INTESA SANPAOLO BANK
Slovenia

2020 Annual Report

ANNUAL REPORT 2020

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Business Report 2020

Management overview

1. MANAGEMENT BOARD'S FOREWORD

We closed the year 2019 with the hope that our transformational path, that started 2 years ago, should result in an even better manifestation of our new vision in 2020, with the creation of a new, improved, and perhaps even unique user experience for our clients. But sometimes things go a different way, and we were facing an extraordinary situation which impacted all aspects of our lives, that nobody was able to predict in such a scale. Priorities have suddenly changed. We closely monitored the development in the country and in the neighbourhood, and we were adjusting to the circumstances on daily basis in order to protect our employees and our customers as much as possible, and to ensure business continuity, considering all the market and customer challenges.

To fully perform financial services to enable the financial security of citizens and the economy, our branches remained open even during the complete lockdown of the country. We also executed all the necessary changes and upgrades to support the operational implementation of moratoriums and intervention law, to help individuals overcome the difficult situation and to ensure the liquidity of legal entities in the emergency situation. With various internal measures, we successfully managed the situation in the bank, and enabled the continuous execution of all processes and operations. This could only be ensured with a dedicated and at the same time responsible team.

Despite the challenging circumstances, we are very much in line with the implementation schedule for all strategic transformation projects. The fact is that we have reached many milestones in the field of digitalisation, that helped us to interact with our customers and colleagues during this extraordinary period.

We placed digitalisation on the top of our priorities many years ago, not just to become a technological innovator, but also a market leader in many aspects. In recent years, based on a lot of experience from the Group and our past, we updated our understanding of modern banking. We understand digitalisation not only as a technological evolution of our sales channels and services, but as a holistic approach in the direction of a leaner and more responsive bank. Digitalisation is also becoming a big part of our corporate mindset, that helps us shape new guidelines. We continue to play an active role in the introduction of new technologies in the Slovenian financial market, and in this way, we provide customers an excellent user experience, which is carefully monitored through regular satisfaction surveys. Good responses from customers and recognition from experts confirm the adequacy of our activities and decisions, and inspire us in our plans for the future.

We do not want to give up the traditional way of doing business with a branch network in Slovenia, but the extraordinary situation related to the epidemic has additionally encouraged us to accelerate the implementation of as many remote products and services. Today, this is mostly a safer way of doing business, but tomorrow it will be an additional element of comfort and a great saving of valuable time for clients. It is no longer necessary to go to the branch office today to open a current account or apply for consumer finance – we introduced both in 2020. We also enriched our offer of advisory services with two new products for individuals and legal entities, sped up the process for financing individuals and small business, and enabled instant payments – we were the first bank in the country that implemented both domestic (FLIK) and cross border (TIPS) in 2020.

The challenges that the virus brought to our lives will remain for a longer period of time. The economy will need longer to recover, and the bank took this fact into consideration by a forward-looking preventive approach of net adjustments to loans, that ultimately impacted the net income. We managed to maintain positive growth in lending activity, compared to the same period last year, and we also increased the volume of deposits. We have a stable base of funding in customer deposits, and regulatory liquidity ratios are well above the prescribed minimum requirements. One of the biggest achievements is also the continuous reduction of non-performing loans, which results in good asset quality. Both, along with the solid capital ratios with a healthy funding structure and comfortable liquidity position, represent the bank's main strengths for the future.

Also, fruits of our joint strategic efforts are increasingly visible in all areas, but their impact is not yet in full scale. However, alongside a visibly encouraging growth trend of some key business indicators, it seems very important to us that we quickly adapted to a completely new way of working, with the use of technological solutions and appropriate organisation, which we have continuously upgraded and improved to run the bank efficiently - this has been a big success.

In 2021, we will continue to focus on core pillars of our current business model – determined to even upgrade the positive user experience through lean and digitally advanced processes in the bank, high quality service through our distribution channels, with enhanced products and faster response to customer's demands, provided by highly professional and competent personnel.

2. CHAIRMAN OF THE SUPERVISORY BOARD FOREWORD

2020 was not an ordinary year - 2020 was Covid year. The epidemic was sudden and unexpected, and still poses a significant health and economic threat. After the first wave of the epidemic in the spring, the modern economic system has become fragile and unprepared for such challenges. The second wave in autumn, much more intense and deadly, also put the functioning of society as a whole to a great test. The epidemic has affected the entire economy, changed consumer habits and the way work is organised, and last but not least, halted the investment cycle and accelerated digitalisation.

The first priority of the bank in this unusual year was to protect its clients and employees, and provide them with excellent support in dealing with the crisis:

- The Bank adapted its work environment, introduced teleworking, and prioritised its activities to allow employees to work safely, without exposing them to unnecessary health risks;
- The Bank promoted remote services to clients. With the upgrade of the new mobile and new online bank, and more efficient IT support for business operations in the business network, the user experience was further improved;
- Through its business policy, the Bank has helped its clients overcome the financial challenges caused by the crisis by providing liquidity with new lines and moratoriums on repayment of existing loans, which have made a significant contribution to helping clients cope with the crisis. It is also important that the bank actively participated in the preparation and operational implementation of intervention measures for the financial security of citizens and the economy by the state.

Intesa Sanpaolo Bank is on track to achieve its strategic goals and planned transformation, and in this way, further strengthen its position on the entire Slovenian market, despite the demanding conditions and operational adjustments required by the epidemic. The Bank maintained a strong capital base and a high quality of investments, prioritised its activities appropriately, and continued to follow strategic guidelines and actively implemented them in accordance with the set plans.

After the epidemic, it will be necessary to restart the economy. Once the health threat is managed and addressed, we will still be faced with the challenge of how to address the negative economic and financial consequences of the epidemic. The participation of the bank will be crucial during this time. The Bank will continue to be a reliable financial partner for Slovenian citizens and the economy.

Chairman of the Supervisory Board
Uroš Čufer

Intesa Sanpaolo Bank at a glance

Intesa Sanpaolo Bank is part of the Intesa Sanpaolo Group, the second largest banking group in the euro area. Together with its majority owner, Privredna banka Zagreb, it represents an important hub of expertise and advanced banking services in the region.

From a regional bank with strong roots in Slovenian Istria, the Bank grew into the fifth largest Slovenian bank, according to its balance sheet, and has made a number of important strategic decisions in recent years, with the aim to reinforce its position in all key areas of banking business in the future. Thus, with its new business strategy, the Bank is transforming into a modern bank with a nationwide presence. It has been successfully maintaining its reputation as one of the most technologically advanced banks in the country, and has many years of experience in doing business in a wide range of customer segments. By using a personalised approach and flexible services, it has earned the trust of more than 190 thousand retail and business customers, from sole proprietors to large corporations.

Intesa Sanpaolo Bank is also one of the leading Slovenian banks in corporate lending. With a wide range of contemporary financial products and services, and thanks to its parent company's widespread business network around the globe, the Intesa Sanpaolo Bank in Slovenia can provide effective support to Slovenian export companies.

The Bank encourages its employees to act in an honest, responsible, transparent and fair manner, itself also operating in accordance with the goals and values defined in the Code of Ethics, since it is aware of its impact as a corporate entity on the wider community.

Ownership structure of Intesa Sanpaolo Bank

	Equity holding in per cent	
Shareholders	**31.12.2020**	**31.12.2019**
Privredna banka Zagreb d.d.	51.0%	51.0%
Intesa Sanpaolo S.P.A	48.1%	48.1%
Minority shareholders	0.9%	0.9%

Milestones in the Bank's corporate history

1955
Establishment of Istrska komunalna banka.

1992
Withdrawal from the Ljubljanska banka banking system.

Development of the first Slovenian payment card (Activa).

1997
Name changed to Banka Koper.

1998
Development of online banking for natural persons.

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

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

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

2007
Integration into the international banking group Intesa Sanpaolo.

2008
State-of-the-art online banking.

2011
Digital signature in banking transactions.

2013
Mobile bank for natural persons.

Launch of the Visa Inspire debit card.

2015
Acquisition of the Finor Leasing subsidiary.

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

2016
First contactless mobile payment in Slovenia.

2017
Privredna banka Zagreb becomes the majority owner.

Name changed to Intesa Sanpaolo Bank.

Contactless mobile payments with Activa Visa Inspire card.

Investment Advisory Services under the MiFID II regulation.

2018
Confirmation and implementation of the bank's new business strategy.

Management of the Umbrella Pension Fund Moj Steber.

2019
Opening of a new business centre in Ljubljana.

First Slovenian bank offering the Apple Pay service to Visa Inspire cardholders.

Ruled based-automatized approval process for consumer loans.

2020
New online and mobile bank.

Possibility to open a current account entirely online.

Apple Pay also for Mastercard card users.

Pioneers in domestic and cross-border instant payments.

Consumer loans for individuals available entirely online.

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 the remaining three are representatives of the Intesa Sanpaolo banking group.

In 2020, the composition of the Supervisory Board changed. On 13 June 2020, the Extraordinary General Shareholders Meeting of Banka Intesa Sanpaolo d.d. was informed that Ms Elena Breno had resigned from her position as member of the Supervisory Board. On the same day, Ms Amina Carnabuci was elected. On 23 June 2020, the 41st Annual General Shareholders Meeting of the Bank was informed that Ms Silvia Rinaldi had resigned from her position as member of the Supervisory Board, and on the same date, Mr Andrea Tondo was elected as a new member of the same body.

Members of the Supervisory Board

As at 31 December 2020:	
Uroš Čufer	*Chairman*
Alessio Cioni	*Deputy Chairman*
Amina Carnabuci	*Member*
Emanuele Collini	*Member*
Miroslav Halužan	*Member*
Andrea Pavlović	*Member*
Silvia Rinaldi	*Member*

Management Board

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

In 2020, there were no changes in the composition of the Management Board.

Members of the Bank's Management Board

As at 31 December 2020:	
Jozef Kausich	*President*
Irena Džaković	*Member*
Ivan Ivičić	*Member*
Drago Kavšek	*Member*

4. ECONOMIC AND BANKING ENVIRONMENT

The year 2020 was well marked by the epidemic of the new corona virus and two lockdowns nationally and globally (spring and autumn of 2020), which shook the economic environment. Prolonged restrictive measures have led to a sharp drop in economic activity. The service sector was severely affected, domestic private consumption, and activities dependent on foreign guests, fell sharply. Significantly better conditions were in industry and construction. The catering industry was severely affected, where the number of people in employment decreased significantly. The number of overnight stays of domestic tourists and the number of foreign tourists was very modest. On the other hand, mail order and internet sales rose sharply. With spending declining, households accelerated their repayment of consumer loans. The decline in the second wave of the epidemic was projected to be smaller than in the first, as businesses and consumers had already adapted somewhat to the new situation.

After several years of improving labour market conditions, they have deteriorated significantly in 2020. The consequences of the epidemiological measures were reflected in the increased number of unemployed. At the end of December 2020, 87,283 unemployed persons were registered, which means that the number of unemployed increased by 15.9% year on year. Even stronger deterioration was prevented by the government's support measures.

The epidemiological crisis led to deflation in 2020, to which the external environment contributed the most, and domestic factors of price growth also became weaker. High unemployment, consumer uncertainty, and declining household incomes have steadily weakened domestic price pressures. The year ended with 1.1% deflation (in 2019, inflation was 1.8%). Lower prices of petroleum products, holiday packages, and clothing and footwear contributed the most to the annual deflation. On the other hand, the annual price level was increased by the prices of health care products and services, higher prices of tobacco and related products, and higher food prices.

With extensive anti-crisis measures, the country's fiscal position deteriorated markedly in 2020, but indebtedness remained lower than in the euro area. Lower taxes on corporate income and consumption contributed the most to the decline in revenues, as the epidemic had a strong impact on business operations and also on private spending.

Companies responded to the economic shock by increased savings and postponed investments, although they were already saving net, due to the increasingly uncertain situation in the international environment. Savings continue to be highest in the segment of households. The contraction of corporate and consumer loans continued, while housing loans continued to grow. The capital and liquidity position of the banking system remained good. After several months of decline during the pandemic period, bank non-performing exposures began to increase in the last quarter, in the groups of clients most affected by the epidemic crisis.

Despite the aggravation of the situation, the Slovenian banking system generated relatively high profits in 2020. A significant contribution came through the merger of two banks. With the decline in lending, and lower returns on bank investments, net interest income decreased, compared to 2019, and the net interest margin continued to decline. Net non-interest income increased by almost a quarter year on year. On the cost side, net formation of impairment and provisions still prevails. Growth in operating expenses slowed further.

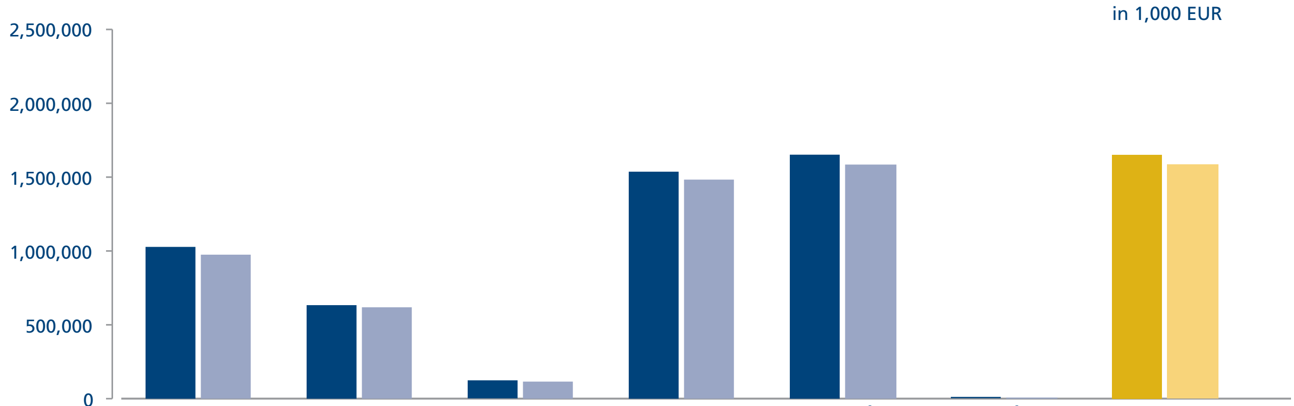
5. AN OVERVIEW OF THE BANK'S OPERATIONS IN 2020

5.1 LENDING OPERATIONS

Gross loans by Intesa Sanpaolo Bank to the non-banking sector increased by EUR 87.7 million in 2020, or 4.4% compared to 2019. The Bank's market share in lending to the non-banking sector grew by 32 basis points in 2020, thus achieving 8.5%.

In terms of currency, most loans are in domestic currency (99.8%), while long-term loans prevail in terms of maturity (93.0%). As for the maturity structure, the share of short-term loans increased from 6.4% to 7.0%.

