulation (2015/61), which came into force in 2016. LCR and NSFR indicators are regularly reported to ALCO and Risk Committee, Audit Committee and Supervisory Board.

Liquidity ratios	31.12.2019	31.12.2018	31.12.2017
LCR	198%	216%	238%
NSFR	137%	145%	147%

The LCR and NSFR ratios through the past period were stable, showing no significant movement and compliant with the regulatory limit. The regulatory limit in force in 2019 was 100% for LCR, while internal RAF limits are set at 105% for LCR and 100% for NSFR. The LCR and NSFR ratios as of 31 December 2019 are stable and high above the limits and stand at the similar level, compared to the previous year. The liquidity buffer is comprised entirely out of assets, mostly withdrawable central bank reserves and government bonds. Total expected cash inflows are capped to 75% of total expected cash outflows.

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 2019	Contractual maturity - undiscounted						
	Carrying amount	Gross nominal Inflow/(out-flow)	Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years
ASSETS							
Cash, cash balances at Central Banks and other demand deposits at banks	276,905	276,905	243,461	-	-	-	33,444
Non-trading financial assets mandatorily at fair value through profit or loss	1,396	1,396	-	-	24	679	693
Financial assets at fair value through other comprehensive income	332,539	332,539	1,622	10,716	66,102	194,125	59,974
Loans and receivables:*	2,016,332	2,030,131	88,288	70,390	267,200	867,845	736,408
- debt securities	1,262	1,263	-	-	1,263		-
- loans to banks	61,034	61,063	24,984	5,004	10,005	-	21,070
- loans to non-bank customers	1,933,921	1,947,690	52,754	55,821	255,932	867,845	715,338
- advances	20,115	20,115	10,550	9,565	-	-	-
Total assets	**2,627,172**	**2,640,971**	**333,371**	**81,106**	**333,326**	**1,062,649**	**830,519**
LIABILITIES							
Financial liabilities measured at amortised cost:	2,348,961	2,348,961	1,954,222	79,844	176,660	128,753	9,482
- deposits from banks and central banks	6,774	6,774	2,033	–	2,408	2,333	–
- deposits from non-bank customers	2,225,968	2,225,968	1,930,207	72,308	170,482	52,845	126
- loans from banks and central banks	88,996	88,996	5,466	785	3,145	70,244	9,356
- other financial liabilities	27,223	27,223	16,516	6,751	625	3,331	–
Total liabilities	**2,348,961**	**2,348,922**	**1,954,222**	**79,844**	**176,660**	**128,753**	**9,482**
Net liquidity gap	**278,211**	**292,010**	**(1,620,851)**	**1,262**	**156,666**	**933,896**	**821,037**

(in thousands of euros)

As at 31 December 2018	Contractual maturity - undiscounted						
	Carrying amount	Gross nominal Inflow/(outflow)	Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years
Total assets	2,539,014	2,555,685	488,811	75,765	315,859	919,603	755,647
Total liabilities	2,289,275	2,289,275	1,930,812	92,285	194,419	60,720	11,039
Net liquidity gap	**249,739**	**266,410**	**(1,442,001)**	**(16,520)**	**121,440**	**858,883**	**744,608**

**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 sight deposits, which balances during 2019 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 one-month horizon. Moreover, on the assets side the available for sale financial assets 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. The proof of this statement is the positive LCR ratio (calculated on the base of 30 days).

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

(in thousands of euros)

As at 31 December 2019	Carrying amount	Nominal Inflow/(outflow)	Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years
DERIVATIVE ASSETS							
Derivatives held for trading:							
Interest rate swap (IRS)	109	108	4	11	27	68	(2)
- Inflow	-	123	4	11	27	70	10
- Outflow	-	(14)	-	-	-	(2)	(12)
FX Forward (FWD)	2	**2**	**-**	1	1	-	-
- Inflow	-	402	80	201	121	-	-
- Outflow	-	(400)	(80)	(200)	(120)	-	-
Interest rate cap (CAP)	**7**	**7**	**-**	**-**	**-**	**7**	**-**
- Inflow	-	7	-	-	-	7	-
- Outflow	-	-	-	-	-	-	-
Total	**118**	**118**	**4**	**12**	**28**	**75**	**(2)**
DERIVATIVE LIABILITIES							
Derivatives held for trading:							
Interest rate swap (IRS)	108	(108)	(4)	(11)	(27)	(68)	2
- Inflow	-	14	-			2	12
- Outflow	-	(122)	(4)	(11)	(27)	(70)	(10)
FX Forward (FWD)	2	(2)	-	(1)	(1)	-	-
- Inflow	-	400	80	200	120	-	-
- Outflow	-	(402)	(80)	(201)	(121)	-	-
Total	**110**	**(110)**	**(4)**	**(12)**	**(28)**	**(68)**	**2**
Net liquidity gap	**-**	**8**	**-**	**-**	**-**	**7**	**-**

(in thousands of euros)

As at 31 December 2018	Carrying amount	Nominal Inflow/(outflow)	Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years
Total assets	29	29	-	-	8	6	15
Total liabilities	-	-	-	-	-	-	-
Total gap	**-**	**29**	**-**	**-**	**8**	**6**	**15**

(in thousands of euros)

As at 31 December 2019	Contractual maturity						
	Carrying amount	Nominal Inflow/ (outflow)	Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years
DERIVATIVE ASSETS							
IRS	1,139	1,130	(1)	43	36	327	725
- Inflow	-	2,242	3	158	203	1,153	725
- Outflow	**-**	(1,112)	(4)	(115)	(167)	(826)	-
Total	**1,139**	**1,130**	**(1)**	**43**	**36**	**327**	**725**
DERIVATIVE LIABILITIES							
IRS	18,950	(18,793)	(1,097)	(540)	(2,558)	(11,933)	(2,665)
- Inflow	-	6,141	-	-	-	234	5,907
- Outflow	-	(24,934)	(1,097)	(540)	(2,558)	(12,167)	(8,572)
Total	**18,950**	**(18,793)**	**(1,097)**	**(540)**	**(2,558)**	**(11,933)**	**(2,665)**
Net liquidity gap	**-**	**(17,663)**	**(1,098)**	**(497)**	**(2,522)**	**(11,606)**	**(1,940)**

(in thousands of euros)

As at 31 December 2018	Contractual maturity						
	Carrying amount	Gross nominal Inflow/ (outflow)	Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years
Total assets	1,023	1,004	(40)	(54)	(213)	(252)	1,563
Total liabilities	4,055	(2,540)	(918)	(386)	(1,003)	(4,692)	4,459
Total gap	**-**	**3,544**	**878**	**332**	**790**	**4,440**	**(2,896)**

Cash flows of interest rate caps, interest options and interest rate swaps represent fairly the difference between contractual price and market price of derivatives.
The increase of cash-flows from derivatives in 2019 is a result of new IRS contracts made with the aim of providing interest rate hedge on loans extended with fixed contractual interest rate and due to movement of the market interest rates.

Contractual maturities of off-balance sheet items*

(in thousands of euros)

As at 31 December 2018	Contractual maturity			
	No later than 1 year	1-5 years	Over 5 years	Total
Documentary and commercial letters of credit	160	-	-	160
Guarantees	135,967	29,242	10,047	175,256
Credit commitments	288,598	58,089	-	346,687
Total	**424,725**	**87,331**	**10,047**	**522,103**

As at 31 December 2018	Contractual maturity			
	No later than 1 year	1-5 years	Over 5 years	Total
Total	**513,283**	**66,479**	**11,310**	**591,072**

**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 2019	Encumbered		Non-encumbered	
	Pledged as collateral	Other	Available as collateral	Other
Loans on demand	-	21,504	-	233,653
Equity instruments	-	-	-	16,278
Debt securities	11,382	-	295,452	-
Loans and advances other than loans on demand	-	21,153	418,027	1,555,441
Other assets	-	-	-	83,193

(in thousands of euros)

As at 31 December 2018	Encumbered		Non-encumbered	
	Pledged as collateral	Other	Available as collateral	Other
Loans on demand	-	23,777	-	347,800
Equity instruments	-	-	-	16,273
Debt securities	11,175	-	290,585	-
Loans and advances other than loans on demand	-	3,140	335,429	1,491,751
Other assets	-	-	-	77,991

Bank’s liquidity reserves

(in thousands of euros)

	31.12.2019		31.12.2018	
	Gross Carrying amount	Fair value amount	Gross Carrying amount	Fair value amount
Balances with central bank	209,498	209,498	324,642	324,642
Balances with banks up to 90 days	37,164	37,164	47,039	47,039
Unencumbered debt securities issued by sovereigns	261,885	248,488	257,341	243,661
Unencumbered debt securities eligible for use as collateral with central bank	43,686	42,129	31,828	31,351
Loans to customers eligible for use as collateral with central bank	415,621	304,839	331,476	172,569
Total	**967,854**	**842,118**	**992,326**	**819,262**

3.6 BANKING BOOK EQUITY RISK

Equity risk is defined as the risk of unexpected losses arising from positions in available-for sale equity investments (shares or equity participations).
The Bank acquired these equity investments mainly with the repossession of financial collaterals arising from lending activity. These investments are managed pursuing the target of disposal in order to recover the relative 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 end of 2019.

3.7 MARKET RISK

Market risk mainly arises from trading activities. The Bank only performs trading activities with the aim to respond to the demand of its customers and these activities mostly consist of buying and selling currency and derivative contracts.

The operational risk arising from trading activities is managed on the basis of a clear division between the front and back-office operations, which assures adequate controls and segregation of functions.

The Bank has established internal market risk limits on Fixed income VaR indicator, FX VaR indicator, open position by currencies and on credit sensitivity (CR01) of Italian government bonds.