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



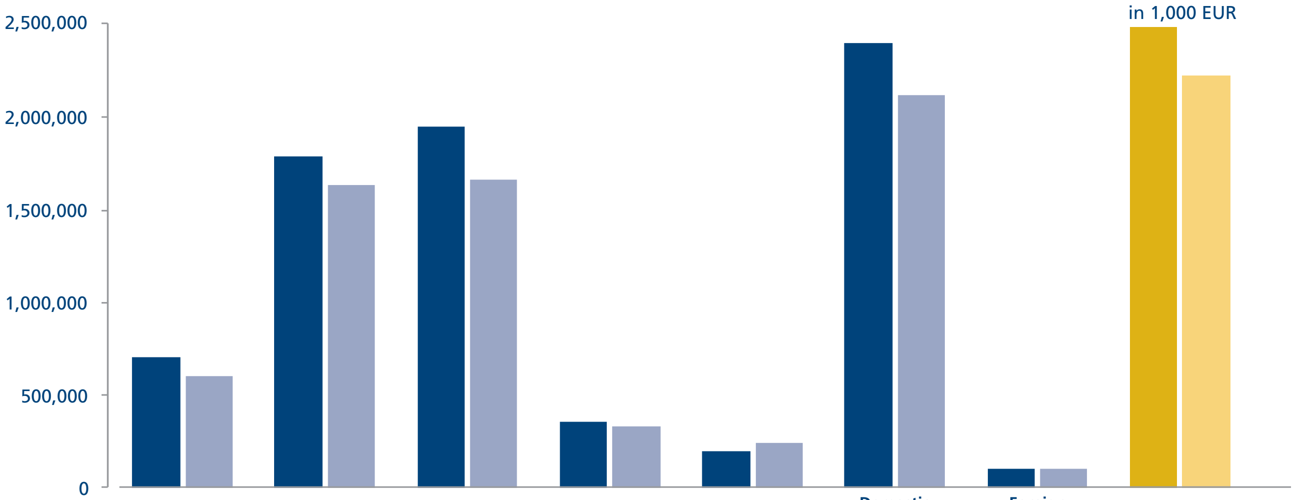
	Legal entities	Households	Short - term	Long - term	Domestic currency	Foreign currency	TOTAL
2020	1,282,656	786,074	145,427	1,923,302	2,065,463	3,266	**2,068,729**
2019	1,216,452	768,045	128,281	1,856,217	1,975,885	8,612	**1,984,497**

Loans to the corporate sector amounted to EUR 1,282.7 million or 62.0%, representing the largest portion of loans to the non-banking sector. Development of total legal entities market volume is relatively stable, with small growth. The market share in the segment of corporate clients has been steadily increasing over the last three years, and thus positioning our bank among the top corporate lending institutions in Slovenia. In 2020, market share increased by 45 basis points and reached 9.7%.

Lending to households (private individuals and sole proprietors) reached EUR 786.1 million, or 38.0% of total lending to the non-banking sector. Lending to this customer segment increased by EUR 18.0 million or 2.3% on a yearly basis. As in 2020, households mostly borrowed on a long-term basis, while borrowing in foreign currency remained at a low level. Most of the long-term loans are mortgage loans. In 2020, the Bank increased its market share in the segment of private individuals and sole proprietors, which amounts to 7.1%.

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
2020	698,585	1,784,699	1,945,673	347,516	190,093	2,397,615	85,668	**2,483,283**
2019	596,195	1,629,773	1,666,471	324,453	235,044	2,135,761	90,207	**2,225,968**

In 2020, the Bank increased deposits and loans received from the non-banking sector by 11.6%, or EUR 257.3 million. Market share increased by 8 basis points and stabilised at 7.2%, market share of household deposits fell by 3 basis points and amounted to 7.7% at the end of 2020, and market share of deposits by legal entities improved by 29 basis points and amounted to 6.4%.

Sight deposits account for a 78.4% share of total deposits and loans received from the non-banking sector. They are followed by short-term deposits (14.0%) and long-term deposits (7.6%). In terms of currency, deposits in domestic currency prevail, with a 96.6% share. With respect to the previous year, demand deposits increased by 16.8% in 2020. Short-term deposits grew by 7.1%, while long-term deposits decreased by 19.1%.

The volume of deposits placed by legal persons increased by 17.2% (by EUR 102.4 million), comparing with 2019. Also in 2020, the deposit structure in terms of currency was dominated by deposits denominated in euros.

Household deposits accounted for 71.9% of all non-bank deposits, and at the end of 2020 totalled EUR 1,784.7 million, i.e. EUR 154.9 million more year-on-year. Household deposits were mainly denominated in local currency.

The loan to deposit ratio decreased by 7.0% in comparison to 2019.

5.3 OTHER SERVICES

5.3.1 Card business and digital banking

The Bank is successfully responding to the challenges and opportunities of an increasingly digitalised business environment, and continues to introduce innovative solutions. Customers have been able to pay via your mobile device with the Bank's cards since 2016, via the Wave2Pay mobile wallet. In 2019, the Bank was the first banking institution in Slovenia to enable its Visa Inspire cardholders to pay using the Apple Pay mobile wallet.

In 2020, the Bank completed two main innovative projects for individuals. First, a complete overhaul of digital sales and communication channels (online and mobile banking and websites), which enables potential and existing customers to do business with the bank faster and even more efficiently. Secondly, as one of the first banking institutions in Slovenia, the Bank enabled new customers to open a bank account online, using video identification.

5.3.2 Marketing and sale of mutual investment funds

The year 2020 was also marked by the COVID-19 pandemic in the field of mutual fund marketing. In February and March, when equity markets fluctuated sharply, the Bank recorded significant outflows from mutual funds. The rapid recovery of markets has restored investor confidence, and restored inflows into funds to pre-pandemic levels. Despite the turmoil, capital markets mostly ended the year with positive results. In 2020, interest rates on deposits remained low, prompting savers to look for alternative investments. The Bank ended 2020 with more than EUR 16 million in payments into investment funds, which was also helped by the Super combination product - a combination of a deposit with a higher interest rate and at the same time payments into mutual funds with lower costs.

In August 2020, the Bank stopped marketing the funds of the management company Alta sklad d.d. At the end of 2020, the Bank's offer consisted of the following funds:
- Eurizon Capital S. A. (14 mutual Eurizon Funds and 4 mutual Eurizon Manager Selection Funds)

In 2020, the Bank continued to actively market savings plans, i.e. monthly payments into mutual funds. There were slightly less than 1,200 new savings plans made in 2020, thus totalling around 7,400 saving plans provided by the Bank.

The Bank also continued to offer investment advisory services. At the end of 2020, 2,704 investment services contracts were concluded.

5.3.3 Leasing

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

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

Despite the fact that the Covid outbreak substantially negatively impacted the leasing market, the Bank was able, with additional commercial activities, to increase new volume production by 9.0% compared to 2019.

5.3.4 Open-ended mutual pension funds

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

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

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

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

It provides younger insured persons with a 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 2020 has been characterised by high volatility of world stock markets, reflecting the global COVID-19 pandemic. Developments on stock markets have also had an effect on the performance of the Moj Steber fund of pension funds, but all three sub-funds completed the year with positive results.

As at 31 December 2020, the Moj Steber Guaranteed sub-fund disclosed total assets amounting to EUR 46.8 million, which is a 3.3% increase YoY. The value of the unit amounted to EUR 9.74 as at 31 December 2020, and increased by 0.04% within a year, but even more important that during the turmoil on capital markets, the Guaranteed fund proved to be one of the most resilient guaranteed pension funds on the market.

At the end of 2020, the Moj Steber fund of pension funds included 7,212 insured persons, 6,682 of whom were included in collective voluntary supplementary pension insurance, while 530 were individually insured persons.

5.3.5 Depositary banking

Banka Intesa Sanpaolo d.d. 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 experience. 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 the net asset value and the unit value calculation, conversion of payments in the funds, claims for disbursement, and investment compliance with the provisions of the 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 also upgraded through their exchange between banks within the Intesa Sanpaolo Group. This gives the Bank a competitive edge in the market, and represents added value for its customers.

In 2020, the Bank remained among the top three custodian banks in Slovenia. It has expanded by providing a depositary service for an alternative real estate investment fund. This selection additionally affirms the high quality of the Bank's services.

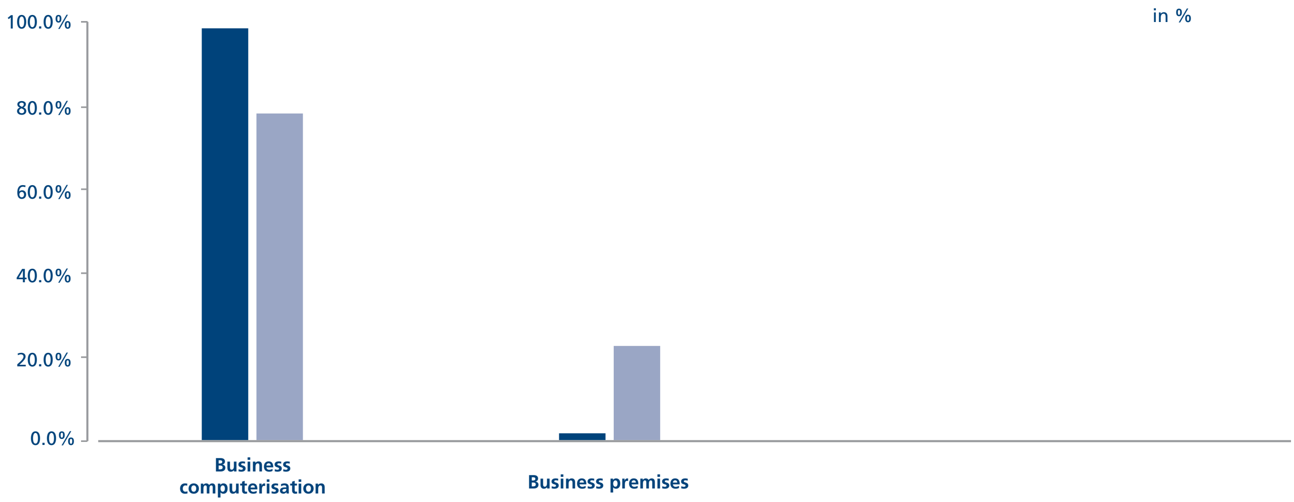
At the end of 2020, the Bank performed depositary services for mutual funds (UCITS), alternative investment funds (AIF), pension funds, and internal funds at insurance companies. At the end of the year, the volume of assets under custody totalled close to EUR 0.7 billion.

6. THE BANK'S ORGANIC GROWTH AND DEVELOPMENT

6.1 CAPITAL INVESTMENTS

In 2020, the Bank continued its long-term development programme, and invested EUR 2.1 million in total in the computerisation of business operations, commercial premises and other equipment. The Bank's capital investments in 2020 were lower by EUR 1.9 million compared to the previous year.

Structure of capital investments in 2019



	Business computerisation	Business premises
2020	98.5 %	1.5 %
2019	78.1 %	21.9 %

The majority of investments (EUR 2.0 million or 98.5%) were allocated to business computerisation. Increasingly stricter rules regarding banking security require continuous investment, to ensure the safety of services.

6.2 INFORMATION TECHNOLOGY AND TECHNOLOGICAL DEVELOPMENT

In 2020, The Bank continued to implement its information technology strategy in the following key areas:
- optimisation and digitisation of processes
- introduction of new mobile and online banking
- upgrading customer relationship management systems
- updating public APIs and upgrading security
- consolidation and optimisation of internal processes in the field of IT, in accordance with modern guidelines on lean development.

In the area of **business process optimisation,** the Bank continued to renovate business processes:
- implementation of automatic rapid credit approval procedures, also for legal entities, which significantly contributes to higher efficiency and speed of procedures
- adjustments to regulations related to the management of the consequences of the COVID-19 epidemic: deferral of credit obligations, changes in credit products, new products for customers
- offering services of instant payments on the domestic market and cross-border instant payments (thus one of the first Slovenian banks to take advantage of the possibilities of the pan-European payment infrastructure for making instant payments in euros - TIPS)
- access to the FLIK national payment scheme, which enables the transfer of money 24/7 between the personal accounts of clients of various banks, and easy and fast payment at points of sale in Slovenia
- The COVID-19 epidemic posed an additional challenge in terms of customer support. The Bank successfully upgraded the capacity of remote access systems, and established conditions for safe and uninterrupted work of employees remotely.

In the field of **e-commerce,** the Bank continued to implement new solutions for digital channels (websites, online banking, mobile banking and e-commerce in branches). The old channels for individuals will be completely replaced in the first half of 2021.

In the area of **customer relationship management,** the Bank has implemented a completely revamped CRM system, which enables advanced monitoring and analysis of customer needs and responses.

In the area of **regulation and compliance,** the Bank continued to modernise its infrastructure to enforce the requirements of the EU Payment Services Directive (PSD2). It provided access via dedicated open interfaces, and login of third-party solution users. In 2020, the Bank started introducing "cloud" services. It transferred part of the less critical information infrastructure to the "cloud", while upgrading solutions for security and the prevention of digital information leakage.

In the field of **information security,** the Bank upgraded solutions for unified management of user rights, and continued to invest in threat detection and management (SOC) and in upgrading hardware and software for effective control of cyber threats. In accordance with the information security plan, the Bank introduced the Microsoft ATA control system, which increased the level of security and oversight of developments in the Bank's network, in order to prevent and identify potential intrusions.

In the field of **physical security,** investments were made to upgrade existing security systems, improve video surveillance systems, and upgrade communications between alarm devices and security control centres (VNCs). This increases the availability and reliability of security systems that no longer depend on analogue lines. The Bank will continue with video surveillance upgrades in 2021. Special attention was paid to the control of access to premises where energy systems, communication equipment, and data storage infrastructure are located (alarm devices, access control system). An important part of the investment was intended for the upgrade of technical security systems at ATMs.

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.

7.1 RESPONSIBILITY TOWARDS EMPLOYEES

7.1.1 Basic data and HR guidelines

The transformation of human capital is one of the strategic pillars of the Bank. In 2020, the Bank continued its activities to change the company's culture. The Bank has strengthened its dialogue with employees and implemented organisational changes in order to achieve strategic goals.

In 2020, the Bank radically changed its personnel structure, which further reduced the average age of employees at the end of the year. On 31 December 2020, Intesa Sanpaolo employed 669 active employees, thus reaching the target number of employees planned for the end of the year. 74% of the bank's employees are women. In 2020, the Bank recorded a 13% turnover of employees, which is mainly due to the personnel transformation programme, and changes resulting from the introduction of new business models, and consequently, the transformed organisational structure of the company.

In 2020, the Bank continued to transform its work processes and organisation. The sales network area for small businesses and individuals was divided into three regions, with separate management. Leadership in the broader field of risk management has been transformed. The Bank has established a business continuity system for all critical positions within the bank.

7.1.2 Employee relations

Flexible forms of work
Due to force majeure (pandemic), the Bank was organised in March 2020 in such a way that most employees who do not work directly with customers had the opportunity to work from home. During this period, the Bank formalised working from home with rules that define working from home, even in normal conditions. Employees

will have the opportunity to work from home for up to 3 days a week. With this measure, the Bank hopes that it will be easier for employees to reconcile their private and business lives.