3.7.1 Derivative instruments

The Bank takes on 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 (position risk or change in the fair value of a derivative due to change in the value of the underlying asset), each single transaction is fully hedged back-to-back by immediately executing an offsetting transaction with another bank. The Bank assumes only the counterparty risk in these transactions, i.e. risk of substituting the original contract with other counterparty. The counterparty credit risk for the purpose of internal credit risk monitoring is determined as an amount equal to replacement cost, which is calculated as the highest value between the 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 with internal model and applied according to the type and maturity of derivative contract.

3.7.2 Currency Risk

When there is an open position in a particular currency, the Bank is exposed to currency risk. The open currency position in a particular foreign currency is the difference between assets and liabilities denominated in that currency. For the purpose of measuring currency risk, the Bank takes into account the overall position composed of assets and liabilities denominated in that currency, FX spot transactions and currency derivatives.
The Bank measures and monitors currency risk on a daily basis:
- as a notional open position for a particular currency, and
- as Value-at-Risk (VAR) indicator for the global currency position.

The Value-at-Risk is a statistical estimation of a maximum loss at the 99 per cent confidence level over a 1-day period. The Value-at-Risk measure is proportional to the currencies open position and to the exchange rate volatility. The average utilisation of FX Var limit in 2019 was low at 3.99% and the average utilization of Fixed income Var limit was 56.9%.

Bank VAR by risk type

(in thousands of euros)

	12 months to 31 December 2019			12 months to 31 December 2018		
	Average	High	Low	Average	High	Low
Foreign exchange risk (trading and non-trading portfolio)	1,2	7,8	0,3	1	4	0,4
Debt securities risk (banking book)	307	717	206	953	1,902	202
Total VAR	**308,2**	**724,84**	**206,34**	**954**	**1,906**	**202**

Currency risk

A 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 is exceeding this threshold.

(in thousands of euros)

As at 31 December 2018	EUR	USD	Other	Total
ASSETS				
Cash and balances with central banks and other demand deposits at banks	264,534	4,953	7,418	276,905
Financial assets held for trading	115	3	-	118
Non-trading financial assets mandatorily at fair value through profit or loss	1,396	-	-	1,396
Financial assets at fair value through other comprehensive income	280,463	52,076	-	332,539
Financial assets at amortised cost:	1,985,529	10,463	20,340	2,016,332
- Debt securities	1,262	-	-	1,262
- Loans to banks	37,342	6,255	17,437	61,034
- Loans to non-bank customers	1,926,811	4,207	2,903	1,933,921
- Advances	20,114	1	-	20,115
Derivatives – hedge accounting	836	303	-	1,139
Total assets	**2,532,873**	**67,798**	**27,758**	**2,628,429**
LIABILITIES				
Financial liabilities held for trading:	108	2	-	110
Financial liabilities measured at amortised cost:	2,253,307	67,791	27,863	2,348,961
- Deposits from banks and central banks	6,774	-	-	6,774
- Deposits from non-bank customers	2,135,761	62,596	27,611	2,225,968
- Loans from banks and central banks	84,131	4,865	-	88,996
- Other financial liabilities	26,641	330	252	27,223
Derivatives – hedge accounting	18,643	307	-	18,950
Total	**2,272,058**	**68,100**	**27,863**	**2,368,021**
Currency gap	**260,815**	**(302)**	**(105)**	**260,408**
Part of off-balance-sheet commitments sensitive to exchange rate changes in the year	**346,021**	**304**	**-**	**346,325**

(in thousands of euros)

As at 31 December 2018	EUR	USD	Other	Total
ASSETS				
Cash and balances with central banks and other	374,092	6,872	9,696	390,660
Financial assets held for trading:	29	-	-	29
- derivative financial instruments	29	-	-	29
Non-trading financial assets mandatorily at fair value through profit or loss	3,019	-	-	3,019
Financial assets at fair value through other comprehensive income	271,483	43,148	-	314,631
Financial assets at amortised cost:	1,790,701	20,660	19,343	1,830,704
- debt securities	1,266	-	-	1,266
- loans to banks	29,766	7,855	16,002	53,623
- loans to non-bank customers	1,740,944	12,804	3,340	1,757,088
- advances	18,725	1	1	18,727
Derivatives – hedge accounting	815	208	-	1,023
Total assets	**2,440,139**	**70,888**	**29,039**	**2,540,066**
LIABILITIES				
Financial liabilities held for trading:	-	-	-	-
- derivative financial instruments		-	-	-
Financial liabilities measured at amortised cost:	2,187,672	72,267	29,336	2,289,275
- deposits from banks and central banks	15,501	-	16	15,517
- deposits from non-bank customers	2,115,762	62,714	29,194	2,207,670
- loans from banks and central banks	28,873	8,611	-	37,484
- loans from non-bank customers	32	-	-	32
- other financial liabilities	27,504	942	126	28,572
Derivatives – hedge accounting	3,947	108	-	4,055
Total liabilities	**2,191,619**	**72,375**	**29,336**	**2,293,330**
Net balance sheet position	**248,520**	**(1,487)**	**(297)**	**246,736**
Part of contingent liabilities and commitments sensitive to currency risk	**426,186**	**244**	**84**	**426,514**

(in thousands of euros)

As at 31 December 2017	EUR	USD	Other	Total
Total assets	2,243,819	68,299	26,158	2,338,276
Total liabilities	1,997,166	69,100	26,262	2,092,528
Net balance sheet position	**246,653**	**(801)**	**(104)**	**245,748**
Part of contingent liabilities and commitments sensitive to currency risk	**315,819**	**216**	**86**	**316,121**

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 expiring will be reinvested or refinanced according to then prevailing market conditions, they were also included in the table herein below presenting the sensitivity to interest rate risk.

Interest rate risk

(in thousands of euros)

As at 31 December 2019	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	276,905	220,949	-	-	-	23,504	32,452
Financial assets held for trading - derivatives	118	56	7	53	-	-	2
Non-trading financial assets mandatorily at fair value through profit or loss	1,396	-	376	327	-	-	693
Financial assets at fair value through other comprehensive income	332,539	10,102	9,942	85,277	166,934	44,699	15,585
Financial assets at amortised cost:	2,016,333	1,802,989	89,180	101,009	2,604	399	20,152
- debt securities	1,263	-	-	-	1,263	-	-
- loans to banks	61,034	61,034	-	-	-	-	-
- loans to non-bank customers	1,933,921	1,741,955	89,180	101,009	1,341	399	37
- advances	20,115	-	-	-	-	-	20,115
Derivatives – Hedge accounting	1,139	345	755	39	-	-	-
Total assets	**2,628,430**	**2,034,441**	**100,260**	**186,705**	**169,538**	**68,602**	**68,884**
LIABILITIES							
Financial liabilities - derivatives	110	55	-	53	-	-	2
Financial liabilities measured at amortised cost:	2,348,961	1,937,437	73,093	178,369	123,051	9,788	27,223
- deposits from banks and central banks	6,774	2,032	-	4,742	-	-	-
- deposits from non-bank customers	2,225,968	1,929,939	72,308	170,482	52,807	432	0
- loans from banks and central banks	88,996	5,466	785	3,145	70,244	9,356	0
- other financial liabilities	27,223	-	-	-	-	-	27,223
Derivatives – Hedge accounting	18,950	15,673	1,501	1,776	-	-	-
Total liabilities	**2,368,021**	**1,953,165**	**74,594**	**180,198**	**123,051**	**9,788**	**27,225**
Total interest repricing gap	**260,409**	**81,276**	**25,666**	**6,507**	**46,487**	**58,814**	**41,659**

(in thousands of euros)

As at 31 December 2018	Carrying amount	Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years	Non-interest bearing
Total assets	2,540,184	496,404	193,675	1,119,114	290,473	350,877	89,523
Total liabilities	2,293,330	1,925,474	102,450	197,498	38,936	400	28,572
Total interest repricing gap	**-**	**(1,429,070)**	**91,225**	**920,734**	**251,537**	**350,477**	**60,951**

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 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 without contractual maturities are classified into specific time buckets based on their estimated sensitivity on changes in interest rates.
- 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.
- Excepted loss model: cash flows of outstanding loans are modified for the probability of default 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 31.12.2019

(in million of euros)

		+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		**(1.0)**	**5.5**	**4.5**	**(2.1)**	**11.0**	**8.9**	**0.9**	**(5.0)**	**(4.0)**	**1.4**	**(5.9)**	**(4.5)**
Asset		**1.2**	**4.7**	**5.9**	**2.5**	**9.4**	**11.9**	**(1.2)**	**(4.2)**	**(5.4)**	**(1.6)**	**(5.2)**	**(6.8)**
Sight Loans*		1.2	-	1.2	2.5	-	2.5	(1.2)	-	(1.2)	(1.6)	-	(1.6)
Securities	FX	-	0.1	0.1	- -	0.3	0.3	-	(0.1)	(0.1)	-	(0.2)	(0.2)
	FL	-	0.1	0.1	-	0.3	0.3	-	(0.1)	(0.1)	-	(0.1)	(0.1)
Loans	FX	-	0.7	0.7	-	1.2	1.2	-	(0.6)	(0.6)	-	(0.9)	(0.9)
	FL	-	3.8	3.8	-	7.6	7.6	-	(3.4)	(3.4)	-	(4.0)	(4.0)
Other Financial Assets	FX	-	-	-	-	-	-	-	-	0.00	-	-	0.00
	FL	-	-	-	-	-	-	-	-	0.00	-	-	0.00
Liabilities		**(2.3)**	**(1.3)**	**(3.6)**	**(4.5)**	**(2.6)**	**(7.1)**	**2.2**	**1.3**	**3.5**	**2.9**	**1.5**	**4.4**
Sight Deposits		(2.3)	-	(2.3)	(4.5)		(4.5)	2.2	-	2.2	2.9	-	2.9
Securities Issued	FX	-	-	-	-	-	-	-	-	0.00	-	-	0.00
	FL	-	-	-	-	-	-	-	-	0.00	-	-	0.00
Debts	FX	-	(0.9)	(0.9)	-	(1.8)	(1.8)	-	0.9	0.9	-	1.1	1.1
	FL	-	(0.4)	(0.4)	-	(0.8)	(0.8)	-	0.4	0.4	-	0.4	0.4
Other Financial Liabilities	FX	-	-	-	-	-	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-	-	-	-	-	-
Derivatives			**2.1**	**2.1**		**4.1**	**4.1**		**(2.1)**	**(2.1)**		**(2.5)**	**(2.5)**