Career Opportunities
3.8% of employees had the opportunity to be promoted to a more responsible position in 2020. Many of these promotions represent promotions to the position of group leader. In this way, the Bank promotes career development and offers an opportunity to the internal public. In cooperation with the Intesa Sanpaolo Group, this year we offered one employee the opportunity to work in a foreign market, with the aim of development and advancement.

Training and development of employee knowledge
Systematic training is the foundation of the development of the Bank's employees. In 2020, 12,710 hours of training were completed, averaging 18.9 hours per employee. The majority of the training (92.4%) was in-house. As much as 91% of the in-house training was conducted by in-house trainers, either live or through an online learning portal, with most of the training focusing on knowledge of internal procedures and rules.

In cooperation with the Intesa Sanpaolo Group, the company organised training for investment advisers, in the form of a computer game - TAG (The Advisory game). In the educational game, employees trained in the knowledge and skills of investment banking.

In 2020, the International Sales Academy for employees in the field of corporate banking continued. Ensuring smooth and safe operations in 2020 also required the constant attention of all employees to the importance of preventing money laundering and terrorist financing, as well as the coherence of the Bank's operations.

7.2 RESPONSIBILITY TOWARDS CUSTOMERS

The Bank is aware that its clients must always be the focus of their attention, and that only by having an open and continuous dialogue can they 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, and submit them at designated places in the branches or directly through the Bank's consultants. An important overview of customer satisfaction is also obtained through our annual Customer Satisfaction Retail Benchmarking Survey, where the Bank consistently achieves good results.

At the beginning of 2020, the Bank successfully implemented the transition to the new Customer Relationship Platform (CR-ISP). It is a standard platform of the Intesa Sanpaolo Group, which enables the transformation of the bank by introducing simpler, standardised and automated processes in the field of retail banking. In 2020, the Bank has implemented a quick approval process for small business clients, and offered online opening of current accounts, and even approval of consumer loans for individuals. Part of the renovation is also the introduction of the Instant feedback/Net promoter mechanism. The bank has already obtained feedback from more than 10,000 customers, which is an important step towards better knowledge of customers and their satisfaction with banking products and services.

In 2020, the Bank continued to implement the Bank's business strategy, which focuses on improving the customer experience, based on a simpler and more agile business model, and consequently strengthening the position on key business segments. Due to the emergency situation related to the COVID-19 epidemic, some activities were postponed, especially regarding the renovation of branches and the upgrade of the ATM network. On the other hand, the Bank has simplified business processes with automation and shortened the time from the expressed need to the final financial solution for clients. In parallel, the Bank carried out the digitalisation of branches, where customers can experience the same user experience as on digital channels. Processes have been optimised to improve the sales experience for both employees and customers. An additional important advance was the transition from a paper to a paperless process, with the digital signing of contracts.

Digital channels are one of the key priorities of the Bank, and their quality is recognised by customers and the profession. In an independent analysis, the new application for mobile banking, developed within the DigiCal project, achieved a second best place among 15 Slovenian and 4 foreign mobile banking applications. Users and independent evaluators were convinced by the application with an excellent user experience, a wide range of services, and many innovative functionalities.

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. As in previous years, the Bank helped local organisations in various ways. At the end of 2020, it responded to the current challenges arising from emergencies, and significantly increased the use of online channels for communication and virtual cooperation, with a donation to the Varni na internetu NGO.

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

8. TERRITORIAL CHART OF COMMERCIAL UNITS

RETAIL NETWORK (SMALL BUSINESS and INDIVIDUALS)

RETAIL NETWORK WEST REGION

- KOPER BRANCH
- IZOLA BRANCH
- MARKOVEC BRANCH
- LUCIJA BRANCH
- OLMO BRANCH
- PIRAN BRANCH
- ANKARAN BRANCH
- SEŽANA BRANCH
- KOZINA BRANCH
- DIVAČA BRANCH

RETAIL NETWORK CENTRAL REGION

- POSTOJNA BRANCH
- LJUBLJANA CENTER BRANCH
- PIVKA BRANCH
- SLOVENSKA BRANCH
- ILIRSKA BISTRICA BRANCH
- ROTONDA BRANCH
- NOVA GORICA BRANCH
- TRZIN BRANCH
- TOLMIN BRANCH
- KAMNIK BRANCH
- AJDOVŠČINA BRANCH
- LOGATEC BRANCH
- KRANJ BRANCH
- BRDO BRANCH
- RADOVLJICA BRANCH
- GROSUPLJE BRANCH
- JESENICE BRANCH
- KOČEVJE BRANCH

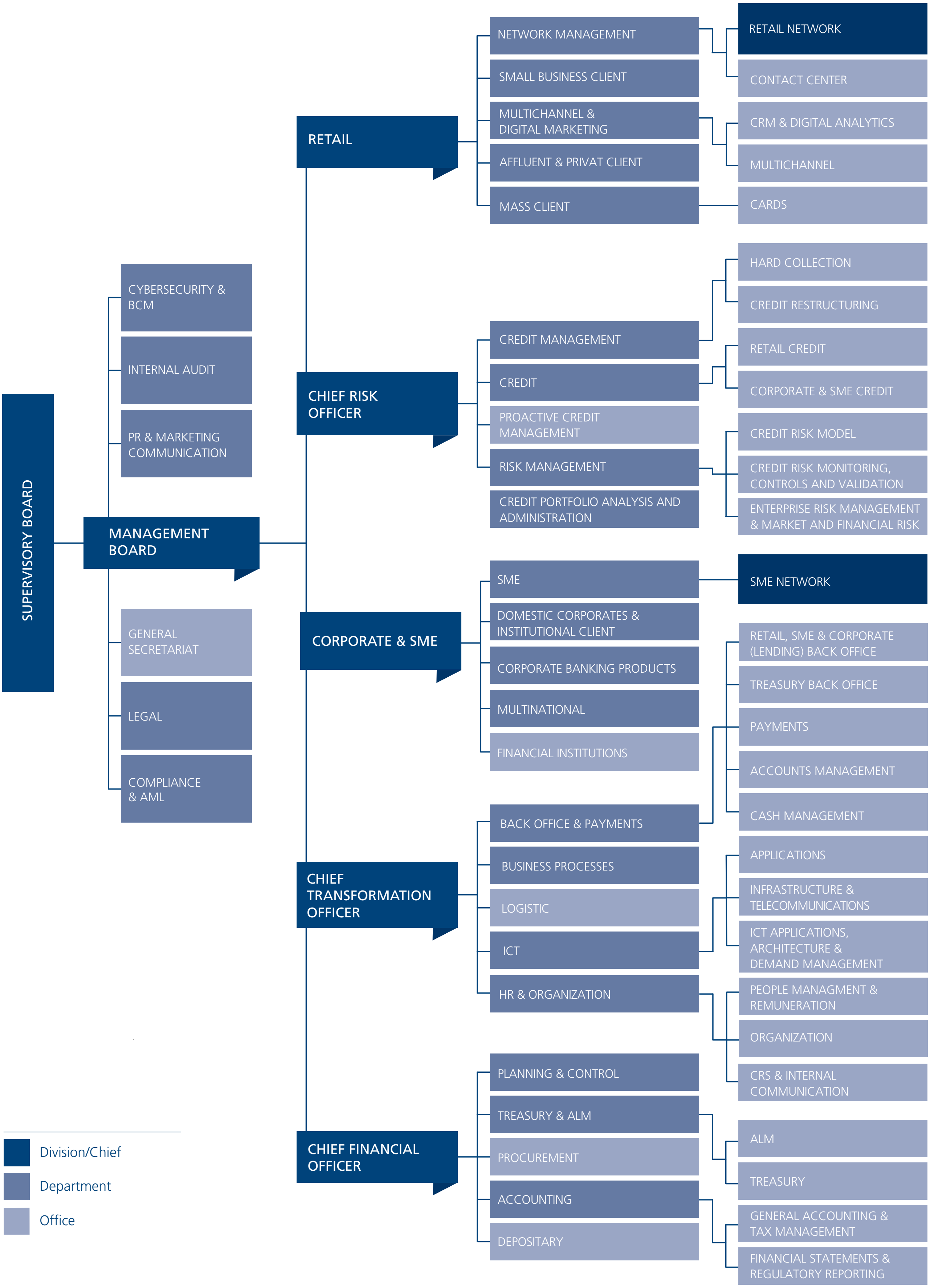
RETAIL NETWORK EAST REGION

- MARIBOR BRANCH
- MURSKA SOBOTA BRANCH
- PTUJ BRANCH
- NOVO MESTO BRANCH
- LENART BRANCH
- TREBNJE BRANCH
- ORMOŽ BRANCH
- SEVNICA BRANCH
- MIKLAVŽ BRANCH
- ČRNOMELJ BRANCH
- SLOVENSKA BISTRICA BRANCH
- BREŽICE BRANCH
- CELJE BRANCH
- SLOVENJ GRADEC BRANCH
- VELENJE BRANCH
- RADLJE OB DRAVI BRANCH
- ŠENTJUR BRANCH
- RAVNE NA KOROŠKEM BRANCH

SME NETWORK

- WEST REGION
- CENTRAL REGION
- EAST REGION

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 2020, and 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 a two-tier system of governance, under which the company is run by the Management Board; its operations are supervised by the Supervisory Board. The bodies of the company are the general meeting of shareholders, the Supervisory Board and the Management Board.

2. Deviations from corporate governance codes

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

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

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

With an efficient controlling mechanism in the area of accounting reporting, the bank ensures:
- a reliable decision-making and operational support system,
- accurate, complete and timely accounting data and the resulting accounting and other reports of the Bank, and
- compliance with legal and other requirements.

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

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

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

4. The data on principal shareholders

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

The ownership structure of Banka Intesa Sanpaolo d.d.

Equity holding in per cent

Shareholders	31.12.2020	31.12.2019
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 31.12.2020, 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 31.12.2020, 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 31.12.2020, the members of the Supervisory Board are elected by simple majority, and discharged by the general meeting of shareholders with a two-thirds vote of the represented share capital. The Management Board is appointed and dismissed by the Supervisory Board with a simple majority of votes. The general meeting of shareholders decides on amendments to the Articles of Association with a two-thirds vote of the represented share capital.

8. Information on authorisations to the members of management

The members of management do not have any special authorisations.

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

In accordance with the provisions of the Companies Act (ZGD-1), the general meeting of shareholders is the ultimate body of the company. The shareholders exercise their management rights in matters of the company at the general meeting of shareholders of the company, where they pass fundamental and statutory resolutions. Convening the general meeting of shareholders is regulated by the Articles of Association of the company, in accordance with effective legislation. The general meeting of shareholders is convened by the Management Board on its own initiative, at the request of the Supervisory Board or at the request of the shareholders of the company that represent at least 5% of the share capital of the company.

The Management Board convenes the general meeting of shareholders of the company no less than one month before the meeting. The right to attend the general meeting of shareholders of the company is granted to all the shareholders registered in the shareholder's register as shareholders of the company at the end of the fourth day prior to the general meeting of shareholders, as well as to their proxies and authorised persons 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 23 June 2020, the shareholders were notified of the annual report of the company for the 2019 financial year, the opinion of the independent auditor to the annual report, the report of the supervisory Board of the annual report and remuneration of the members of the Supervisory Board in 2019. With regard to the remuneration of the Management Board, the shareholders authorised the Supervisory Board to decide on paying out the 2019 Performance Bonuses to those employees whose professional activities have a significant impact on the risk profile of the bank, as identified by Banka Intesa Sanpaolo d.d., including the members of the Management Board, taking into consideration all applicable regulations and internal acts. The shareholders passed the resolution on the distribution of the accumulated profit (the profit available for distribution from the profit for the 2019 financial year was allocated to other reserves), 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 31.12.2020 are:

Uroš Čufer	*Chairman*
Alessio Cioni	*Deputy chairman*
Amina Carnabuci	*Member*
Emanuele Collini	*Member*
Miroslav Halužan	*Member*
Andrea Pavlović	*Member*
Silvia Rinaldi	*Member*

There were four committees of the Supervisory Board at the bank at the end of 2020: The Audit Committee, the Risk Committee, the Nomination Committee, and the Remuneration Committee.

Audit Committee

The members of the Audit Committee as of 31.12.2020 are:

Amina Carnabuci	*Chairman*
Andrea Pavlović	*Member*
Andrea Tondo	*Member*

Risk Committee

The members of the Risk Committee as of 31.12.2020 are:

Andrea Pavlović	*Chairman*
Amina Carnabuci	*Member*
Emanuele Collini	*Member*

Nomination Committee

The members of the Nomination Committee as of 31.12.2020 are:

Uroš Čufer	*Chairman*
Alessio Cioni	*Member*
Miroslav Halužan	*Member*

Remuneration Committee

The members of the Remuneration Committee as of 31.12.2020 are:

Miroslav Halužan	*Chairman*
Alessio Cioni	*Member*
Andrea Pavlović	*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 31.12.2020:

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

Koper, 25 February 2021

Supervisory Board of Banka Intesa Sanpaolo d.d.

Management Board of Banka Intesa Sanpaolo d.d.

Financial Report 2020

11. REPORT OF THE SUPERVISORY BOARD

REPORT OF THE SUPERVISORY BOARD ON THE EXAMINATION OF THE ANNUAL REPORT FOR THE FINANCIAL YEAR 2020

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 2020,
- 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 2020

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 2020, the Supervisory Board of the Bank met six times at ordinary meetings and 10 times at extraordinary meetings in which it
examined:
- strategic and operating matters in relation to the Bank's development,
- implementation of the business policy and current results posted by the Bank,
- annual and other reports of the Management Board, as well as other important issues relevant to the Bank's business;

and voted:
- on proposed business deals where due to being in excess of the limit on exposure determined for a particular customer, the Supervisory Board of the Bank has to grant its prior approval,
- on giving consent to the disclosures for the Bank for 2020 and to the quarterly disclosures, ICAAP and ILAAP Package, Risk Management Strategy 2020, and
- on other matters of interest.

The Supervisory Board:
- gave prior approval to the budget for the financial year 2020 and to the revised budget;
- monitored and assessed on a regular basis the compliance with the Bank's business policy for 2020 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 2020 – 2022 and to the revised plan;
- approved the New Governance Model for Banking Subsidiaries of PBZ Group;

- took note on Covid-19 situation;
- 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 2020 and gave consent to the 2020 Audit Plan review;
- gave its consent to the updated Internal Audit Charter;
- approved the updated Compliance Policy;
- examined the annual report on the carrying out of internal control and the measures that arise from the regulations from the field of the fight against money laundering and terrorist financing, and the implementation of restrictive measures for 2019 and the semi-annual report for the first half of 2020;
- examined the annual report of the Compliance Department for 2019 with the action plan for 2020 and the semi-annual report for the first half of 2020;
- examined and approved the annual report of the Internal Audit Department for 2019;
- verified the activities and reviewed the findings of the Internal Audit Department during the current year;
- took note of the resignation notice of two members of the Supervisory Board and proposed to the Bank’s shareholders to elect new members of the Supervisory Board;
- established a Remuneration Committee and adopted its Charter;
- appointed new members of the Audit Committee, Risk Committee, and members of the newly established Remuneration Committee;
- assessed the collective suitability of the Management Board and Supervisory Board;
- acknowledged the appointment of the new director of the Internal Audit Dept, new director of the Risk Management Dept., ad interim director of HR & Organization Dept., head of Compliance Office and head of AML Office;
- gave its consent to the updated Audit Committee and Risk Committee charters;
- approved the Guidelines on Remuneration, Incentive and Identification of Staff that have a material impact on the Risk Profile of Intesa Sanpaolo Group; the Risk Takers List as of 31 December 2019 and as of 1 January 2020; the 2019 Performance Scorecards, Performance Bonus proposals and 2020 KPIs assignment for the Members of the Management Board and the Heads of Control Functions;
- took note of the minutes of the committees of the Supervisory Board;
- discussed the Report of Banka Slovenije related to MKA Payment System and the Bank’s report on this issue including the MKA Strategy;
- took note of the Report of Banka Slovenije Findings of the Banka Slovenije based on the review of operations in order to evaluate the Bank’s operations as regards the compliance with the regulation EU2015/847;
- 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 2020, the composition of the Supervisory Board changed. On 13 June 2020, the Extraordinary General Shareholders Meeting of Banka Intesa Sanpaolo d.d. was informed that Ms Elena Breno resigned from her position as member of the Supervisory Board. On the same day Ms Amina Carnabuci was elected. On 23 June 2020, the 41st Annual General Shareholders Meeting of the Bank was informed that Ms Silvia Rinaldi resigned from her position as member of the Supervisory Board and on the same date Mr Andrea Tondo was elected new member of the Supervisory Board.

The committees of the Supervisory Board, and more specifically: the Audit Committee, the Risk Committee, the Nomination Committee and newly established Remuneration Committee provided the Supervisory Board with substantive support in 2020. 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 2021 the members of the Supervisory Board examined the extensive report on the performance and the results posted by the Bank in 2020, 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 2020

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

approves and adopts

The Annual Report of Banka Intesa Sanpaolo d.d. for the Financial Year 2020.

4. Approval of the proposal on profit appropriation

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

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

5. Confirmation of the Report on the relations of the Bank with the controlling company and its affiliates for 2020

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 2020 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 and a p p r o v e s

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

Koper, 25 February 2021

Chairman of the Supervisory Board

Uroš Čufer

Independent auditors' report on financial statements

KPMG

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This document is a free translation of the Slovenian original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Slovenian original should be referred to in matters of interpretation.

Independent Auditors' Report

To the owners of bank Banka Intesa Sanpaolo d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Banka Intesa Sanpaolo d.d. (the "Bank"), which comprise:

- the statement of financial position as at 31 December 2020;

and, for the period from 1 January to 31 December 2020:

- the statement of profit or loss;
- the statement of comprehensive income;
- the statement of changes in equity;
- the statement of cash flows;

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 2020, 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 EU").

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

KPMG

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and EU Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (OJ L 158, 27.5.2014, p. 77-112 - EU Regulation EU No 537/2014). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Slovenia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit 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.

We have determined the following key audit matters:

Impairment of loans to non-bank customers

As at 31 December 2020, loans to non-bank customers amount to EUR 2,014,185 thousand (31 December 2019: EUR 1,933,921 thousand), related impairment allowance amounts to EUR 54,544 thousand (31 December 2019: EUR 50,576 thousand) and impairment loss recognized in the income statement amounts to EUR 5,369 thousand (2019: EUR 2,401 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 portfolio at the reporting date. The determination of impairment allowances requires significant judgment from the Management Board over the amount 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.	Our audit procedures in this area, performed, where relevant, with the assistance of our own financial instruments and information technology (IT) 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 IT personnel to

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KPMG

Impairment allowances for performing exposures (Stage 1 and Stage 2 in the IFRS 9 hierarchy) and non-performing exposures (Stage 3) below EUR 250 thousand individually are determined by modelling techniques (together "collective impairment allowance"). 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 equal to or exceeding EUR 250 thousand 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.

Due to the significance of the amounts and complexities involved, coupled with the significantly higher estimation uncertainty stemming from the impact of the COVID-19 global pandemic on multiple sectors of the economy, 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.

update our understanding of the provisioning process, IT applications used therein, as well as key data sources and assumptions used in the ECL model. Also, assessing and testing of IT control environment for data security and access;
- Testing the design, implementation and operating effectiveness of selected controls over the approval, recording and monitoring of loans and receivables;

With respect to the impairment accounting under IFRS 9:

- Testing 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));
- Evaluating whether in its loan staging and ECL measurement the Bank appropriately considered the effects of the market disruption resulting from the COVID-19 pandemic.

For impairment allowances calculated individually, for a sample of exposures:

- 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 and publicly available market data.

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For collective impairment allowance:

- Assessing whether appropriate PD and LGD parameters were used in the collective impairment model, which included:
  - Evaluating the forward-looking information used in the determination of PD and LGD parameters, including any macroeconomic assumptions used, by making corroborating inquiries of the Management Board, and by reference to our analysis of publicly available market data;
  - Challenging the internal credit ratings assigned to the Bank's clients as well as management overlays applied to the outcome of the model.
  - Performing an independent calculation of the parameters on a sample basis, and
  - Critically assessing the rationale for any changes in the parameters in 2020, 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 "Management Report" included in the Annual Report but does not include the financial statements and our auditor's report thereon. Other information was obtained prior to the date of this auditors' report, except for the Report of the Supervisory Board on the adoption of the Bank's annual report for the year ended 31 December 2020.

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.

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KPMG

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 other information that we obtained prior to the date of this auditors' report. We have nothing to report in this respect.

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the IFRS 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 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.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and 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 and EU Regulation (EU) No 537/2014, we exercise professional judgment and maintain professional scepticism 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

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

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

We communicate with those 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.

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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Report on Other Legal and Regulatory Requirements

We were appointed by the shareholders of the on the shareholders meeting dated 12 June 2018 to audit the financial statements of the Bank for the year ended 31 December 2020. Our total uninterrupted period of engagement is nine years, from 31.December 2012 to 31 December 2020.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Bank dated 25 March 2021;
- 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 Bank in conducting the audit.

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

On behalf of audit firm

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Signed on the Slovenian original

Polona Repinc Kofol
Certified Auditor

KPMG Slovenija, d.o.o.

Signed on the Slovenian original

Barbara Kunc
Certified Auditor
Partner

Ljubljana, 25 March 2021

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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 2020. 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 the 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 2021

Financial Statements

1. INCOME STATEMENT

(in thousands of euros)

	Notes	For the year ended 31 December	
		2020	**Restated 2019**
Interest income calculated using effective interest rate	4	42,983	41,511
Other interest income	4	1,589	1,991
Interest expenses	4	(8,324)	(7,737)
Net interest income		**36,248**	**35,765**
Dividend income	5	128	161
Fee and commission income	6	35,293	39,031
Fee and commission expenses	6	(10,095)	(12,433)
Net fee and commission income		**25,198**	**26,598**
Net gains or losses on financial assets and liabilities not measured at fair value through profit or loss	7	4,364	6,893
Net gains or losses on financial assets and liabilities held for trading	8	785	929
Net gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	9	976	664
Net gains or losses from hedge accounting	10	(1,323)	(105)
Net exchange differences		(103)	(144)
Net gains and losses on derecognition of non-financial assets	11	37	287
Other operating income	12a	1,350	2,593
Other operating expenses	12b	(326)	(843)
Administrative expenses	13	(40,244)	(42,567)
Cash contributions to resolution funds and deposit guarantee schemes		(2,765)	(2,103)
Depreciation and amortisation	14	(4,249)	(3,951)
Net modification gains or losses		71	(4)
Provisions	15,37,38	1,652	1,513
Impairments	16,26,27	(5,849)	(2,662)
Profit or loss from non-current assets and disposal groups classified as held for sale, not qualifying as discontinued operations	17	(403)	3,417
Total profit or loss before tax		**15,547**	**28,963**
Tax expense	18	(2,710)	(5,209)
Total profit or loss after tax		**12,837**	**23,754**
Basic earnings per share	19	24,20	44,79
Diluted earnings per share		24,20	44,79

The accompanying notes on pages 49 to 130 are an integral part of these financial statements.

2. STATEMENT OF OTHER COMPREHENSIVE INCOME

(in thousands of euros)

	For the year ended 31 December	
	2020	2019
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAX	**12,837**	**23,754**
OTHER COMPREHENSIVE INCOME AFTER TAX	**2,159**	**3,703**
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**3,022**	**1,243**
Revaluation of properties	3,520	-
Actuarial gains on defined benefit pensions plans	(9)	(33)
Fair value changes of equity instruments measured at fair value through other comprehensive income	221	1,571
Income tax relating to items that will not be reclassified to profit or loss	(710)	(295)
ITEMS THAT ARE OR MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS	**(863)**	**2,460**
Debt instruments at fair value through other comprehensive income	**(1,066)**	**3,037**
- fair value loss on debt instrument at FVOCI	2,346	4,606
- realised loss on FVOCI financial assets transferred to profit or loss	(3,412)	(1,569)
Income tax relating to items that may be reclassified to profit or loss	203	(577)
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX	**14,996**	**27,457**

3. STATEMENT OF FINANCIAL POSITION

(in thousands of euros)

	Notes	As at 31 December	
		2020	**2019**
ASSETS			
Cash, cash balances at central banks and other demand deposits at banks	20	532,774	276,905
Financial assets held for trading	21	174	118
Non-trading financial assets mandatorily at čfair value through profit or loss	22	3,918	1,396
Financial assets at fair value through other comprehensive income	23	270,882	332,539
Derivatives - hedge accounting	21	21	1,139
Financial assets at amortised cost:		2,071,984	2,016,332
-debt securities	24	-	1,262
-loans to banks	25	47,064	61,034
-loans to non-bank costumers	26	2,014,185	1,933,921
-advances	27	10,735	20,115
Fair value changes of the hedged items in portfolio hedge of interest rate risk*		10,241	6,810
Tangible assets		35,053	34,259
- Property, plant and equipment	29	33,333	32,361
- Investment property	30	1,720	1,898
Intangible assets	31	6,520	5,708
Tax assets		942	-
Other assets	32	6,287	4,221
Non-current assets classified as held for sale	28	6,558	9,191
Total assets		**2,945,354**	**2,688,618**
LIABILITIES			
Financial liabilities held for trading (derivatives)	21	170	110
Financial liabilities measured at amortised cost:		2,587,995	2,348,961
- deposits from banks and central banks	33	3,525	6,774
- deposits from non-bank customers	34	2,483,283	2,225,968
- loans from banks and central banks	35	79,601	88,996
- loans from non-bank customers	36	-	-
- other financial liabilities	36	21,586	27,223
Derivatives – hedge accounting	21	27,846	18,950
Fair value changes of the hedged items in portfolio hedge of interest rate risk*		22	344
Provisions:		6,130	9,249
- Provisions for liabilities and charges	37	3,259	6,383
- Retirement benefit obligations	38	2,871	2,866
Tax liabilities:		3,250	6,392
- current tax liabilities		-	3,226
- deferred tax liabilities	39	3,250	3,166
Other liabilities	40	3,371	3,038
Total liabilities		**2,628,784**	**2,387,044**
EQUITY			
Share capital	41	22,173	22,173
Share premium	41	7,499	7,499
Accumulated other comprehensive income	42	16,064	16,149
Reserves from profit	43	254,507	231,299
Treasury shares		(49)	(49)
Retained earnings (including net profit for the current year)	43	16,376	24,503
Total equity		**316,570**	**301,574**
Total liabilities and equity		**2,945,354**	**2,688,618**

The accompanying notes on pages 49 to 130 are an integral part of these financial statements.

4. STATEMENT OF CHANGES IN EQUITY

(in thousands of euros)

For the year ended 31 December 2020	Notes	Share capital	Share premium	Accumulated other comprehensive income	Reserves	Retained earnings or loss (including 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**	**16,149**	**231,299**	**24,503**	**(49)**	**301,574**
Comprehensive income for the financial year after tax	-	-	-	2,159	-	12,837	-	14,996
Transfer of net profit to reserves from profit	-	-	-	-	23,208	(23,208)	-	-
Other movement*	-	-	-	(2,244)	-	2,244	-	-
CLOSING BALANCE FOR THE REPORTING PERIOD	42,43,44	**22,173**	**7,499**	**16,064**	**254,507**	**16,376**	**(49)**	**316,570**
DISTRIBUTABLE PROFIT for the financial year		-	-	-	-	**14,392**	-	**14,392**

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

(in thousands of euros)

For the year ended 31 December 2019	Notes	Share capital	Share premium	Accumulated other comprehensive income	Reserves	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
Dividends paid to shareholders	-	-	-	-	-	(10,178)	-	(10,178)
Transfer of net profit to reserves from profit	-	-	-	-	1,188	(1,188)	-	-
Other (realised 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**

The accompanying notes on pages 49 to 130 are an integral part of these financial statements.

5. STATEMENT OF CASH FLOWS

(in thousands of euros)

	Notes	For the year ended 31 December	
		2020	**2019**
CASH FLOWS FROM OPERATING ACTIVITIES			
Total profit or loss before tax		15,547	28,963
Depreciation	14	4,249	3,951
Impairments / (reversal of impairments) of financial assets at fair value through other comprehensive income	16	(9)	(18)
Impairments / (reversal of impairments) of financial assets measured at amortised cost	16	5,236	2,767
Impairments of tangible assets, investment property, intangible assets and other assets	16	622	(86)
Net (gains) / losses from exchange differences		103	144
Net (gains) / losses from sale of tangible assets		(37)	(44)
Net (gains) / losses from non-current assets held for sale and discontinuing operations and liabilities associated therewith		710	604
Provisions		(1,652)	(1,513)
Cash flow from operating activities before changes in operating assets and liabilities		**24,769**	**34,768**
(Increases) / decreases in operating assets (excl. cash & cash equivalents)		**(21,600)**	**(239,649)**
Net (increase) / decrease in financial assets held for trading		(56)	(89)
Net (increase) / decrease in non-trading financial assets mandatorily at fair value through profit or loss		(2,522)	1,623
Net (increase) / decrease in financial assets measured at fair value through other comprehensive income		57,286	(17,360)
Net (increase) / decrease in loans and receivable measured at amortised cost		(69,953)	(224,958)
Net (increase) / decrease in assets-derivatives - hedge accounting		(2,313)	(5,724)
Net (increase) / decrease in other assets		(4,042)	6,859
Increases / (decreases) in operating liabilities		**255,373**	**74,035**
Net increase / (decrease) in financial liabilities held for trading		60	110
Net increase / (decrease) in deposits, loans and receivables measured at amortised cost		245,021	56,590
Net increase / (decrease) in liability – derivatives – hedge accounting		8,574	14,613
Net increase / (decrease) in other liabilities		1,718	2,722
Cash flow from operating activities		**258,542**	**(130,846)**
Income taxes (paid) / refunded		(7,292)	(2,419)
Net cash flow from operating activities		**251,250**	**(133,265)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipts from investing activities		**841**	**9,902**
Receipts from the sale of tangible assets		18	55
Receipts from non-current assets or related liabilities held for sale		823	9,847
Cash payments on investing activities		**2,078**	**4,037**
Cash payments to acquire tangible assets		624	1,789
Cash payments to acquire intangible assets		1,454	2,248
Net cash flow from investing activities		**(1,237)**	**5,865**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash payments on financing activities		**1,163**	**11,175**
Dividends paid		-	10,178
Other cash payments related to leases		1,163	997
Net cash flow from financing activities		**(1,163)**	**(11,175)**
Effects of change in exchange rates on cash and cash equivalents		(1,564)	2,129
Net increase in cash and cash equivalents		**248,850**	**(138,575)**
Opening balance of cash and cash equivalents	45	279,093	415,539
Closing balance of cash and cash equivalents	45	**526,379**	**279,093**

(in thousands of euros)

Operational cash flows of interest and dividends	As at 31 December	
	2019	**2019**
Interest paid	8,227	7,685
Interest received	41,507	45,512
Dividends received	128	161

As at 31 December 2020, the Bank did not have undrawn credit lines with other banks (2019: nil) for its own liquidity purposes.