Cash flows slotted into time buckets according to their maturity or repricing date as of 31. 12. 2019

(in million of euros)

		Total	**0-18m**	**18m-3Y**	**3Y-5Y**	**5Y-10Y**	**10Y-15Y**	**>15Y**
Total		**376.09**	**514.24**	**(110.29)**	**(94.15)**	**31.36**	**(0.03)**	**34.90**
Asset		**2,739.25**	**1.929.88**	**168.04**	**223.45**	**271.65**	**97.31**	**48.92**
Sight Loans*		262.73	262.73	-	-	-	-	-
Securities	FX	279.61	145.56	28.81	63.87	41.37	-	-
	FL	40.66	40.32	0.27	0.07	-	-	-
Loans	FX	880.66	277.25	117.47	143.01	209.98	88.59	44.36
	FL	1.275.59	1.204.02	21.49	16.50	20.30	8.72	4.56
Other Financial Assets	FX	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-
Liabilities		**(2.313.34)**	**(1.851.75)**	**(215.27)**	**(169.29)**	**(56.35)**	**(20.68)**	**-**
Sight Deposits*		(1.888.58)	(1.449.64)	(194.28)	(167.84)	(56.14)	(20.68)	-
Securities Issued	FX	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-
Debts	FX	(334.50)	(312.59)	(20.58)	(1.20)	(0.13)	-	-
	FL	(90.26)	(89.52)	(0.41)	(0.25)	(0.08)	-	-
Other Financial Liabilities	FX	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-
Derivatives		**(49.88)**	**436.11**	**(63.06)**	**(148.31)**	**(183.94)**	**(76.66)**	**(14.02)**

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

Sensitivity of net interest income of the Bank as of 31.12.2018

(in million of euros)

		+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		**(0.13)**	**5.31**	**5.18**	**(0.29)**	**10.65**	**10.36**	**0.09**	**(4.84)**	**(4.75)**	**0.18**	**(9.24)**	**(9.06)**
Asset		**1.86**	**4.89**	**6.75**	**3.73**	**9.80**	**13.53**	**(1.86)**	**(4.42)**	**(6.28)**	**(3.73)**	**(8.37)**	**(12.10)**
Sight Loans*		1.86	-	1.86	3.73	-	3.73	(1.86)	-	(1.86)	(3.73)	-	(3.73)
Securities	FX	-	0.24	0.24	-	0.49	0.49	-	(0.24)	(0.24)	-	(0.49)	(0.49)
	FL	-	0.20	0.20	-	0.42	0.42	-	(0.12)	(0.12)	-	(0.15)	(0.15)
Loans	FX	-	0.53	0.53	-	1.06	1.06	-	(0.53)	(0.53)	-	(1.06)	(1.06)
	FL	-	3.92	3.92	-	7.83	7.83	-	(3.53)	(3.53)	-	(6.67)	(6.67)
Other Financial Assets	FX	-	-	-	-	-	-	-	-	0.00	-	-	0.00
	FL	-	-	-	-	-	-	-	-	0.00	-	-	0.00
Liabilities		**(1.99)**	**(1.25)**	**(3.24)**	**(4.02)**	**(2.48)**	**(6.50)**	**1.95**	**1.25**	**3.20**	**3.91**	**2.48**	**6.39**
Sight Deposits		(1.99)	-	(1.99)	(4.02)		(4.02)	1.95	-	1.95	3.91	-	3.91
Securities Issued	FX	-	-	-	-	-	-	-	-	0.00	-	-	0.00
	FL	-	-	-	-	-	-	-	-	0.00	-	-	0.00
Debts	FX	-	(1.07)	(1.07)	-	(2.13)	(2.13)	-	1.07	1.07	-	2.13	2.13
	FL	-	(0.18)	(0.18)	-	(0.35)	(0.35)	-	0.18	0.18	-	0.35	0.35
Other Financial Liabilities	FX	-	-	-	-	-	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-	-	-	-	-	-
Derivatives		**-**	**1.67**	**1.67**	**-**	**3.33**	**3.33**	**-**	**(1.67)**	**(1.67)**	**-**	**(3.35)**	**(3.35)**

Cash flows slotted into time buckets according to their maturity or repricing date as of 31.12.2018

(in million of euros)

		Total	**0-18m**	**18m-3Y**	**3Y-5Y**	**5Y-10Y**	**10Y-15Y**	**>15Y**
Total		**416**	**471**	**(42)**	**(73)**	**28**	**6**	**26**
Asset		**2.700**	**1.995**	**172**	**148**	**249**	**86**	**50**
Sight Loans*		392	392	-	-	-	-	-
Securities	FX	235	97	56	27	55	-	-
	FL	70	70	-	-	-	-	-
Loans	FX	689	197	94	102	172	78	46
	FL	1.314	1.239	22	19	22	8	4
Other Financial Assets	FX	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-
Liabilities		**(2.260)**	**(1.912)**	**(179)**	**(137)**	**(32)**	**-**	**-**
Sight Deposits*		(1.838)	(1.514)	(160)	(134)	(30)	-	-
Securities Issued	FX	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-
Debts	FX	(375)	(351)	(19)	(3)	(2)	-	-
	FL	(47)	(47)	-	-	-	-	-
Other Financial Liabilities	FX	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-
Derivatives		**(24)**	**388**	**(35)**	**(84)**	**(189)**	**(80)**	**(24)**

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 mln has been set up for a +/- 50bp interest rates change. The impact on Bank's interest margin due to an increase of market interest rates for 50 bp according to data as of end 2019 would be positive, in the amount EUR 4.5 mln, while in case of an instantaneous 50 bp drop in interest rates, the impact would be negative EUR 4.0 mln. 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 2019

(in million of euros)

Currency	Total	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y
EUR	**5.13**	(3.03)	3.64	5.34	1.33	2.06	(4.20)
USD	**(0.04)**	(0.04)	0.00	0.00	0.00	0.00	0.00
CHF	**(0.02)**	(0.02)	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	**5.07**	**(3.09)**	**3.64**	**5.34**	**1.33**	**2.06**	**(4.20)**
Limit	**11.0**						
Utilization %	**46.09%**						

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 11.0 million EUR, while the actual exposure at reference date is 5.07 million EUR. 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 basis points 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 (eg. housing loans, debt financial instruments), which are hedged by interest rate swaps. On 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 +100bp change in interest rates are set:

(in million of euros)

Time bucket	Limit	Exposure
0–18 months	+/- 8	(3.08)
from 19 months–5 years	+/- 11	8.97
>5 years	+/- 8	(0.82)

The impact of 100 bps interest parallel rate shift on net present value of the Bank's interest-bearing assets and liabilities, as at 31 December 2018

(in million of euros)

Currency	Total	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y
EUR	**3.81**	(2.43)	2.07	4.38	1.36	1.02	(2.59)
USD	**(0.03)**	(0.03)	-	-	-	-	-
CHF	**(0.02)**	(0.02)	-	-	-	-	-
Other	**-**	-	-	-	-	-	-
Total Shift	**3.76**	**(2.48)**	**2.07**	**4.38**	**1.36**	**1.02**	**(2.59)**
Limit	**9.0**						
Utilization %	**41.76%**						

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 2019

(in million of euros)

Currency (mln EUR)	Total	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y
EUR	**10.40**	(5.99)	7.17	10.42	2.56	3.85	(7.61)
USD	**(0.05)**	(0.05)	-	-	-	-	-
CHF	**(0.04)**	(0.03)	-	-	(0.01)	-	-
Other	**-**	-	-	-	-	-	-
Total Shift	**10.31**	**(6.07)**	**7.17**	**10.42**	**2.55**	**3.85**	**(7.61)**
Reg,Capital (Dec. 18)	**271.1**						
15% of Reg, Capital	**3.79%**						

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 2018

(in million of euros)

Currency (mln EUR)	Total	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y
EUR	**7.66**	(4.79)	4.06	8.54	2.60	1.92	(4.68)
USD	**(0.05)**	(0.05)	-	-	-	-	-
CHF	**(0.05)**	(0.03)	-	-	(0.01)	-	-
Other	**-**	-	-	-	-	-	-
Total Shift	**7.56**	**(4.87)**	**4.06**	**8.54**	**2.59**	**1.92**	**(4.68)**
Reg,Capital (Dec. 18)	**266.8**						
15% of Reg, Capital	**2.83%**						

The 200 bp shift is a standard measure defined by Banking supervisor that treats an impact thereof on Economic value that exceeds 20% Tier I capital as outlying excessive risk exposure. As of 31.12.2019 the sensitivity reached 3.79% of Tier I capital. EBA in its Guidelines defines another threshold, 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 3.79% of Tier 1 capital.