The accompanying notes on pages 49 to 130 are an integral part of these financial statements.

Notes To Financial Statements

1. GENERAL INFORMATION

Banka Intesa Sanpaolo d.d. is a public limited company with its head office at 14 Pristaniška ulica, Koper/Capodistria (hereinafter referred to as Banka Koper d.d. or the Bank). Since 2002, Banka Koper d.d. has been a member of the Intesa Sanpaolo Group (originally Sanpaolo IMI), one of the leading banking groups in Italy. As of 1 January 2007, the Sanpaolo IMI Group merged with Banca Intesa. Since July 2017, the Bank has also been part of the 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 a cost basis, except for the following items, which are measured at fair value:
- Financial instruments held for trading
- Hedge derivatives
- Financial asset at FVTPL
- Financial assets at FVOCI
- Land and buildings for classified as fixed assets and investment property
- Recognised financial assets designated as hedged items in qualifying fair value hedging relationship (which otherwise would have been measured at amortised cost)

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, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

A more detailed disclosure is shown under chapter 2.4.7 Impairment of financial assets, 2.25 Accounting estimates and judgments in applying accounting policies, and 3.3 Credit risk.

Impact of COVID-19 on the Bank's business
2020 was a particularly challenging year for the Bank due to the COVID-19 pandemic. During the first half of the year, the Bank focused on the impacts of the pandemic on its business and operations, as well as the measures put in place by the government to slow the spread of the pandemic, and the effectiveness of the various extraordinary monetary measures taken to mitigate the financial impact on companies and individuals. While the situation

stabilised to some extent in the second half of the year, as lockdowns proved reasonably effective in containing the virus, the Bank continued to focus on the impact of the external environment on the clients' risk profile, particularly with regard to the ongoing impact of the COVID-19 pandemic.
The Bank monitored developments related to the COVID-19 pandemic closely, including transmission of the virus and associated operational and economic impacts. The mandatory lockdown measures imposed by the government resulted in sudden and severe GDP contractions.
As the stress continued, focus moved to assessing the short and medium-term credit risk implications of rising unemployment, and exposure to corporates in certain sectors, including, tourism, travel and leisure. On the initiative of the government and the regulator to provide support to parts of the economy most impacted by the COVID-19 pandemic, the Bank in Q2 2020 approved payment holidays and concessions to clients which were operating in industries significantly affected by the crisis, in order to ease the liquidity and operations for its clients.
In order to assess the impact of the crisis on its client portfolio, the Bank introduced more frequent reviewing of the performance of the client portfolios. Also, in line with a coordinated approach of accounting bodies and the regulator, the Bank assessed the expected losses of its clients which are in moratoriums, by assessing whether the difficulties that the clients are facing only represent temporary economic shock, in which case payment holidays and concessions approved to the clients were not considered to represent a significant increase in credit risk.
The Bank noted that the deteriorating economic outlook was expected to lead to delinquencies and impairment. As a result, the Bank updated its ECL estimates in 2020 by aligning the forward-looking elements to the scenarios published by ECB, which set out the expected development and downturn projections as a result of the health crisis and containment measures.

Nevertheless, due to uncertainties about the resolution of the health crisis in 2021, and the timeline of the path to economic recovery, the Bank adopted Managerial Overlays to compensate the risk and challenges related to the uncertainty of the economic projections. A more detailed description of the impact and related effects can be found in the section 3.3 Credit risk.

2.2 FOREIGN CURRENCY CONVERSION

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

2.3 RELATED PARTIES

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

2.4 FINANCIAL ASSETS AND LIABILITIES

2.4.1 Treatment of financial assets and liabilities in financial statements

Recognition and initial measurement

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

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

2.4.2 Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income ("FVOCI") or FVTPL.
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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 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 the 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 derecognised asset) 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. The gain/loss recognised from equity investment securities classified through OCI at the derecognition are not part of the income statement, but go directly into retained earnings.

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

2.4.4 Modifications of financial assets and financial liabilities

Financial assets

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

If the cash flows of the modified asset carried at amortised cost are **not substantially different,** then the modification does not result in 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 extinguished financial liability 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 is 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 on 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, and 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 the fair value hierarchy:

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

A 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 ʻinvestment grade', meaning government or corporate bonds with a relatively low risk of default.

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

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

Restructured financial assets
If the terms of a financial asset are renegotiated or modified, or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised, and ECL are measured as follows.
- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

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 ʻcredit-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 by 90 days or more is considered impaired.

The Bank`s definition of default has remained the same in the year 2020, despite the global pandemic crisis. Nevertheless, special attention was given to the assessment of unlikeliness to pay for obligors in the industries which have been affected by the crisis the most, for example Leisure and Tourism.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.
- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as the '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, which 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 only include data from observable markets. When such evidence exists, the Bank recognises profits/losses on Day 1; if not, profits/losses are not recognised on Day 1, but if and when such evidence becomes available or when the derivative is derecognised.

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 into, 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 include:
- 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 the 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 by considering all the 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 the financial asset, adjusted for any expected credit loss allowance. The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense
When 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 the gross basis, even if the credit risk of the asset improves.

The effect on balance sheet change is only in the structure of gross/impairments, but no change in net amounts.

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 charges 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 fees and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – are recognised as the related services are performed.
Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.
*A contract with a customer that results in a recognised financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, the Bank first applies IFRS 9 to separate and measure that part, and applies IFRS 15 on the residual.

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

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

2.11 INTANGIBLE ASSETS

Intangible assets encompass licences for computer software, patents, copyrights and other industrial property rights acquired, and development expenditures, are carried in the statement of financial position at cost, less any accumulated amortisation and any accumulated impairment losses.
Expenditure on research and development and maintaining computer software is recognised in profit or loss as the expense is incurred. In circumstances when expenditure is directly associated with the development of computer software that will probably generate expected future economic benefits exceeding 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 2020	Estimated useful lives in 2019
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 estimated 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 a yearly basis.

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 dismantling, removal and restoration. The cost of interest related to the acquisition of an item of property, plant and equipment is included in the cost of acquiring that item, and capitalised.

The Bank measures 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 or 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 2020	Estimated useful lives in 2019
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, is recognised in profit or loss, determining operating profit.

2.13 INVESTMENT PROPERTY

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

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

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

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

The Bank classifies a non-current asset as held for sale (or disposal groups comprising assets and liabilities) as assets that are expected to be recovered primarily through sale rather than through continuing use. This condition is only regarded as met when the sale is highly probable, and the asset (or disposal group) is available for immediate sale in its present condition. 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 the 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 the 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 only began to take place in 2019, and is still ongoing. Since sales-related activities are continuing intensively, the real estate subject to sale were not reclassified. Only real estate that is no longer on sale plans (5 properties) were returned to their original classification.

2.15 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

2.16 DEPOSITS AND RECEIVED LOANS

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

2.17 ACCOUNTING FOR LEASES

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

- **The Bank as lessee**

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

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

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

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.
The Bank presents right-of-use assets in ʻproperty and equipmentʼ and lease liabilities in ʻother liabilitiesʼ in the statement of financial position.
The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

- **The Bank as lessor**

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

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

2.18 CASH AND CASH EQUIVALENTS

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

2.19 PROVISIONS

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

2.20 FINANCIAL GUARANTEES

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

2.21 INCOME TAX

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

2.22 EMPLOYEE BENEFITS

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

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

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

2.23 SHARE CAPITAL

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

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

2.24 FIDUCIARY ACTIVITIES

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

2.25 COMPARATIVE INFORMATION

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

2.26 ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated, and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in the existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Bank's credit risk portfolio, and as part of this, the estimation of the fair value of real estate collateral, 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 made relating to the classification of financial assets; assessment of the business model within which the assets are held, and the assessment of whether the contractual terms of the financial assets are solely payments of principal and interest on the principal amount outstanding, is discussed in Note 2.4.

Assumptions and estimation uncertainties related to impairment of financial instruments, and especially related to the assessment of the impact of COVID-19 on the Bank's calculation of impairments, credit risk of financial assets, significant increase in credit risk, and incorporation of forward-looking information in the 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 1.09% (2019: 0.9%), and
- Future salary increases of 2.5% p.a. from 2029 onwards (2019: 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 37, the Bank provided EUR 321 thousand (2019: EUR 833 thousand), which management estimates as sufficient. The total claims amount related to legal cases as at 31 December 2020, amounts to EUR 671 thousand. 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 the revaluation model requires that the asset has to be amortised on the basis of the new revalued value. Real estate appraisal was performed by an independent real estate appraiser, based on cash-generating units (by individual location). In the valuation, the market comparison method and the method based on the capitalisation of returns were used. The valuations are using the income method for the purposes of calculation of market value, which is later confirmed by the market approach.

Fair value of financial instruments

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

2.27 STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards and amendments to standards are effective for the annual period beginning after 1 January 2020, and earlier application is permitted. The Bank has not adopted the new and amended standards early in preparing these financial statements.
The following new and amended standard is expected to have an impact on the Bank's financial statements:

Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows, or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to:

- changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities; and
- hedge accounting.

The amendments will require the Bank to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform, by updating the effective interest rate of the financial asset or financial liability.
The amendments will require the Bank to disclose additional information to enable users to understand the effect of interest rate benchmark reform on a company's financial instruments, including information about the entity's exposure to risks arising from interest rate benchmark reform and related risk management activities.
The Bank plans to apply the amendments from 1 January 2021. This application will not impact amounts reported for 2020 or previous periods.

It is not expected that other standards issued but not yet effective will have impact on the Bank's financial statements:

- Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- COVID-19-related rent concessions (Amendment s to IFRS 16)
- Property, plant and equipment: Proceeds before Indented use (Amendments to IAS 16)
- Reference to the conceptual Framework (Amendment to IFS 3)
- Classification of Liabilities as Current or Non-current (Amendment to IAS1)
- IFRS 17 Insurance contracts

2.28 RESTATEMENT OF INCOME STATEMENT FOR 2019 due to change of accounting policy about recognition of interest on non-performing exposures

Since 1 January 2020, the Bank has changed the accounting policy for recognition and presentation of interest income on credit-impaired financial assets. In previous years, the Bank recognised interest income on credit-impaired loans when paid. Accrued interest on credit-impaired loans was not recognised in the statement of financial position, but suspended until paid, while in accordance with IFRS 9, interest income is calculated by applying the effective interest rate to the amortised cost of credit-impaired financial assets. Before the change the Bank was applying Intesa Sanpaolo Group accounting policy for interest income recognition on credit-impaired financial assets. The income statement for 2019 was restated as presented below. The Interest income, calculated using the effective interest rate, was decreased by EUR 2,522 thousand with a corresponding decrease in impairment losses by EUR 2,468 thousand and increase in net gain on non-trading financial assets mandatorily at fair value through profit or loss by EUR 54 thousand. The above-described adjustment does not have impact on net profit for the year.

(in thousands of euros)

	For the year ended 31 December		
	2019 Previously reported	Correction	2019 Restated
Interest income calculated using effective interest rate	43,843	(2,332)	41,511
Other interest income	2,181	(190)	1,991
Interest expenses	(7,737)		(7,737)
Net interest income	**38,287**	**(2,522)**	**35,765**
Dividend income	161		161
Fee and commission income	39,031		39,031
Fee and commission expenses	(12,433)		(12,433)
Net fee and commission income	**26,598**		**26,598**
Net gains or losses on financial assets and liabilities not measured at fair value through profit or loss	6,893		6,893
Net gains or losses on financial assets and liabilities held for trading	929		929
Net gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	610	54	664
Net gains or losses from hedge accounting	(105)		(105)
Net exchange differences	(144)		(144)
Net gains and losses on derecognition of non-financial assets	287		287
Other operating income	2,593		2,593
Other operating expenses	(843)		(843)
Administrative expenses	(42,567)		(42,567)
Cash contributions to resolution funds and deposit guarantee schemes	(2,103)		(2,103)
Depreciation and amortisation	(3,951)		(3,951)
Net modification gains or losses	(4)		(4)
Provisions	1,513		1,513
Impairments	(5,130)	2,468	(2,662)
Profit or loss from non-current assets and disposal groups classified as held for sale, not qualifying as discontinued operations	3,417		3,417
Total profit or loss before tax	**28,963**	**-**	**28,963**
Tax expense	(5,209)		(5,209)
Total profit or loss after tax	**23,754**		**23,754**
Basic earnings per share	44.79		44.79
Diluted earnings per share	44.79		44.79

The above-described change does not affect the amount presented in the statement of financial position in previous years, because the change does not affect the net carrying amount of credit-impaired loans to customers and loans measured mandatorily at fair value through profit and loss. However, the change affects the gross carrying amounts of loans to customers and corresponding amounts of impairment allowance. The gross carrying amount of loans to customers and loss allowance were increased by EUR 3,595 thousand as at 31 December 2019, and by EUR 10,069 thousand as at 1 January 2019.

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

The Bank prudently manages all risk that could affect safe, profitable and continuous operations, and treats it as an ongoing concern. The most important risks for the Bank are:
- Credit risk;
- Interest rate risk;
- Liquidity risk, and
- Operational risk.

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

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

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

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

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

Risk identification is the first critical step in the risk management process. The objective of this step is the early and continuous identification of risk factors that can have a negative impact on the Bank's 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 the implementation of concrete changes in the Bank's internal processes and portfolio risk exposure. The Bank constantly monitors the timeliness and quality of implementation of the mitigation actions.

In 2020, the Bank continues to implement steps to even further improve the interconnectedness of the Bank's business strategy with the principles of sound and prudential institution-wide risk management. The Bank's Risk Management Strategy became a fundamental strategic document that determines the Bank's risk appetite, basic strategic guidelines for capital planning, risk management objectives, and basic risk mitigation principles, including the risks arising from the macroeconomic and regulatory environment in which the Bank operates, while taking into consideration the status of the business cycle. On a yearly basis, the Risk Management Strategy outlines and raises awareness about all risks arising from new business initiatives, as well as analyses of the impact of those initiatives on the Bank's overall risk profile.

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 the responsibility to give recommendations and advice to the Board, in particular on matters relating to evaluation of the adequacy and efficiency of the Bank's entire system of internal controls over financial reporting, including oversight of exposure to risk.

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

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

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

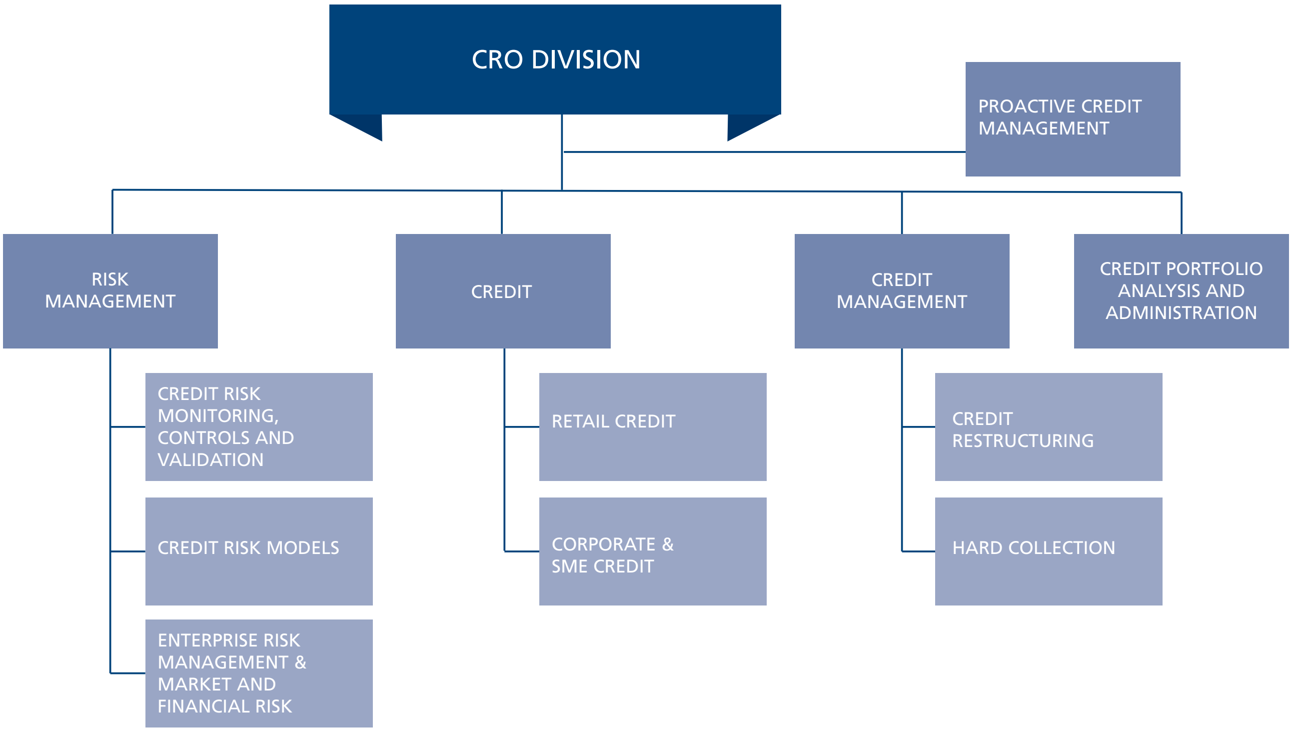
The Credit Committee is the highest permanent decision-making committee of the Bank regarding performing counterparties; its main responsibility consists in adopting credit decisions in line with the issued strategic guidelines and credit policies.

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

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

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

The organisation chart of the Risk Division:



The roles of organisational units within the Risk Division

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

- The **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.
- The **Credit Risk Monitoring, Controls and Validation Office** performs second-level controls and monitoring activities over the credit portfolio, in terms of quality, composition and significant changes. The Office is also in charge of evaluating the compliance of the internal systems of risk measurement and management with the regulatory requirements and their alignment with ISP Group guidelines. The Office is responsible for the evaluation of the internal systems of all risk profiles (to be used for both regulatory and internal management purposes) in all phases of the internal systems lifecycle, and also supports the Supervisory Authorities in their review activities.
- The **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 management contributes to the implementation of an early warning system, designed to activate the necessary measures against the identified clients by defining and agreeing the most appropriate action plans with the business functions.

The **Credit Department** analyses and approves loans and credit facilities for individual borrowers. There are two offices that operate within the framework of the Department: the 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 a positive recovery perspective (going concern business), as well as in relation to obligors at the legal enforcement stage (gone concern business), seeking loss reduction and efficient recovery.

The **Credit Portfolio Analysis and Administration Office** performs administrative controls in credit processes, in order to verify the completeness of the loan documentation before disbursement, and performs credit portfolio analyses aimed at identifying negative trends and/or potential issues in the process, requiring further investigations by the 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 the long-term stability of the Bank and to safeguard the 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 the risk and capital requirement (Internal capital adequacy assessment process, or ICAAP).

3.2.1 Compliance with the regulatory capital requirement

The regulatory capital requirement is calculated in line with the CRR Regulation, and is determined as a ratio between the Bank's capital and the risk-weighted assets. The regulatory capital requirements mandate the Bank to set aside funds for covering unexpected losses for credit, market, and operational risk. Banks have to meet the CET1 minimum capital requirement of 4.5% or higher, and the minimum own funds requirement of 8%. The Bank's capital is composed of the Common Equity Tier 1 capital, and to a lesser extent, of Tier 2 capital. As of 31 December 2020, the Bank`s regulatory capital amounts to 300 million euros, whereas the Capital Adequacy ratio was 18.82% (unaudited). 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 the capital requirement of the Bank (ICAAP) and the supervisory review process (SREP) evaluation of Pillar II.

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

(in thousands of euros)

Capital adequacy as at 31 December 2020	Risk weighted amount		Capital requirement (8% of RWA)	
	2020	**2019**	**2020**	**2019**
Credit risk exposures of banking book				
Exposures to state and central bank	8,733	9,479	699	758
Exposures to local municipalities	20,046	16,587	1,604	1,327
Exposures to public sector	3,420	3,956	274	316
Exposures to institutions	34,570	49,592	2,766	3,967
Exposures to enterprises	157,858	152,440	12,629	12,195
Exposures to retail banking	483,992	513,331	38,719	41,066
Past due exposures	6,525	7,592	522	607
Exposures to highly risk exposures	162	-	13	-
Exposures to investments funds	1,505	1,560	120	125
Secured by mortgages on immovable property	93,349	67,600	7,468	5,408
Exposures to corporates-other IRB	468,153	486,660	37,452	38,933
Exposures to corporates-SME IRB	124,454	192,592	9,956	15,407
Exposures to equity IRB	12,311	20,794	985	1,664
Exposures to other assets IRB	47,992	56,213	3,839	4,497
Total	**1,463,070**	**1,578,396**	**117,046**	**126,270**
Credit risk-weighted assets	1,463,070	1,578,396	117,046	126,270
Market risk-weighted assets	457	738	37	59
Operational risk-weighted assets	129,222	141,069	10,338	11,286
Total risk-weighted assets	**1,592,749**	**1,720,203**	**127,421**	**137,615**
Regulatory capital	**2020**	**2019**		
Share capital	22,173	22,173		
Share premium	7,499	7,499		
Treasury shares	(49)	(49)		
Revaluation reserves	16,064	16,149		
Legal reserves	17,195	16,007		
Treasury shares fund reserves	49	49		
Statutory reserves	214,055	214,055		
Other reserves from profit	22,566	-		
Retained earning	4,181	1,937		
Less intangible assets	(6,520)	(5,708)		
IRB shortfall of credit risk adjustments to expected losses	(26)	-		
Other transitional adjustments				
Requirements from prudent valuation of debt securities	(106)	(288)		
Recognised impairments for credit risk during the year	(1,073)	(684)		
Total qualifying Tier 1 capital	**296,008**	**271,140**		
IRB Excess of provisions over expected losses	**3,766**	**2,294**		
Total qualifying Tier 2 capital	**3,766**	**2,294**		
Total regulatory capital	**299,774**	**273,434**		
Capital Adequacy ratio (%)	**18,82**	**15,90**		

3.2.2 Risk Appetite Framework Limits

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

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

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

3.3 CREDIT RISK

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

The credit risk is associated with financial assets measured at amortised cost (loans and other claims). Loans & Receivables whose payments are not composed solely of principal and interest, have to be measured at fair value through profit and loss (FVTPL). The credit risk is evaluated with an accurate credit analysis and a 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 a potential increase in positive value.

The Bank's credit risk related portfolio at the end December 2020 amounted to EUR 3,373 million, of which 98% is classified as performing, which includes all assets (including loans to customers, financial assets at fair value through other comprehensive income, other assets, advances) and off-balance sheet items (including guarantees and credit commitments) 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 2020

(in thousands of euros)

Counterparties	Total gross credit risk portfolio	Share	Performing	Share	Non-performing	Share	Impairment losses on performing portfolio	Coverage rate of performing portfolio	Impairment losses on non performing portfolio	Coverage rate of non-performing portfolio	Total credit risk portfolio	Share
1	2	3	4	5	6	7	8	9=8/4	10	11=10/6	12=2-8-10	13
Central bank and government bodies	739,680	22%	739,680	22%	-	0%	45	0%	-	0%	739,635	22%
Corporate entities	1,663,510	49%	1,621,021	49%	42,489	75%	9,285	1%	26,057	61%	1,628,168	49%
Banks	105,645	3%	105,645	3%	-	0%	41	0%	-	0%	105,604	3%
Private individuals	864,234	26%	849,731	26%	14,503	25%	11,837	1%	10,407	72%	841,990	26%
Total	**3,373,069**	**100%**	**3,316,077**	**100%**	**56,992**	**100%**	**21,208**	**1%**	**36,464**	**64%**	**3,315,397**	**100%**

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

(in thousands of euros)

Counterparties	Total gross credit risk portfolio	Share	Performing	Share	Non-performing	Share	Impairment losses on performing portfolio	Coverage rate of performing portfolio	Impairment losses on non performing portfolio	Coverage rate of non-performing portfolio	Total credit risk portfolio	Share
1	2	3	4	5	6	7	8	9=8/4	10	11=10/6	12=2-8-10	13
Central bank and government bodies	536,291	17%	536,291	17%	-	0%	58	0%	-	0%	536,233	17%
Corporate entities	1,668,583	52%	1,616,286	52%	52,297	77%	8,863	1%	27,974	53%	1,631,746	52%
Banks	115,893	4%	115,893	4%	-	0%	44	0%	-	0%	115,849	4%
Private individuals	843,994	27%	828,311	27%	15,683	23%	6,498	1%	10,931	70%	826,565	27%
Total	**3,164,761**	**100%**	**3,096,781**	**100%**	**67,980**	**100%**	**15,463**	**0%**	**38,905**	**57%**	**3,110,393**	**100%**

Analyses by type of collateral

(in thousands of euros)

	2020		2019	
	Net loans	Fair value of collateral	Net loans	Fair value of collateral
Performing	**1,275,666**	**3,072,190**	**1,264,055**	**3,037,836**
Totally secured	**1,218,904**	**3,015,428**	**1,210,552**	**2,984,333**
Real estate	507,990	1,560,667	503,023	1,562,725
Debt securities	5,434	21,165	7,412	22,241
Deposits	1,081	1,968	1,135	2,272
Other collateral	60,912	158,176	59,502	147,760
Bank guaranties	41,424	53,836	43,896	57,936
Government guaranties	181,125	208,713	184,589	211,882
Insurance company guaranties	86,691	122,690	101,988	134,292
Third party guarantors	334,247	888,213	309,007	845,225
Partially secured	**56,762**	**56,762**	**53,503**	**53,503**
Real estate	16,132	16,132	13,554	13,554
Deposits	3,097	3,097	3,166	3,166
Other collateral	3,074	3,074	926	926
Bank guaranties	32,461	32,461	33,472	33,472
Third party guarantors	1,998	1,998	2,385	2,385
Impaired	**18,836**	**72,674**	**26,692**	**111,468**
Totally secured	**18,808**	**72,646**	**23,997**	**108,773**
Real estate	9,447	46,487	9,480	57,061
Debt securities	2,808	4,782	2,950	4,810
Deposits	2	10	-	-
Other collateral	4,608	14,179	8,845	34,808
Insurance company guaranties	712	1,039	792	1,009
Third party guarantors	1,231	6,149	1,930	11,085
Partially secured	**28**	**28**	**2,695**	**2,695**
Real estate	-	-	2,675	2,675
Other collateral	23	23	-	-
Third party guarantors	5	5	20	20
TOTAL secured net loans	**1,294,502**	**3,144,864**	**1,290,747**	**3,149,304**
Unsecured	720,318	-	643,878	-
TOTAL net loans*	**2,014,820**	**-**	**1,934,625**	**-**

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

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

Credit exposure measurement

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

Maximum exposure to credit risk

(in thousands of euros)

	Maximum exposure	
	2020	**2019**
Credit risk exposures relating to on-balance sheet assets are as follows:		
Loans to banks	47,064	61,034
Loans to non-bank customers: *	**2,000,516**	**1,925,568**
Loans to individuals:	711,396	698,473
- overdrafts	19,448	23,834
- credit cards	8,136	10,362
- term loans	146,644	144,350
- mortgages	533,164	515,316
- finance leases	4,004	4,611
Loans to sole proprietors	**50,055**	**49,492**
Loans to corporate entities	**1,239,065**	**1,177,603**
Debt securities at amortised cost	**-**	**1,262**
Advances	**10,735**	**20,115**
Non-trading financial assets mandatorily at fair value through profit or loss:	**3,220**	**703**
- debt securities	2,585	-
- loans and advances	635	703
Financial assets at fair value through other comprehensive income:	**257,032**	**316,954**
- debt securities	257,032	316,954
Other assets**	**517,717**	**255,814**
Credit risk exposures relating to off-balance sheet items are as follows:		
Guarantees and documentary letters of credit	111,766	174,750
Credit commitments and other credit related liabilities	367,347	354,193
At 31 December	**3,315,397**	**3,110,393**

* *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 2020 and 2019, 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 note 46 Contingent liabilities and commitments.

Credit Classification

The Bank`s credit portfolio, classified as performing assets, has to be subject to a credit analysis and get assigned an internal credit rating. For provisioning purposes, a PD rate equivalent to the PD rate of internal rating grade S1 is assigned to unrated borrowers. In addition, and according to IFRS9 reporting standards, the counterparties are classified in three stages. In Stage 1 are the classified performing assets with unchanged or not deteriorated creditworthiness measured from the origination, while in stage 2 are the classified credit assets for which the Bank recognised a significant increase in credit risk from its origination. In stage 3 are classified the 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 for over 30 days.

The credit rating system arranges the credit risk counterparts in 15 rating grades, according to the probability of default severity. The Bank developed and implemented an internal rating system for Corporate and SME clients, and has been developing one for other core business segments: the micro segment and private individuals. The statistical models are designed to calculate a credit score based on the debtor's financial data, behavioural data, and qualitative information, which jointly make up a final score. The rating attribution process is supported by a system which ensures the required controls, and drives the process in accordance with the responsibilities and roles of the functions involved in the 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 a going concern or a gone concern, with the latter expecting that the financial difficulties cannot be resolved.