The table below summarises the effective annual interest rate for monetary financial instruments not carried at fair value through profit or loss by major currency:

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

(in thousands of euros)

As at 31 December 2018	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	276,905	-	276,905
Financial assets held for trading	118	118	-
Non-trading financial assets mandatorily at fair value through profit or loss	1,396	-	1,396
Financial assets at fair value through other comprehensive income	332,539	-	332,539
Derivatives - hedge accounting	1,139	-	1,139
Financial assets at amortized cost:	2,016,332	-	2,016,332
- debt securities	1,262	-	1,262
- loans to banks	61,034	-	61,034
- loans to non-bank customers	1,933,921	-	1,933,921
- advances	20,115	-	20,115
Liabilities subject to market risk			
Financial liabilities held for trading	110	110	110
Derivatives - hedge accounting	18,950	-	18,950
Financial liabilities measured at amortized cost:	2,348,961	-	2,348,961
- deposits from banks and central banks	6,774	-	6,774
- deposits from non-bank customers	2,225,968	-	2,225,968
- loans from banks and central banks	88,996	-	88,996
- loans from non-bank customers	-	-	-
- debt securities issued	27,223	-	27,223
Fair value changes of the hedged items in portfolio hedge of interest rate risk	344	-	344

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

(in thousands of euros)

As at 31 December 2018	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	390,660	-	390,660
Financial assets held for trading	29	29	-
Non-trading financial assets mandatorily at fair value through profit or loss	3,019	-	3,019
Financial assets at fair value through other comprehensive income	314,631		314,631
Derivatives - hedge accounting	1,023	-	1,023
Financial assets at amortized cost:	1,830,704		1,830,704
- debt securities	1,266	-	1,266
- loans to banks	53,623	-	53,623
- loans to non-bank customers	1,757,088	-	1,757,088
- advances	18,727	-	18,727
Liabilities subject to market risk			
Financial liabilities held for trading	-	-	-
Derivatives - hedge accounting	4,055	-	4,055
Financial liabilities measured at amortized cost:	2,289,275	-	2,289,275
- deposits from banks and central banks	15,517	-	15,517
- deposits from non-bank customers	2,207,670	-	2,207,670
- loans from banks and central banks	37,484	-	37,484
- loans from non-bank customers	32	-	32
- debt securities issued	28,572	-	28,572
Fair value changes of the hedged items in portfolio hedge of interest rate risk	626	-	626

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 intellectual Bank's 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 with the involvement of the Level 1 organisational units, 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 assisted by 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

Fair value of financial instruments not measured at fair value

(in thousands of euros)

	2019					2018	
	Level 1	Level 2	Level 3	Total fair values	Total carry-ing amount	Total fair values	Total carrying amount
Financial assets							
Cash and current accounts with banks	-	276,905	-	276,905	276,905	**390,660**	**390,660**
Loans to banks	-	39,929	21,105	61,034	61,034	**53,623**	**53,623**
Loans to non-bank customers	-	74,135	1,861,107	1,935,242	1,933,921	**1,758,871**	**1,757,088**
Financial liabilities							
Deposits from banks and central bank	-	2,107	4,698	6,805	6,774	**15,575**	**15,517**
Deposits from non-bank customers	-	1,990,924	235,018	2,225,942	2,225,968	**2,207,654**	**2,207,670**
Loans from banks and central banks	-	-	88,633	88,633	88,996	**37,540**	**37,484**
Loans from non-bank customers	-	-	-	-	-	**32**	**32**

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.
- Loans to non-bank 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. Loans to non-bank customers classified as Level 2 include short term performing loans with original maturity less than 1 year, excluding credit card receivables and 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. The value of customer relationships has not been taken into account. 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.

Fair value of financial instruments

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's Model with SABR volatility.

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 investments and loan clusters with similar characteristics and fixed rate remuneration (housing loans). For single large financial investments, a micro fair value hedge is applied, while for housing loans the Bank engage 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 "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 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 a dynamic management of the portfolio. The test verifies that the portfolio subject to hedging contains assets with sensitivity profile and expected fair value variations on hedged risk that is matching the hedging derivative.
According to the efficiency tests, as of 31 December 2019, all interest rate hedges were effective.
As of 31 December 2019 the Bank had 67 interest rate swap (IRS) contracts, 24 of which underwritten in 2019. 26 IRS contract are designated to hedge interest rates arising from fixed rate debt financial instruments, 21 for fixed rate housing loans and 16 for large individual loans. 4 interest rate swaps are held in the trading book, since they are not held for hedge accounting purposes (two settled with clients and two of them settled as back to back hedges).

Hedged item	Number of IRS contracts	
	2019	2018
Fixed income bond-micro hedge	26	12
Housing loans packages-macro hedge	21	18
Individual loans-micro hedge	16	15
Total	**63**	**45**

The cumulative fair value of all Bank`s IRS contracts` as of 31 December 2019 amounted to -17.8 mln EUR (2018: EUR -3 mln).

The amounts relating to items designated as hedging instruments:

(in thousands of euros)

Interest rate risk	Nominal amount		Carrying amount			
			2019	2018	2019	2018
	2019	2018	Assets	Assets	Liabilities	Liabilities
Interest rate swaps - hedge of bonds	132,365	104,826	302	355	2,661	959
Interest rate swaps - hedge of loans - MICRO HEDGE	217,371	184,000	491	40	9,463	1,900
Interest rate swaps - hedge of loans - MACRO HEDGE	155,981	141,853	346	628	6,826	1,196
Total	**505,717**	**430,679**	**1,139**	**1,023**	**18,950**	**4,055**

The amount relating to items designated as hedged item:

(in thousands of euros)

Interest rate risk	Carrying amount		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item	
	2019	2018	2019	2018
	Assets	Assets	Assets	Assets
Bonds	169,448	143,197	(1,880)	20
Loans - micro hedge	226,243	185,754	8,353	1,351
Loans - macro hedge	177,230	153,469	6,466	577
Total	572,921	482,420	12,939	1,948

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 basis 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 basis 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.

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

(in thousands of euros)

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Asset				
Derivatives held for trading	-	118		**118**
Financial assets at FVOCI:	270,414	61,931	194	**332,539**
- debt	259,743	57,212	-	**316,955**
- equities	10,671	4,719	194	**15,584**
FVTPL mandatorily:	-	-	1,396	**1,396**
- equities	-	-	693	**693**
- loans and advances	-	-	703	**703**
Derivatives – hedge accounting	-	1,139	-	**1,139**
Liabilities				
Derivatives held for trading	-	110	-	110
Derivatives – hedge accounting	-	18,950	-	18,950

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

(in thousands of euros)

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Asset				
Derivatives held for trading	-	29	-	**29**
Financial assets at FVOCI:	256,092	43,386	15,153	**314,631**
- debt	245,397	40,138	14,959	**300,494**
- equities	10,695	3,248	194	**14,137**
FVTPL mandatorily:	-	690	2,329	**3,019**
- equities	-	690	1,447	**2,137**
- loans and advances	-	-	882	**882**
Liabilities				
Derivativi – hedge accounting	-	4,055	-	4,055

**Fair value of investments in National Bank Resolution Fund included within Level 1 is determined by Bank of Slovenia regarding volume of assets of each bank. These investments are not quoted*

Movement of financial instrument included in level 3

(in thousands of euros)

Financial assets	Mandatorily FVTPL		FVOCI	
	Equities	*Loans*	*Equities*	*Securities*
As at 1 January 2018	**1,447**	**17,984**	**194**	
Sale/Disposals	-	(19,410)	-	-
Purchases	-	-	-	15,053
Unrealized gains/losses recorded in P&L	-	75	-	-
Unrealized gains/losses recorded in revaluation reserve	-	-	-	(47)
Realized gains/losses recorded in P&L	-	2,233	-	(47)
As at 31 December 2018	**1,447**	**882**	**194**	**14,959**

(in thousands of euros)

Financial assets	Mandatorily FVTPL		FVOCI	
	Equities	*Loans*	*Equities*	*Securities*
As at 1 January 2019	**1,447**	**882**	**194**	**14,959**
Sale/Disposals	(1,093)	(246)	-	(15,053)
Unrealized gains/losses recorded in P&L	-	67	-	-
Unrealized gains/losses recorded in revaluation reserve	-	-	-	47
Realized gains/losses recorded in P&L	339	-	-	47
As at 31 December 2019	**693**	**703**	**194**	**-**

As of 31 December 2019, the Bank held in the investment portfolio 22 bonds measured at fair value (FVOCI), out of which 4 are measured with marked to model approach, due to illiquidity, while 18 were measured on market prices (level 1). As for equity portfolio all positions were valued with a marked to model approach, due to illiquidity issue or because the investments are not quoted on the stock exchange.

4. NET INTEREST INCOME

(in thousands of euros)

Interest income calculated using the effective interest rate	**46,311**	**45,683**
Derivatives – hedge accounting	1,093	1,553
Financial assets at fair value through other comprehensive income	1,700	2,457
Loans and advances:	43,401	41,594
- debt securities	46	47
- to banks	845	303
- to other customers	42,508	41,242
- advances	2	2
Sight deposits within banks	117	76
Financial liabilities (negative interest rate)	-	3
Other interest income	**2,235**	**1,139**
Held for trading (derivatives)	18	-
Non-trading financial assets mandatorily at fair value through profit or loss	82	1,139
Financial lease	2,135	
Total income	**48,546**	**46,822**
Interest expense		
Derivatives – held for trading	19	-
Derivatives – hedge accounting	5,140	4,615
Financial liabilities measured at amortised cost:	1,389	2,342
- Bank deposits and borrowings	4	50
- Other customers	994	1,192
- Other borrowed funds	377	1,100
- leasing	14	-
Other	1	1
Financial assets (negative interest rate)	1,188	1,276
- Loans to banks	826	1,092
- FVOCI securities	362	184
	7,737	**8,234**
Total	**40,809**	**38,588**

Interest income includes EUR 5,296 of interest income on impaired loans (2018: EUR 4,001 thousand).

5. DIVIDEND INCOME

(in thousands of euros)

	2019	2018
Non-trading financial assets mandatorily FVTPL	-	5
Financial assets FVOCI	161	161
Total	**161**	**166**

6. NET FEE AND COMMISSION INCOME

(in thousands of euros)

	2019	2018
Fee and commission income		
From current bank account management	4,233	3,970
From payment services	11,003	10,688
From credit card business	8,283	8,584
From interbanking operations	5,708	4,845
From loans granted	5,209	4,627
From guarantees given	1,099	1,220
From safe renting	124	123
From pension fund management	513	507
Depositary services	775	694
From payment systems management	1,768	1,640
From brokering of loans and insurance contract on behalf of others	316	300
Total fee and commission income from contracts with customers	**39,031**	**37,198**
Fee and commission expense		
For security trading	75	86
For loan brokerage on behalf of others	61	60
For custody services	273	242
For credit card processing	8,009	8,063
For payment transactions	3,596	3,345
Commitment fee for unused credit lines	419	261
Total fee and commission expense	**12,433**	**12,057**
Total	**26,598**	**25,141**

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)

	2019	2018
Net gains or losses of financial assets measured at fair value through other comprehensive income	-	114
• Gains	-	987
• Losses	-	(873)
Net gains or losses of financial assets measured at amortised cost	6,893	2,647
• Gains	8,257	3,159
- Sale	6,090	1,353
- Write-off in previous years	2,167	1,769
- Other	-	37
• Losses	(1,364)	(512)
- Sale	(965)	(32)
- Write-off	(399)	(480)
- Other	-	-
Total	**6,893**	**2,761**

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

(in thousands of euros)

	2019	2018
Trading of derivatives	(19)	(17)
- Realized	(11)	(1)
- Unrealized	(8)	(16)
Currency trading	948	893
Total	**929**	**876**

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

(in thousands of euros)

	2019	2018
Gains	610	8,471
- Realized	543	8,387
- Unrealized	67	84
Losses	-	(2)
- Realized	-	(1)
- Unrealized	-	(1)
Total	**610**	**8,469**

In 2018, the Bank sold the shares obtained as collateral from repossession of loans, which due to legal obstacles it was never recognized in balance sheet. The gain from this transaction amounted to EUR 6,154 thousand. The remaining amount of gain relates to sell of loans mandatorily at fair value through profit or loss.

10. NET GAINS OR LOSSES FROM HEDGE ACCOUNTING

(in thousands of euros)

	2019	2018
Net effect on derivatives used as hedging instruments	(14,890)	(4,777)
Net effect on hedged items*	14,785	4,830
Total	**(105)**	**53**

**Within EUR 14,785 the hedge of bonds amounted to EUR 1,900 thousand (2018: EUR 1,200 thousand).*

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 paragraph hedge accounting).

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

(in thousands of euros)

	2019	2018
Profit on sale of property and equipment	287	380
Total	**287**	**380**

12. OTHER OPERATING INCOME/EXPENSES

12a Other operating income

(in thousands of euros)

	2019	2018
Rents	2,537	1,312
Proceeds from the sale of repossessed leased assets	20	139
Other	36	-
Total	**2,593**	**1,451**

12b Other operating expenses

(in thousands of euros)

Taxes	(229)	(178)
Membership fees	(85)	(86)
Contribution to European Banking Resolution Fund	(301)	(149)
Contribution to European Deposit Guarantee Scheme	(1,802)	(1,978)
Maintenance expenses arising from leased assets	(43)	(106)
Expenses from investment property under the operating lease	-	-
Expenses related to services from credit card business	(40)	(193)
Fraud from credit card business	(8)	(131)
Licences	(22)	(121)
Other	(416)	(425)
Total other operating expenses	**(2,946)**	**(3,367)**
Net operating income/expenses	**(353)**	**(1,916)**

13. ADMINISTRATIVE EXPENSES

(in thousands of euros)

	2019	2018
Staff cost	**30,908**	**29,694**
Salaries	20,680	20,119
Social security	3,075	3,027
Contributions to the pension scheme	1,862	1,807
Other*	5,291	4,741
Other administrative expenses	**11,659**	**11,833**
Material costs	1,704	1,717
IT costs	3,939	3,460
Rents	857	1,486
Professional services	1,116	1,189
Advertising and marketing	505	466
Consulting, auditing, legal and notarial fees**	261	287
Maintenance, governance and security of tangible fixed assets	1,137	994
Postal services and rent of communication lines	1,511	1,384
Insurance	183	322
Travel costs	73	67
Education, scholarships and tuition fees	193	183
Bank's supervision	180	278
Total	**42,567**	**41,527**

**Other staff costs relates to holiday incentives and accruals for bonuses.*
***Of which audit of the Bank's financial statements EUR 112 thousand (2018: EUR 112thousand).*

14. DEPRECIATION AND AMORTISATION

(in thousands of euros)

	2019	2018
Amortisation	2,736	1,712
Depreciation	1,215	1,242
Total	**3,951**	**2,954**

Depreciation is higher due to depreciation off right of use assets in the amount EUR 1,061 thousand.(Reference Note 29).

15. PROVISIONS

(in thousands of euros)

	2019	2018
Provisions for off-balance sheet exposures	1,868	(658)
Provisions for legal proceedings and future contract obligations	450	40
Retirement and long service bonuses	(155)	(228)
Provisions for reorganization	-	(1,833)
Provisions for termination of employment for business reasons	-	(709)
Provisions for cash returns from discontinued products	(650)	(350)
Total	**1,513**	**(3,738)**

The movement of provisions and post-employment benefit obligations is shown in note 39.

16. IMPAIRMENTS.

(in thousands of euros)

	2019	2018
Impairments of financial assets, not measured at fair value through profit and loss		
Impairments of financial assets at fair value through other comprehensive income	19	71
Impairments on assets measurement at amortised cost:	(5,235)	(12,284)
- debt securities	-	-
- banks	10	(1)
- loans to other customers	(4,869)	(12,031)
- impairments of other financial assets	(152)	(252)
- impairments of other assets	(224)	-
Impairment of non(financial assets		
Impairment on investment property	86	-
Impairment on inventories (repossessed assets)	-	(1,329)
	(5,130)	**(13,542)**

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)

	2019	2018
Rents	1,355	1,656
Maintenance expenses	(427)	(431)
Impairment	(604)	(671)
Gains from sale	3,698	60
Losses from sale	(605)	-
Total	**3,417**	**614**

18. TAX EXPENSE

(in thousands of euros)

	2019	2018
Current tax expense	4,886	2,537
Deferred tax (note 41)	323	(108)
Total	**5,209**	**2,429**

Further information about deferred income tax is presented in note 40.
The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

(in thousands of euros)

	2019	2018
Total income tax	**28,963**	**13,143**
Prima facie tax calculated at a tax rate of 19%	5,503	2,497
Income form already taxed dividends	(30)	(31)
Expenses not deductible for tax purposes:		
- staff costs not assessable for tax	178	168
- other expenses not deductible for tax purposes	46	38
- impairment of financial assets measured at FVOCI	-	134
- other non-tax deductible expenses	(3)	-
Tax reliefs	(485)	(377)
Total profit before tax	**5,209**	**2,429**
Effective tax rate	*17,98%*	*18,50%*

For 2019 the income tax rate was 19% (2018: 19%) as prescribed by law.

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 recognized in FVOCI

(in thousands of euros)

	31.12.2019		
	Before tax	Tax (expense) benefit	After tax
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**1,537**	**(295)**	**1,242**
Fair value changes of equity instruments measured at fair value through other comprehensive income	1,570	(298)	1,272
Actuarial gains or losses on defined benefit pensions plans	(33)	3	(30)
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	**3,037**	**(577)**	**2,460**
Debt instruments at fair value through other comprehensive income:			
Valuation gains or losses taken to equity	4,606	(875)	3,731
Transferred to profit or loss	(1,569)	298	(1,271)
TOTAL	**4.574**	**(872)**	**3,702**

Changes in income tax from items that are recognized in FVOCI

(in thousands of euros)

	31.12.2018		
	Before tax	Tax (expense) benefit	After tax
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**1,956**	**(237)**	**(1,719)**
Fair value changes of equity instruments measured at fair value through other comprehensive income	539	(102)	437
Actuarial gains or losses on defined benefit pensions plans	1,417	(135)	1,282
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	**(6,010)**	**(1,142)**	**(4,868)**
Debt instruments at fair value through other comprehensive income:			
Valuation gains or losses taken to equity	(4,830)	918	(3,912)
Transferred to profit or loss	(1,180)	224	(956)
TOTAL	**(4,054)**	**905**	**(3,149)**

19. EARNINGS PER SHARE

(in thousands of euros)

	2019	2018
Net profit for the year	23,754	10,714
Weighted average number of ordinary shares in issue	530,398	530,398
Basic and diluted profit per share (in EUR per share)	**44.79**	**20.2**

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue 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)

	2019	2018
Cash in hand	21,748	19,083
Balances with central banks	241,706	348,419
Other sight deposits	13,451	23,175
Gross cash, cash balances at central banks and other demand deposits at banks	**276,905**	**390,677**
Impairment		
Net cash, cash balances at central banks and other demand deposits at banks		(17)
	276,905	**390,660**
From this: mandatory reserve liability to central banks	21,504	23,777

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 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 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:

Derivative financial instruments

(in thousands of euros)

As at 31 December 2019	Notional amount	Fair value	
		Assets	Liabilities
HFT derivatives			
Foreign exchange rate			
Forwards (sale)	401	2	-
Forwards (purchase)	401	-	2
Interest rate			
Interest rate cap (CALL)	3,709	8	-
Interest rate cap (PUT)	-	-	-
Interest rate swaps			
IRS - purchase	8,111	108	-
IRS - sale	8,111	-	108
Total held for trading derivatives	**20,734**	**118**	**110**
Hedging derivatives			
Interest rate swaps (IRS) – micro hedge	349,736	794	12,124
Interest rate swaps (IRS) – macro hedge	155,981	345	6,826
Total derivative for hedge accounting	**505,717**	**1,139**	**18,950**

(in thousands of euros)

As at 31 December 2018	Notional amount	Fair value	
		Assets	Liabilities
HFT derivatives			
Foreign exchange rate			
Forwards-sale	60	-	-
Forwards-purchase	60	-	-
Interest rate			
Interest rate cap (CALL)	3	-	-
Interest rate cap (PUT)	3,960	29	-
Total held for trading derivatives	**4,083**	**29**	**-**
Hedging derivatives			
Interest rate swaps (IRS) – micro hedge	288,827	395	2,859
Interest rate swaps (IRS) – macro hedge	141,853	628	1,196
Total derivative for hedge accounting	**430,680**	**1,023**	**4,055**

In financial environment of low interest rates the Bank promoted its commercial activities by lunching long term loans fix interest rates. To overcome 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)

	2019	2018
Equities:		
- listed	693	754
- unlisted	0	1,383
Loans and advances	703	882
Total financial assets mandatorily at fair value through profit or loss	**1,396**	**3,019**

Movement

(in thousands of euros)

	2019	2018
At beginning of the year (1 January 2019)	**3,019**	**20,180**
Sale/ Disposals of loans	(168)	(17,177)
Valuation of loans	(11)	75
Valuation of shares	339	-
Sale of shares	(1,783)	(59)
At end of year	**1,396**	**3,019**

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(in thousands of euros)

	2019	2018
Equities:		
- listed	17	89
- unlisted	15,567	14,048
Debt securities:		
Government securities:		
- listed	273,319	268,705
- unlisted	-	-
Other debt securities	-	
- listed	43,691	31,863
- unlisted	-	-
Total financial assets FVOCI (Gross)	**332,594**	**314,705**
Impairment	(55)	(74)
Total financial assets FVOCI	**332,539**	**314,631**

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 11.3 million are encumbered.