Significant increase in credit risk (SICR)

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

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

- Default probability change or certain number of rating notch (three notch downgrade for lower to medium risk rating classes, two for medium risk rating class, and one notch downgrade for medium to higher risk rating class) deterioration in relation to the moment of initial entry of the financial instrument in the financial statements. It is therefore an assessment implemented by adopting the "relative"criterion, which is configured as the main criteria;
- Eventual presence of a due amount which remains overdue for over 30 days. In the event of such a case, the - credit risk of such an exposure is considered "significantly increased"and is classified as 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 the 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 the 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

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

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

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

Stage assignment for Loans:

Loan exposures towards Legal entities:

Condition - business condition (event) for assignment of stage	Stage
Risk class is Past Due, Unlikely to pay or Doubtful	3
DPD >30 with materiality threshold over 5% at reporting date	2
Early warning system shows significant deterioration in credit risk (PCEM flag)	2
Contract is Forborne	2
Exposures with credit deterioration: Lifetime PD Comparison (used for Sovereign, PSE, Banks – not for others segments)	2
Exposures with credit deterioration: Rating deterioration in the extent of 3 rating notches or more for low risk obligors to 1 notch or more for high risk obligors (used for Corporate and Small business segments – not for other 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 materiality threshold over 5% at reporting date	2
Early warning signals for retail exposures show significant deterioration in credit risk:	2
Contract is Forborne	2

Inclusion of forward looking element

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

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

In the year 2020, an extraordinary event took place, with the outbreak of the pandemic, due to which the Bank updated the macroeconomic outlook and the forward-looking elements of the calculation. The said updates are anchored in the updated ECB macroeconomic scenarios. These ECB scenarios translate into the macro variables that subsequently determine the FLI component of the ECL. Regarding the numbers of scenarios and their weighting, the Bank did not change its methodology in 2020. The Bank defined three macroeconomic scenarios (favourable, base, adverse), and the FLI effects of the ECL stems from these scenarios. Consequently, additional provisions were set at the end of year, despite the expected economic recovery, which is subject of high uncertainty.

Macroeconomic scenarios included in the FLI component

	Favorable scenario			Baseline scenario			Adverse scenario		
Macroeconomic indicator	2021	2022	2023	2021	2022	2023	2021	2022	2023
Real GDP y/y	5,73	5,21	3,71	4,53	4,00	2,50	3,32	2,79	1,29
Unemployment rate (avg)	8,50	8,30	8,10	8,70	8,50	8,30	9,10	8,90	8,70
CPI y/y (average)	0,86	2,20	2,49	0,46	1,50	1,79	0,06	0,50	0,79
Bank Loans y/y	4,02	4,64	4,76	2,42	2,73	2,83	0,83	0,53	0,62
Bank Deposits y/y	4,73	5,36	5,79	3,12	3,44	3,84	1,52	1,23	1,61

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

A managerial overlay has been adopted to address the following circumstances:

- To offset inadequacies of EBA coefficients applied for peer countries (as the Bank considers the use of EBA coefficients for Slovenia not appropriate) by adding in such way prudential element to the calculation of multiplier;
- Uncertainty over the resolution of the pandemic and subsequent recovery of the economy by applying a margin of conservatism to PD estimates for exposures which were calculated using the internal macroeconomic model (satellite model).
- The overlays were adopted on the following components of ECL calculation:
  - Application of regional EBA multipliers for the LGD conditioning with macroeconomic projections, instead of using the Slovenian method for all exposure assets;
  - Application of regional EBA multipliers for the PD conditioning, instead of using the Slovenian method for exposures to consumers and the micro segment;
  - Increase in the PD obtained with the internal satellite model for a margin of conservatism of 20% applied to Corporate and Small business clients.

In total, the provisions which were set aside in the year 2020 as a consequence of the adjustment of the forward-looking information, due to the pandemic, amount to EUR 4.3 million.

Credit quality analysis

(in thousands of euros)

	2020				
	12 month ECL	Lifetime ECL – not credit impaired	Lifetime ECL - credit impaired	POCI	Total
Loans and advances to banks at amortised cost					
Performing	47,086	-	-	-	47,086
Loss allowance	(22)	-	-	-	(22)
Carrying amount	**47,064**	**-**	**-**	**-**	**47,064**
Loans and advances to customers at amortised cost					
Performing	1,954,146	-	-	-	1,954,146
Watch list	-	60,105	-	-	60,105
Past due impaired	-	-	1,810	-	1,810
Unlikely to pay	-	-	28,025	6,833	34,858
Doubtful	-	-	17,810	-	17,810
Loss allowance	(13,102)	(6,521)	(34,825)	(96)	(54,544)
Carrying amount	**1,941,044**	**53,584**	**12,820**	**6,737**	**2,014,185**
Debt investment securities at FVOCI					
Performing, low risk	257,078	-	-	-	257,078
Loss allowance	(46)	-	-	-	(46)
Carrying amount - fair value	**257,032**	**-**	**-**	**-**	**257,032**
Off-balance sheet					
Loan commitments					
Performing	355,126	-	-	-	355,126
Watch list	-	6,334	-	-	6,334
Past due impaired	-	-	106	-	106
Unlikely to pay	-	-	332	-	332
Doubtful	-	-	70	-	70
Loss allowance	(839)	(39)	(322)	-	(1,200)
Carrying amount (provision)	**354,287**	**6,295**	**186**	**-**	**360,767**
Financial guarantee contracts					
Performing	108,178	-	-	-	108,178
Watch list	-	3,982	-	-	3,982
Past due impaired	-	-	-	-	-
Unlikely to pay	-	-	10	-	10
Doubtful	-	-	509	-	509
Loss allowance	(291)	(152)	(470)	-	(913)
Carrying amount (provision)	**107,887**	**3,830**	**49**	**-**	**111,766**
Loans mandt. FVTPL					
Unlikely to pay	-	-	635	-	635
Carrying amount (provision)	**-**	**-**	**635**	**-**	**635**

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	1,861,668	-	-	-	1,861,668
Watch list	-	58,575	-	-	58,575
Past due impaired	-	-	3,040	-	3,040
Unlikely to pay	-	-	31,965	7,212	39,177
Doubtful	-	-	22,037	-	22,037
Loss allowance	(10,463)	(3,305)	(36,808)	-	(50,576)
Carrying amount	**1,851,205**	**55,270**	**20,234**	**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 (provision)	**316,954**	**-**	**-**	**-**	**316,954**
Off-balance sheet					
Loan commitments					
Performing	342,086	-	-	-	342,086
Watch list	-	4,050	-	-	4,050
Past due impaired	-	-	66	-	66
Unlikely to pay	-	-	937	-	937
Doubtful	-	-	50	-	50
Loss allowance	(698)	(32)	(496)	-	(1,226)
Carrying amount (provision)	**341,388**	**4,018**	**557**	**-**	**345,963**
Financial guarantee contracts					
Performing	161,088	-	-	-	161,088
Watch list	-	14,079	-	-	14,079
Past due impaired	-	-	-	-	-
Unlikely to pay	-	-	12	-	12
Doubtful	-	-	885	-	885
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 loan analysis - summary

(in thousands of euros)

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

(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	58,542	54,626	7,212	2,361,410
Loss allowance	(10,547)	(3,306)	(33,682)	-	(47,535)
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**

Risk segmentation

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

The rating model

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

Rating assignment process

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

Internal rating

Loans and advances to customers at amortised cost

(in thousands of euros)

	2020			2019		
STAGE 1 (12 - month ECL)	**Gross amount**	**Loss allowance**	**Carrying (net) amount**	**Gross amount**	**Loss allowance**	**Carrying (net) amount**
N1	10,344	(24)	10,320	8,643	(21)	8,622
N2	58,024	(116)	57,908	155,683	(306)	155,377
N3	57,371	(169)	57,202	54,729	(211)	54,518
N4	218,073	(611)	217,462	186,298	(706)	185,592
N5	109,942	(540)	109,402	117,518	(794)	116,724
N6	273,446	(809)	272,637	206,433	(573)	205,860
N7	86,601	(606)	85,995	29,994	(416)	29,578
P1	413	(16)	397	994	(70)	924
P2	1,060	(24)	1,036	119	(13)	106
P3	16	(2)	14	59	(8)	51
P4	53	(11)	42	446	(24)	422
S1	24,885	(317)	24,568	29,286	(492)	28,794
S2	14,245	(273)	13,972	14,134	(351)	13,783
S3	17,164	(353)	16,811	4,376	(191)	4,185
S4	2,361	(98)	2,263	1,693	(67)	1,626
No rating	1,080,148	(9,133)	1,071,015	1,051,263	(6,220)	1,045,043
of which						
Government	12,407	(1)	12,406	16,412	(2)	16,410
Other public entities	179,315	(57)	179,258	184,824	(86)	184,738
Financial entities	98,994	(63)	98,931	85,571	(59)	85,512
Non-financial entities	56,963	(788)	56,175	45,854	(853)	45,001
Sole proprietors	24,264	(941)	23,323	24,466	(507)	23,959
Individuals	706,792	(7,235)	699,557	693,195	(4,694)	688,501
Non-profit institutions serving households	1,413	(48)	1,365	941	(19)	922
TOTAL STAGE 1	**1,954,146**	**(13,102)**	**1,941,044**	**1,861,668**	**(10,463)**	**1,851,205**

(in thousands of euros)

	2020			2019		
STAGE 2 (Lifetime ECL not credit - impaired)	**Gross amount**	**Loss allowance**	**Carrying (net) amount**	**Gross amount**	**Loss allowance**	**Carrying (net) amount**
N1	58	-	58	-	-	-
N3	4,553	(69)	4,484	-	-	-
N4	2,807	(19)	2,788	12,660	(154)	12,506
N5	1,817	(63)	1,754	5,192	(193)	4,999
N6	2,910	(76)	2,834	8,070	(84)	7,986
N7	7,193	(233)	6,960	3,509	(93)	3,416
P1	2,995	(246)	2,749	1,758	(157)	1,601
P2	866	(66)	800	1,035	(145)	890
P3	420	(41)	379	84	(14)	70
P4	285	(37)	248	732	(85)	647
S1	6,522	(254)	6,268	3,932	(146)	3,786
S2	7,390	(375)	7,015	2,860	(133)	2,727
S3	1,831	(100)	1,731	3,515	(264)	3,251
S4	1,476	(76)	1,400	851	(52)	799
No rating	18,982	(4,866)	14,116	14,377	(1,785)	12,592
of which						
Other public entities	4,782	(6)	4,776	6,148	(11)	6,137
Non-financial entities	1,086	(330)	756	654	(156)	498
Sole proprietors	1,095	(409)	686	693	(165)	528
Individuals	11,999	(4,117)	7,882	6,876	(1,451)	5,425
Non-profit institutions serving households	20	(4)	16	6	(2)	4
TOTAL STAGE 2	**60,105**	**(6,521)**	**53,584**	**58,575**	**(3,305)**	**55,270**
TOTAL STAGE 1 and STAGE 2	**2,014,251**	**(19,623)**	**1,994,628**	**1,920,243**	**(13,768)**	**1,906,475**

Off-balance sheet

Loan commitments

(in thousands of euros)

STAGE 1 (12 - month ECL)	2020 Gross amount	2020 Loss allowance	2020 Carrying (net) amount	2019 Gross amount	2019 Loss allowance	2019 Carrying (net) amount
N1	13,625	(6)	13,619	15,209	(8)	15,201
N2	10,671	(10)	10,661	43,893	(43)	43,850
N3	43,762	(40)	43,722	41,743	(63)	41,680
N4	36,959	(37)	36,922	46,343	(86)	46,257
N5	39,024	(61)	38,963	28,600	(56)	28,544
N6	13,696	(24)	13,672	13,845	(29)	13,816
N7	19,148	(46)	19,102	6,997	(36)	6,961
P1	134	(1)	133	102	(1)	101
P2	29	-	29	4	-	4
P3	-	-	-	33	(1)	32
P4	3	-	3	-	-	-
S1	5,323	(18)	5,305	5,071	(30)	5,041
S2	2,884	(15)	2,869	2,859	(20)	2,839
S3	858	(5)	853	663	(6)	657
S4	299	(2)	297	201	(3)	198
No rating	168,711	(574)	168,137	136,523	(316)	136,207
of which						
Government	5	-	5	5	-	5
Other public entities	1,721	(5)	1,716	256	(1)	255
Financial entities	17	-	17	65	-	65
Banks	8,058	(6)	8,052	2,260	(6)	2,254
Non-financial entities	26,077	(110)	25,967	4,232	(25)	4,207
Sole proprietors	4,367	(52)	4,315	4,269	(28)	4,241
Individuals	128,061	(396)	127,665	125,155	(254)	124,901
Non-profit institutions serving households	405	(5)	400	281	(2)	279
TOTAL STAGE 1	**355,126**	**(839)**	**354,287**	**342,086**	**(698)**	**341,388**

(in thousands of euros)

STAGE 2 (Lifetime ECL not credit - impaired)	2020 Gross amount	2020 Loss allowance	2020 Carrying (net) amount	2019 Gross amount	2019 Loss allowance	2019 Carrying (net) amount
N1	2	-	2	-	-	-
N3	1,000	(4)	996	25	-	25
N4	671	(1)	670	161	-	161
N5	977	(2)	975	405	(1)	404
N6	653	(1)	652	2,388	(7)	2,381
N7	784	(2)	782	302	(1)	301
P1	28	-	28	69	(2)	67
P2	-	-	-	5	-	5
P3	-	-	-	9	-	9
P4	-	-	-	27	(1)	26
S1	854	(5)	849	255	(1)	254
S2	417	(1)	416	92	(1)	91
S3	593	(3)	590	72	-	72
S4	177	(1)	176	5	-	5
No rating	178	(19)	159	235	(18)	217
of which						
Non-financial entities	19	(3)	16	25	(3)	22
Sole proprietors	61	(7)	54	13	(1)	12
Individuals	97	(9)	88	197	(14)	183
Non-profit institutions serving households	1	-	1	-	-	-
TOTAL STAGE 2	**6,334**	**(39)**	**6,295**	**4,050**	**(32)**	**4,018**
TOTAL STAGE 1 and STAGE 2	**361,460**	**(878)**	**360,582**	**346,136**	**(730)**	**345,406**

Financial guarantee contracts

(in thousands of euros)