Company	2019		2018	
	Fair value	Dividend income	Fair value	Dividend income
Visa INC US	4,681	29	3,212	23
Intesa Sanpaolo s.p.a.	17	3	89	13
Bankart	194	129	194	124
Gorenjska banka	-	-	-	6
Sklad za reševanje bank	10,654	-	10,606	-
Swift	38	-	36	-
Total	**15,584**	**161**	**14,137**	**166**

Movement

(in thousands of euros)

	2019	2018
At beginning of the year	**314,631**	**315,152**
Acquisitions	126,893	130,822
Impairment	19	-
Interest accrual	6,328	3,064
Paid interests	(6,812)	(5,361)
Disposals (sale and redemption)	112,610	(126,498)
Gains/losses from changes in fair value	3,070	(4,242)
Exchange differences	1,020	1,694
At end of year	**332,539**	**314,631**

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 2018)	**145**	**-**	**-**	**145**
Transfer to stage 1	13	(13)	-	**-**
Transfer to stage 2	(13)	13	-	**-**
Transfer to stage 3		-	-	**-**
Release of impairments	(71)	-	-	**(71)**
At the end of year (31 December 2018)	**74**	**-**	**-**	**74**
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Release of impairments	(19)	-	-	(19)
At the end of year (31 December 2019)	**55**	**-**	**-**	**55**

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

24. DEBT SECURITIES

(in thousands of euros)

	2019	2018
Corporate bonds	1,262	1,266
Total	**1,262**	**1,266**

Fair value of corporate bonds as at 31.12.2019 amounted to EUR 1,277 thousand (in 2018: EUR 1,277 thousand).

25. LOANS TO BANKS

(in thousands of euros)

	2019	2018
Placements with other banks	61,034	53,655
Gross loans to banks	**61,074**	**53,655**
Impairment	(40)	(32)
Net loans to banks	**61,034**	**53,623**

As at 31 December 2019 no placements with other banks are shown under Pledged assets (2018: nil).

26. LOANS TO NON-BANK CUSTOMERS

(in thousands of euros)

	2019	2018
Loans to individuals:	**714,355**	**654,315**
- Overdrafts	24,695	25,632
- Credit cards	11,276	14,123
- Term loans	147,488	133,521
- Mortgages	525,977	474,947
- Financial leases	4,919	6,092
Loans to sole proprietors	**52,384**	**54,077**
Financial leases	7,239	7,609
Other loans	45,145	46,468
Loans to corporate entities	**1,214,632**	**1,136,561**
Financial leases	49,267	40,068
Other loans	1,165,365	1,096,493
Gross loans and advances	**1,981,371**	**1,844,953**
Less provision for impairment	(47,450)	(87,865)
Net loans and advances	**1,933,921**	**1,757,088**
Net loans and advances	**1,933,921**	**1,757,088**

Movement in provisions for impairment losses on loans to individuals as follows:

(in thousands of euros)

	STAGE 1	STAGE 2	STAGE 3	TOTAL
As at 1 January 2019	**3,315**	**526**	**8,895**	**12,736**
Provision for loan impairment	9,362	2,701	9,733	**21,796**
Amounts recovered during the year	(8,690)	(1,159)	(6,820)	**(16,669)**
Included in income statement	**672**	**1,542**	**2,913**	**5,127**
Transfer to/from stage 1	-	(393)	(314)	**(707)**
Transfer to/from stage 2	393	-	225	**618**
Transfer to/from stage 3	314	(225)	-	**89**
Write off	-	-	(1,981)	**(1,981)**
As at 31 December 2019	**4,694**	**1,450**	**9,738**	**15,882**

Movement in provisions for impairment losses on loans to sole proprietors as follows:

(in thousands of euros)

	STAGE 1	STAGE 2	STAGE 3	TOTAL
As at 1 January 2019	**822**	**356**	**4,828**	**6,006**
Provision for loan impairment	9,750	2,493	10,220	**22,463**
Amounts recovered during the year	(10,064)	(2,185)	(10,058)	**(22,307)**
Included in income statement	**(314)**	**308**	**162**	**156**
Transfer to/from stage 1	-	(284)	-	**(284)**
Transfer to/from stage 2	284	-	101	**385**
Transfer to/from stage 3	-	(101)	-	**(101)**
Write off	-	-	(120)	**(120)**
Sale	-	-	(3,150)	**(3,150)**
As at 31 December 2019	**792**	**279**	**1,821**	**2,892**

Movement in provisions for impairment losses on loans to corporate entities as follows:

(in thousands of euros)

	STAGE 1	STAGE 2	STAGE 3	TOTAL
As at 1 January 2019	**4,620**	**5,859**	**58,644**	**69,123**
Provision for loan impairment	145,568	13,942	12,654	**172,164**
Amounts recovered during the year	(145,920)	(15,485)	(11,173)	**(172,578)**
Included in income statement	**(352)**	**(1,543)**	**1,481**	**(414)**
Transfer to/from stage 1	-	(691)	(18)	**(709)**
Transfer to/from stage 2	691	-	2,049	**2,740**
Transfer to/from stage 3	18	(2,049)	-	**(2,031)**
Write off	-	-	(8,693)	**(8,693)**
Sale	-	-	(31,340)	**(31,340)**
As at 31 December 2019	**4,977**	**1,576**	**22,123**	**28,676**

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

In 2019 the Bank continued with the non-performing reduction plan, which is also in line with Bank of Slovenia Regulation criteria for write-offs in the assessment of credit risk losses.

Customer loan portfolio by economic sector

(in thousands of euros)

	2019	2018
Non-financial entities	920,449	853,586
- transport and storage	245,076	259,578
- manufacturing	197,210	188,545
- wholesale and retail trade	179,569	138,766
- information and communication	53,019	51,294
- accommodation and service activities	21,876	38,995
- construction	14,480	28,838
- other non-financial entities	209,219	147,570
Government	16,412	20,417
Other public entities	190,972	195,315
Financial entities	85,850	66,258
Individuals	714,355	654,316
Sole proprietors	52,385	54,076
Non-profit institutions serving households	948	985
Gross loans and advances to customers	**1,981,371**	**1,844,953**
Less provision for impairment	(47,450)	(87,865)
Net loans and advances to customers	**1,933,921**	**1,757,088**

At the end of 2019 the share of loans to non-bank customers on the domestic market amounted to 91.5%, the remaining share of 7.2% related to the EU market, and 1.2% to other markets respectively.

Analysis of financial leases by residual maturity:

(in thousands of euros)

	2019	2018
Future minimum lease payment (finance lease)		
Not later than 1 year	14,290	15,436
Later than 1 year and not later than 5 years	28,309	29,457
Later than 5 years	6,746	8,876
	49,345	**53,769**
Impairment	**(5,782)**	**(5,267)**
Present value of future minimum lease payments:		
Not later than 1 year	12,888	14,038
Later than 1 year and not later than 5 years	26,103	28,301
Later than 5 years	4,572	6,163
	43,563	**48,502**

Forborne exposures as at 31.12.2019

(in thousands of euros)

	General governments	Total	Other equipment	Total
Performing exposures	-	1,444	901	**2,345**
Instruments with modifications in their terms and conditions	-	25,988	1,701	**27,689**
Refinancing	-	1,325	976	**2,301**
Total gross carrying amount	**-**	**28,757**	**3,578**	**32,335**
Performing	-	(197)	(184)	**(381)**
Instruments with modifications in their terms and conditions	-	(10,423)	(1,503)	**(11,926)**
Refinancing	-	(947)	(778)	**(1,725)**
Accumulated impairment, accumulated changes in fair value due to credit risk and provisions	**-**	**(11,567)**	**(2,465)**	**(14,032)**
Performing exposures	-	1,247	717	**1,964**
Instruments with modifications in their terms and conditions	-	15,565	198	**15,763**
Refinancing	-	378	198	**576**
Net carrying amount	**-**	**17,190**	**1,113**	**18,303**

In 2019 the Bank restructured loans in the amount of EUR 2,031 thousand (2018: EUR 28,602 thousand).

Forborne exposures as at 31.12.2018

(in thousands of euros)

	General governments	Total	Other equipment	Total
Performing exposures	-	30,681	688	**31,369**
Instruments with modifications in their terms and conditions	-	44,476	2,152	**46,628**
Refinancing	-	889	945	**1,834**
Total gross carrying amount	**-**	**76,046**	**3,785**	**79,831**
Performing	-	(1,869)	(72)	**(1,941)**
Instruments with modifications in their terms and conditions	-	(27,501)	(1,684)	**(29,185)**
Refinancing	-	(544)	(786)	**(1,330)**
Accumulated impairment, accumulated changes in fair value due to credit risk and provisions	**-**	**(29,914)**	**(2,542)**	**(32,456)**
Performing exposures	-	28,812	616	**29,428**
Instruments with modifications in their terms and conditions	-	16,975	468	**17,443**
Refinancing	-	345	159	**504**
Net carrying amount	**-**	**46,132**	**1,243**	**47,375**

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 maximize collection and minimize 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 and advances 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 48.

27. ADVANCES

(in thousands of euros)

	2018	2019
Commissions receivables	411	395
Cheques	1	1
Receivables	735	275
Claims to Europay	8,705	7,668
Claims to citizens	812	1,024
Claims relating to interbank settlement for Visa card	5,424	4,932
Claims due to recovery procedures	667	1,307
Other	4,046	4,481
Gross advances	**20,801**	**20,083**
Impairments	(686)	(1,356)
Net advances	**20,115**	**18,727**

Movement in provisions for impairment on other assets:

(in thousands of euros)

As at 31 December 2017	**1,106**
Additional provision for impairment	413
Amounts recovered during the year	(161)
Included in income statement	252
Write off of impairment	(2)
As at 31 December 2018	**1,356**
Additional provision for impairment	223
Amounts recovered during the year	(71)
Included in income statement	152
Write off of impairment	(220)
Release of impairments due to sale	(602)
As at 31 December 2019	**686**

28. NON-CURRENT ASSETS HELD FOR SALE

(in thousands of euros)

	2019	2018
At the beginning of the year	**14,592**	**19,601**
Sale	(6,753)	(2,478)
Transfer to inventories	-	(1,416)
Transfer out of inventories	3,768	-
Transfer to investment property	(1,812)	-
Transfer from property and equipment	-	(444)
Impairments	(604)	(671)
At the end of the year	**9,191**	**14,592**

29. PROPERTY, PLANT AND EQUIPMENT

(in thousands of euros)

	Land and buildings	Hardware equipment	Other equipment	Right of use	Total
Movement in year 2018					
Opening net book amount	**27,024**	**646**	**1,124**	**-**	**28,794**
Additions	706	412	142	-	1,260
Disposals	(228)	(1)	(139)	-	(368)
Depreciation charge	(1,072)	(307)	(333)	-	(1,712)
Closing net book amount	**26,430**	**750**	**794**	**-**	**27,974**
As at 31 December 2018					
Cost	29,702	5,464	10,191	-	45,357
Accumulated depreciation	(3,272)	(4,714)	(9,397)	-	(17,383)
Net book amount as at 31 December 2018	**26,430**	**750**	**794**	**-**	**27,974**
Movement in year 2019					
Opening net book amount	**26,430**	750	794	-	27,974
Increase related to property received from leasing contracts	-	-	-	4,605	4,605
Opening net book samount as at 1 Jan. 2019	**26,430**	**750**	**794**	**4,605**	**32,579**
Additions	655	501	818	617	2,591
Disposals	-	(4)	(69)	-	(73)
Depreciation charge	(1,085)	(321)	(269)	(1,061)	(2,736)
Closing net book amount	**26,000**	**926**	**1,274**	**4,161**	**32,361**
As at 1 January 2019					
Cost	30,357	4,761	10,653	5,222	50,993
Accumulated depreciation	(4,357)	(3,835)	(9,379)	(1,061)	(18,632)
Net book amount as at 31 December 2018	**26,000**	**926**	**1,274**	**4,161**	**32,361**

In 2019 there was no property, plant and equipment pledged (2018; nil).

30. INVESTMENT PROPERTY

(in thousands of euros)

	2019	2018
As at 1 January 2019	**-**	**-**
Transfer from non-current assets held for sale	1,812	-
Decreases	-	-
Impairments	(45)	-
Release of impairments	131	-
As at 31 December 2019	**1,898**	**-**

31. INTANGIBLE ASSETS

(in thousands of euros)

	Development	Licenses	Software and other	Total
Movement in year 2018				
Opening net book amount	2,611	442	465	3,518
Additions	1,661	128	6	1,795
Amortisation	(830)	(216)	(196)	(1,242)
Closing net book amount	**3,442**	**354**	**275**	**4,071**
As at 31 December 2018				
Cost	16,156	2,957	3,738	22,851
Accumulated amortisation	(12,714)	(2,603)	(3,463)	(18,780)
Net book amount as at 31 December 2018	**3,442**	**354**	**275**	**4,071**
Movement in year 2019				
Opening net book amount	3,442	354	275	4,071
Additions	2,567	190	95	2,852
Amortisation	(942)	(147)	(126)	(1,215)
Closing net book amount	**5,067**	**397**	**244**	**5,708**
As at 31 December 2019				
Cost	18,722	3,148	3,928	25,798
Accumulated amortisation	(13,655)	(2,751)	(3,684)	(20,090)
Net book amount as at 31 December 2019	**5,067**	**397**	**244**	**5,708**

The Bank has not pledged any intangible fixed assets.

The Bank does not have any intangible fixed assets in management.

In 2019 the Bank has not recognized any expenditure related to development in the income statement, All development expenditure in 2019 was capitalized as intangible fixed assets, out of which staff expenses amounted to EUR 604 thousand.

32. OTHER ASSETS

(in thousands of euros)

	2019	2018
Accruals	2,292	2,404
Inventory	5	116
Taxes and contributions	562	796
Repossessed assets	1,586	8,121
Prepayments and bails	-	5
Impairment on repossessed assets	(224)	(2,862)
	4,221	**8,580**

Repossessed assets related mainly to assets subject to leasing contracts. These are mainly real estate.

Movement in impairment

(in thousands of euros)

	2019	2018
At beginning of year	2,862	1,533
Additions	224	1,329
Diminution due to sale (included in sale effect)	(2,862)	-
At end of the year	**224**	**2,862**

33. DEPOSITS FROM BANKS AND CENTRAL BANKS

(in thousands of euros)

	2019	2018
Demand deposits	2,085	1,505
Term deposits	4,689	14,012
	6,774	**15,517**

34. DEPOSITS FROM NON-BANK CUSTOMERS

	2019	2018
Individuals		
- demand deposits	1,028,815	947,622
- term deposits	501,319	484,854
Sole proprietors		
- demand deposits	97,683	86,162
- term deposits	1,957	1,853
Corporate customers		
- demand deposits	539,973	627,487
- term deposits	56,221	59,692
Total	**2,225,968**	**2,207,670**

As at 31 December 2019, deposits in the amount of EUR 9,674 thousand have been pledged for covering potential credit risk on assets (2018: EUR 10,502 thousand).

35. 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)

	2019		2018	
	Short term	Long term	Short term	Long term
In local currency	-	84,130	-	28,872
In foreign currency	-	4,866	-	8,612
Total	**-**	**88,996**	**-**	**37,484**

36. LOANS FROM NON-BANK CUSTOMERS

(in thousands of euros)

	2019	2018
	Long term	Long term
Financial leases	-	32
Total	**-**	**32**

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

37. OTHER FINANCIAL LIABILITIES

	2019	2018
Unpaid commissions	354	140
Liabilities form credit card business	4,088	4,665
Not yet processed payment	6,322	9,640*
Unpaid dividend	118	118
Creditors	2,138	2,258
Salaries	2,603	2,426
Deferred income	6,612	8,697
Lease liabilites	4,163	-
Other	825	628
Total	**27,223**	**28,572**

**The rise of unprocessed payment transactions in 2018 is a consequence of longer closure of payment systems during New Year holidays.*

38. PROVISIONS FOR LIABILITIES AND CHARGES

The Bank also makes credit risk provisions for off-balance sheet items. The above credit risk provisions recorded by Banka Intesa Sanpaolo d,d, refer to contractual commitments for issued guarantees and letters of credits and irrevocable contractual commitments for granted, but undrawn loans. The same principles as for provisions for on-balance sheet items are applied.

(in thousands of euros)

	2019	2018
Provisions for restructuring	1,249	1,833
Provisions for legal proceedings	833	1,733
Provisions for off-balance sheet liabilities	2,540	4,411
Provision for redundancies	985	1,410
Provisions for cash returns from discontinued products (AMEX)	776	350
Total	**6,383**	**9,737**

As at 31 December 2019, the Bank was involved in several legal proceedings against it. Contingent liabilities in this respect are estimated in the amount of EUR 833 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 833 thousand.

Movement in provisions 2019:

(in thousands of euros)

	Off balance sheet commitments	Litigation	Restructuring and other commitments towards employees	Other	Total
At beginning of year (1 January)	**4,411**	**1,733**	**3,243**	**350**	**9,737**
Additional provision	4,232	0	42	650	4,924
Amounts recovered during the year	(6,100)	(450)	(42)	0	(6,592)
Included in income statement under provisions	**(1,868)**	**(450)**	**0**	**650**	**(1,668)**
Utilised provisions	**-**	**-**	**(424)**	**(224)**	**(648)**
Utilised provisions	(4)	-	-	-	(4)
Utilised for legal cost	-	-	-	-	-
Utilised for commitments towards employees	-	(450)	(584)	-	(1,034)
At end of year	**2,539**	**833**	**2,235**	**776**	**6,383**

Movement in provisions 2018:

(in thousands of euros)

	Off balance sheet commitments	Litigation	Restructuring and other commitments towards employees	Other	Total
At beginning of year (1 January)	**3,755**	**1,779**	**841**	**0**	**6,375**
Additional provision	3,559	310	2,604	350	6,823
Amounts recovered during the year	(2,901)	(350)	(62)	-	(3,313)
Included in income statement under provisions	**658**	**(40)**	**2,542**	**350**	**3,510**
Utilised provisions	**-**	**-**	**-**	**(140)**	**(140)**
Utilised provisions	(2)		-	-	(2)
Utilised for legal cost	-	(6)	-	-	(6)
Utilised for commitments towards employees	-	-	-	-	0
At end of year	**4,411**	**1,733**	**3,243**	**350**	**9,737**

39. RETIREMENT BENEFIT OBLIGATIONS

(in thousands of euros)

	2019	2018
Retirement severance pay and long service bonuses	2,866	2,898
	2,866	**2,898**

Movements

(in thousands of euros)

	2019	2018
At beginning of year	**2,898**	**4,268**
Additional provisions	155	234
Amounts recovered during the year	-	(6)
Charged to income statement	155	228
Change in actuarial gains/loss	33	(1,416)
Utilised provisions	(220)	(182)
At end of year	**2,866**	**2,898**

40. DEFERRED INCOME TAXES

Deferred tax liabilities

(in thousands of euros)

	2019	2018
Valuation of tangible fixed assets	2,621	2,621
Valuation and impairments of assets FVOCI	1,111	709
Provision for retirement benefit obligations (actuarial gains)	73	76
	3,805	**3,406**

Deferred tax assets

(in thousands of euros)

	2019	2018
Retirement and other employee benefits	345	360
Provisions for reorganization	119	174
Available-for-sale financial assets	-	212
Valuation and impairments of assets FVOCI	118	595
Loan impairments on financial and operating leasing	16	72
Other (depreciation above tax prescribed rate	41	22
Total	**639**	**1,435**
Net deferred tax	**(3,166)**	**(1,971)**

Movement in deferred taxes (offsetting of assets and liabilities)

(in thousands of euros)

	2019	2018
At beginning of year	1,971	3,069
Deferred taxes charged in income statement	323	(108)
AFS financial assets (fair value measurement)	-	-
Valuation and impairment of FVOCI	875	(1,118)
Valuation of tangible fixed assets	-	-
Actuarial losses	(3)	134
Other	-	(6)
At end of year	**3,166**	**1,971**

Deferred taxes charged in income statement

(in thousands of euros)

	2019	2018
Retirement and other employee benefits	14	(8)
Provisions for reorganization	56	174
Impairment on FVOCI financial assets	216	(18)
Loan impairments on financial and operating leasing	56	(57)
Other (depreciation)	(19)	17
Total	**323**	**108**

41. OTHER LIABILITIES

(in thousands of euros)

	2019	2018
Accruals	690	269
Prepayments received	851	801
Taxes and contributions	1,497	1,712
Total	**3,038**	**2,782**

42. SHARE CAPITAL

(in thousands of euros)

	Number of shares	Ordinary shares	Share premium	Treasury shares
As at 31 December 2017	531,359	22,173	7,499	(49)
As at 31 December 2018	531,359	22,173	7,499	(49)
As at 31 December 2019	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

43. ACCUMULATED OTHER COMPREHENSIVE INCOME

(in thousands of euros)

	2019	2018
Revaluation reserves:		
- Debt securities	1,989	(471)
- Equity securities	2,292	1,019
- Tangible fixed assets	11,171	11,172
Actuarial gain/losses	697	727
Total	**16,149**	**12,447**

Movement	Revaluation reserves
As at 1 January 2018	**15,596**
Equity securities	**437**
- Fair value adjustment, net of tax	420
- Disposals	17
Debt securities	**(4,860)**
- Fair value adjustment, net of tax	(3,912)
- Disposals	24
- Valuation of hedge items transferred to profit or loss	(972)
Other comprehensive income	**1,274**
Actuarial loss	1,282
Effect of tax rate increase	(8)
As at 31 December 2018	**12,447**

Movement	Revaluation reserves
As at 31 December 2018	**12,447**
Equity securities	**1,272**
- Fair value adjustment, net of tax	1,245
- Disposals	27
Debt securities	**2,460**
- Fair value adjustment, net of tax	3,731
- Disposals and realised gains	268
- Valuation of hedge items transferred to profit or loss	(1,539)
Other comprehensive income	**(30)**
Actuarial loss	(30)
Gain from valuation of tangible fixed assets	-
As at 31 December 2019	**16,149**

44. RESERVES FROM PROFIT AND RETAINED EARNINGS

(in thousands of euros)

	2019	2018
Legal reserves	17,195	16,007
Statutory reserves	214,055	214,055
Retained earnings	24,508	12,143
Treasury share`s reserves	49	49
Total	**255,802**	**242,254**

(in thousands of euros)

Movement	Legal reserves	Statutory reserves	Retained earnings	Treasury shares	Total reserves
As at 1 January 2018	**15,471**	**214,054**	**5,982**	**49**	**235,556**
Net profit for the financial year	-	-	10,714	-	10,714
Dividends	-	-	(3,999)	-	(3,999)
Transfer to statutory reserves	-	-	-	-	-
Transfer to legal reserves	536	1	(537)	-	-
Loss from disposals of FVOCI shares	-	-	(17)	-	(17)
As at 31 December 2018	**16,007**	**214,055**	**12,143**	**49**	**242,254**
Net profit for the financial year	-	-	23,754	-	23,754
Dividends	-	-	(10,178)	-	(10,178)
Transfer to statutory reserves	-	-	-	-	-
Transfer to legal reserves	1,188	-	(1,188)	-	-
Loss from disposals of FVOCI shares	-	-	(28)	-	(28)
As at 31 December 2018	**17,195**	**214,055**	**24,503**	**49**	**255,802**

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.

45. 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 2018, the Bank disbursed for dividends EUR 10,178 thousand i.e. EUR 19.19 per share.

(in thousands of euros)

Distribution of the profit of the year	2019	2018
Net profit for the period	23,754	10,714
Allocation of the profit to the legal reserves (5%)	(1,188)	(536)
Net profit of the period available for distribution	**22,566**	**10,178**
Total net profit available for distribution at the AGM	**22,566**	**10,178**

46. CASH AND CASH EQUIVALENTS

(in thousands of euros)

	2019	2018
Cash and balances with central bank*	255,401	366,883
Loans and advances to banks	23,692	48,656
Total	**279,093**	**415,539**

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

47. CONTINGENT LIABILITIES AND COMMITMENTS

Capital commitments, At 31 December 2019, the Bank had no capital commitments (2018: 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 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 do 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 likely amount of losses is not easy to quantify and is considerably less 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)

	2019	2018
Documentary and commercial letters of credit	160	160
Guarantees	175,904	166,460
Credit commitments:	347,189	426,816
- original maturity up to 1 year	221,536	223,290
- original maturity over 1 year	125,653	203,526
	523,253	**593,436**
Provisions for off-balance sheet liabilities:		
Guarantees	(1,314)	(2,773)
Credit commitments	(1,226)	(1,638)
Total	**520,713**	**589,025**

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 2018	**1,581**	**183**	**1,992**	**3,7**
Additional impairments	1,593	604	1,362	**3,559**
Release of impairments	(1,691)	(415)	(795)	**(2,901)**
Included in income statement	**(98)**	**189**	**567**	**658**
Transfer from/to stage 1	-	(29)	(102)	**(131)**
Transfer from/to stage 2	29	-	(67)	**(38)**
Transfer from/to stage 3	102	67	-	**169**
Usage to cover guaranteed yield of pension fund	(2)	(1)	-	**(3)**
As at 31 December 2018	**1,612**	**409**	**2,390**	**4,411**
Additional impairments	**(2,196)**	**(567)**	**(3,302)**	**(6,065)**
Release of impairments	1,730	317	2,150	**4,197**
Included in income statement	**(466)**	**(250)**	**(1,152)**	**(1,868)**
Transfer from/to stage 1	**-**	**(25)**	**(85)**	**(110)**
Transfer from/to stage 2	**25**	**-**	**(4)**	**21**
Transfer from/to stage 3	**85**	**4**	**-**	**89**
Usage to cover guaranteed yield of pension fund	**(4)**	**-**	**-**	**(4)**
As at 31 December 2019	**1,253**	**138**	**1,149**	**2,540**

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

48. RELATED PARTY TRANSACTIONS

(in thousands of euros)

	Directors and employees with managerial contract		Management board and their direct family members		Supervisory board members and their direct family members	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Loans						
At beginning of the year	119	263	78	57	-	-
Loans issued during the year	334	44	-	78	-	-
Loan repayments during the year	(113)	(188)	-	(57)	-	-
At end of year	**340**	**119**	**78**	**78**	**-**	**-**
Impairment as at 31 December	3	-	1	-	-	-
Collateral received as at 31 December	979	381	88	88	-	-
Interest expense on deposits	2	2	-	5	-	-
Interest income earned	7	2	-	-	-	-
Other revenue – fee income	2	2	1	2	-	-
Guarantees issued by the bank and commitments	-					
Remuneration	**1,736**	**1,287**	**1,767**	**2,152**	**111**	**127**

In 2017 majority shareholder became Privredna Banka Zagreb d.d..

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.

(in thousands of euros)

	Intesa SanPaolo Group without PBZ Group		PBZ Group		SIntesa SanPaolo Group	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Loans						
At beginning of the year	15,913	15,164	8,055	70,033	23,968	85,197
Loans issued during the year	1,737,998	1,204,408	93,842	135,570	1,831,840	1,339,978
Loan repayments during the year	(1,709,096)	(1,203,659)	(76,313)	(125,548)	(1,785,409)	(1,329,207)
At end of year	**44,815**	**15,913**	**25,584**	**80,055**	**70,399**	**95,968**
Impairments	34	24	38	57	72	81
Collateral received	40,000	55,473	51,000	25,000	91,000	80,473
Deposits						
At beginning of the year	29,804	55,007	-	-	29,804	55,007
Deposits received during the year	111,314	79,481	-	-	111,314	79,481
Deposits repaid during the year	(64,324)	(104,684)	-	-	(64,324)	(104,684)
At end of year	**76,794**	**29,804**	**-**	**-**	**76,794**	**29,804**
Interest expense on deposits	522	1,228	-	-	522	1,228
Interest income earned	807	339	835	552	1,642	891
Other revenue – fee income	128	96	21	27	149	123
Guarantees issued by the bank and commitments	6,058	9,269	567	1,139	6,625	10,408

Cover photo:

Intesa Sanpaolo Gold Partner of Matera
European Capital of Culture 2019

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