STAGE 1 (12 - month ECL)	2020 Gross amount	2020 Loss allowance	2020 Carrying (net) amount	2019 Gross amount	2019 Loss allowance	2019 Carrying (net) amount
I1.F	20	-	20	20	-	20
N1	6,184	(8)	6,176	7,231	(7)	7,224
N2	8,743	(10)	8,733	17,340	(15)	17,325
N3	26,959	(70)	26,889	8,585	(12)	8,573
N4	19,348	(52)	19,296	42,363	(194)	42,169
N5	8,755	(20)	8,735	18,053	(141)	17,912
N6	18,331	(59)	18,272	1,724	(11)	1,713
N7	1,802	(13)	1,789	2,423	(22)	2,401
P1	93	(1)	92	79	(5)	74
P3	-	-	-	50	(5)	45
S1	1,528	(14)	1,514	7,290	(39)	7,251
S2	1,961	(18)	1,943	1,021	(15)	1,006
S3	69	-	69	199	(5)	194
S4	92	(3)	89	179	(6)	173
No rating	14,293	(23)	14,270	54,531	(78)	54,453
of which						
Other public entities	300	-	300	875	-	875
Banks	10,848	(1)	10,847	6,844	(1)	6,843
Financial entities	102	-	102	43,653	(51)	43,602
Non-financial entities	577	(7)	570	701	(18)	683
Sole proprietors	215	(4)	211	207	(2)	205
Individuals	1,900	-	1,900	1,900	-	1,900
Non-profit institutions serving households	351	(11)	340	351	(6)	345
TOTAL STAGE 1	**108,178**	**(291)**	**107,887**	**161,088**	**(555)**	**160,533**

(in thousands of euros)

STAGE 2 (life time loss)	2020 Gross amount	2020 Loss allowance	2020 Carrying (net) amount	2019 Gross amount	2019 Loss allowance	2019 Carrying (net) amount
I4	-	-	-	46	-	46
N1	152	(4)	148	18	(2)	16
N3	8	-	8	21	-	21
N4	122	-	122	36	-	36
N5	168	(1)	167	345	(1)	344
N6	1,258	(3)	1,255	11,609	(35)	11,574
N7	142	(20)	122	196	(13)	183
P1	30	(1)	29	92	(6)	86
P2	17	-	17	24	(1)	23
P4	14	-	14	2	-	2
S1	587	(52)	535	141	(2)	139
S2	208	(5)	203	551	(38)	513
S3	620	(63)	557	258	(4)	254
S4	24	-	24	46	(1)	45
No rating	632	(3)	629	694	(3)	691
of which						
Other public entities	632	(3)	629	694	(3)	691
STAGE 2 Total	**3,982**	**(152)**	**3,830**	**14,079**	**(106)**	**13,973**
TOTAL STAGE 1 and STAGE 2	**112,160**	**(443)**	**111,717**	**175,167**	**(661)**	**174,506**

Changes in credit-impaired loans to non-bank customers

(in thousands of euros)

	2020	2019
Credit-impaired loans (Stage 3) at 1 January	**27,446**	**28,915**
Change in allowance for impairment	(788)	(4,556)
Classified as credit-impaired during the year	6,317	21,717
Transferred to not credit-impaired during the year	(916)	(1,005)
Recoveries of amounts previously written off	(12,149)	(16,357)
Disposals	-	(1,456)
Other movements	(353)	188
Credit-impaired loans (Stage 3) at 31 December	**19,557**	**27,446**

Impairment provisions for credit risk

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

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

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

Loss Given Default rates are estimated by groups of exposures sharing the same characteristics, like 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 a one-year period, 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 until the maturity of the asset, considering the residual outstanding amount of credit receivables over time. The risk parameters (PD and LGD) are modified, taking into account the forward-looking view by applying estimates of the macroeconomic potential trends.

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

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

COVID-19 intervention measures

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

Since the beginning of the COVID-19 pandemic, the Bank has focused on lean processing of requests for moratoriums, while respecting Intervention Law and the regulatory framework with proclaimed flexibility. Clients which have submitted a request for moratorium have been assessed with a focus on justification of impact due to the COVID-19 crisis on repayment ability, while potential classification to NPL and to Performing forborne exposures was also considered in cases where there was an indication that the repayment deterioration is not of a transitional nature, i.e. for clients for which creditworthiness is unlikely to be restored. The Bank monitors the largest clients which have been affected by COVID-19 on a case by case basis, taking into account all the relevant information available, including possible future developments in this aspect.

The Bank is aware that future macroeconomic developments which affect its portfolio are subject to high uncertainty, and has therefore adopted managerial overlays, thereby prudentially increasing the coefficients which reflect the macroeconomic projections, and by applying a 20% Margin of conservatism to the output obtained with the internal satellite model.
The Bank is continuously following economic developments, including political measures and changes in legislation, which may directly or indirectly affect the bank's portfolio.

(in thousands of euros)

	Granted gross carrying amount					
			Residual maturity			
	Total	Of which: expired	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months
EBA-compliant moratoria loans and advances	**114,080**	**20,647**	**49,247**	**30,391**	**9,211**	**4,584**
of which: Households	36,782	10,194	15,958	7,110	1,975	1,545
of which: Non-financial corporations	77,229	10,453	33,220	23,281	7,235	3,039
Other loans and advances with COVID-19-related forbearance measures	**12.046**	**10.806**	**450**	**756**	**2**	**32**
of which: Households	1.813	1.338	184	257	2	32
of which: Non-financial corporations	10.201	9.436	266	499	-	-

(in thousands of euros)

	Gross carrying amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk				
		Performing		Non-performing			Performing		Non-performing	
	Total	Total	Of which: exposures with forbearance measures	Total	Of which: exposures with forbearance measures	Total	Total	Of which: exposures with forbearance measures	Total	Of which: exposures with forbearance measures
Loans and advances subject to EBA-compliant moratoria	**93,433**	**84,187**	**9,874**	**9,246**	**8,950**	**(4,704)**	**(3,029)**	**(1,928)**	**(1,675)**	**(1,528)**
of which: Households	26,588	25,750	4,242	838	741	(2,404)	(1,906)	(1,443)	(498)	(452)
of which: Non-financial corporations	66,776	58,368	5,632	8,408	8,209	(2,295)	(1,118)	(484)	(1,177)	(1,076)
									(194)	(194)
Other loans and advances subject to COVID-19-related forbearance measures	**1,240**	**957**	**957**	**283**	**283**	**(349)**	**(155)**	**(155)**	**(194)**	**(194)**
of which: Households	475	418	418	56	56	(131)	(100)	(100)	(32)	(32)
of which: Non-financial corporations	765	539	539	226	226	(218)	(55)	(55)	(163)	(163)

Large exposures

In order to limit the risk of large exposure, the Bank monitors the single-name credit concentration risk. The largest allowed exposure to a single borrower and connected entities is limited by the CRR Regulation, and should not exceed 25% 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)

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

(in thousands of euros)

As at 31 December 2019	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**

3.4 ANALYSIS OF PAST DUE FINANCIAL INSTRUMENTS

Past due financial instruments relate only to the loans and advances portfolio, while 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)

	2020		2019	
	Loans and advances to customers (loans FVTPL included)	Loans and advances to banks	Loans and advances to customers (loans FVTPL included)	Loans and advances to banks
Neither past due nor impaired (stage 1 and stage 2)	2,013,393	47,086	1,919,274	61,063
Past due but not impaired (stage1 and 2)	860	-	965	-
Impaired	55,111	-	64,961	-
Gross	**2,069,364**	**47,086**	**1,985,200**	**61,063**
Impairment losses on loans and advances	(54,544)	(22)	(50,576)	(29)
Net	**2,014,820**	**47,064**	**1,934,624**	**61,034**

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 2020	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)	19,279	8,152	147,619	539,270	3,940	51,262	1,243,871	2,013,393
Not past due but impaired (stage 3)	420	216	2,002	5,446	-	990	29,291	38,365
Past due but not impaired (stage 1 and 2)	172	17	185	153	5	32	296	860
Past due and impaired (stage 3)	516	675	1,756	2,685	358	924	9,832	16,746
Gross	**20,387**	**9,060**	**151,562**	**547,554**	**4,303**	**53,208**	**1,283,290**	**2,069,364**
Impairment losses on loans and advances	(939)	(925)	(4,917)	(14,390)	(299)	(3,153)	(29,921)	(54,544)
Net	**19,448**	**8,135**	**146,645**	**533,164**	**4,004**	**50,055**	**1,253,369**	**2,014,820**

Loans and advances to customers by maturity and portfolio quality

(in thousands of euros)

31 December 2019	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)	23,584	10,285	144,128	516,982	4,546	49,616	1,170,133	1,919,274
Not past due but impaired (stage 3)	417	214	1,488	5,262	-	1,163	32,918	41,462
Past due but not impaired (stage 1 and 2)	199	37	155	142	14	171	247	965
Past due and impaired (stage 3)	528	759	2,127	4,062	359	1,808	13,856	23,499
Gross	**24,728**	**11,295**	**147,898**	**526,448**	**4,919**	**52,758**	**1,217,154**	**1,985,200**
Impairment losses on loans and advances	(894)	(933)	(3,548)	(11,132)	(308)	(3,266)	(30,495)	(50,576)
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.

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

(in thousands of euros)

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

(in thousands of euros)

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

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	2	140	72	133	57	11	6	607
Past due 30 - 60 days	37	5	11	3	13	108	7	33	2	6	225
Past due 60 - 90 days	18	38	3	33	2	96	2	140	1	14	347
Past due over 90 days	-	466	-	721	-	1,851	-	3,832	-	333	7,203
Total	**199**	**528**	**37**	**759**	**155**	**2,127**	**142**	**4,062**	**14**	**359**	**8,382**

(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	41	215	410	800
Past due 30 - 60 days	34	26	13	2,274	2,347
Past due 60 - 90 days	3	83	19	957	1,062
Past due over 90 days	-	1,658	-	10,215	11,873
Total	**171**	**1,808**	**247**	**13,856**	**16,082**

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)

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

(in thousands of euros)

2019	Individuals	Sole proprietors	Corporate entities	Total
impaired loans	15,211	2,971	46,876	65,058
Fair value of collateral	22,733	3,382	36,209	62,324

In 2020, the Bank received EUR 6,414 thousand from the sale of pledged collateral (2019: EUR 4,892 thousand).

3.5 LIQUIDITY RISK

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

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

The liquidity position of the Bank is monitored with two additional ratios, the LCR (Liquidity Coverage Ratio) and the NSFR (Net Stable Funding Ratio). The ratios have been introduced globally as the principal liquidity measures necessary to ensure the minimum short-term liquidity, as well as the long-term balanced funding of banks. Other than the abovementioned indicators, the Bank also calculates the so-called "Stress LCR", which is meant for monitoring the Bank's liquidity position in uncertain (stress) situations. It measures the stress LCR over a 3-month period. LCR is calculated in accordance with the Delegated Act regulation (2015/61) and Delegated Act regulation (2018/1620). LCR and NSFR indicators are regularly reported to ALCO, the Risk Committee, the Audit Committee, the Supervisory Board, and to the Bank of Slovenia, through regulatory reporting requirements.

Liquidity ratios	31.12.2020	31.12.2019	31.12.2018
LCR	225%	198%	216%
NSFR	151%	137%	145%

The LCR and NSFR ratios during the last period were stable, showing no significant movement, and compliant with the regulatory limit. Internal RAF limits were set at 105% until May 2020, and after that at 100% for LCR and 100% for NSFR. The liquidity buffer is comprised entirely out of assets, mostly withdrawable central bank reserves and government bonds.

The Treasury and ALM Department manages the liquidity at operating level 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 within 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 2020	Contractual maturity - undiscounted						
	Carrying amount	Gross nominal Inflow/ (outflow)	Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years
ASSETS							
Cash, cash balances at Central Banks and other demand deposits at banks	532,774	532,774	509,243	-	-	-	23,531
Non-trading financial assets mandatorily at fair value through profit or loss	3,918	3,918	-	6	629	-	3,283
Financial assets at fair value through other comprehensive income	270,882	247,033	51,622	641	42,760	144,510	7,500
Loans and receivables:*	2,071,984	2,091,629	64,533	53,980	360,251	888,945	723,920
- debt securities	-	-	-	-	-	-	-
- loans to banks	47,064	47,086	18,472	1	28,118	495	-
- loans to non-bank customers	2,014,185	2,033,808	42,471	46,834	332,133	888,450	723,920
- advances	10,735	10,735	3,590	7,145	-	-	-
Total assets	**2,879,558**	**2,875,354**	**625,398**	**54,627**	**403,640**	**1,033,455**	**758,234**
LIABILITIES							
Financial liabilities measured at amortised cost:	2,587,995	2,587,995	2,270,432	67,780	142,528	105,199	2,056
- deposits from banks and central banks	3,525	3,525	1,192	-	2,333	-	-
- deposits from non-bank customers	2,483,283	2,483,283	2,250,108	67,025	136,717	28,555	878
- loans from banks and central banks	79,601	79,601	600	565	2,645	74,616	1,175
- other financial liabilities	21,586	21,586	18,532	190	833	2,028	3
Total liabilities	**2,587,995**	**2,587,995**	**2,270,432**	**67,780**	**142,528**	**105,199**	**2,056**
Net liquidity gap	**291,563**	**287,359**	**(1,645,034)**	**(13,153)**	**261,112**	**928,256**	**756,178**

(in thousands of euros)

As at 31 December 2019	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	2,627,172	2,640,971	333,371	81,106	333,326	1,062,649	830,519
Total liabilities	2,348,961	2,348,922	1,954,222	79,844	176,660	128,753	9,482
Net liquidity gap	**278,211**	**292,049**	**(1,620,851)**	**1,262**	**156,666**	**933,896**	**821,037**

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 the specific liquidity profile of some balance sheet items, particularly with sight deposits, of which balances during 2020 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 a 1-month period. Moreover, on the assets side, the financial assets available for sale include ECB eligible bonds, which are treated as liquidity reserves entering in the 1-month maturity bucket. The stable part of sight deposits and ECB eligible bonds counterbalance the 1-month net liquidity gap.

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

(in thousands of euros)

As at 31 December 2020	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)	**161**	**161**	**4**	**11**	**29**	**106**	**11**
- Inflow		161	4	11	29	106	11
- Outflow		-	-	-	-	-	-
FX Forward (FWD)	**9**	**9**	**6**	**3**	**-**	**-**	**-**
- Inflow	-	270	170	100	-	-	-
- Outflow	-	(261)	(164)	(97)	-	-	-
Interest rate cap (CAP)	**4**	**4**	**-**	**-**	**-**	**-**	**4**
- Inflow	-	4	-	-	-	-	4
- Outflow	-	-	-	-	-	-	-
Total	**174**	**174**	**10**	**14**	**29**	**106**	**15**
DERIVATIVE LIABILITIES							
Derivatives held for trading:							
Interest rate swap (IRS)	**161**	**(161)**	**(4)**	**(11)**	**(29)**	**(106)**	**(11)**
- Inflow	-	-	-	-	-	-	-
- Outflow	-	(161)	(4)	(11)	(29)	(106)	(11)
FX Forward (FWD)	**9**	**(9)**	**(6)**	**(3)**	**-**	**-**	**-**
- Inflow	-	261	164	97	-	-	-
- Outflow	-	(270)	(170)	(100)	-	-	-
Total	**170**	**(170)**	**(10)**	**(14)**	**(29)**	**(106)**	**(11)**
Net liquidity gap		**4**	**-**	**-**	**-**	**-**	**4**

(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
Total assets	118	118	4	12	29	75	(2)
Total liabilities	(110)	(110)	(4)	(12)	(28)	(68)	2
Total gap		**8**	**-**	**-**	**1**	**7**	**-**

Contractual maturity

(in thousands of euros)

As at 31 December 2020	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	21	21	-	(5)	(15)	(47)	88
- Inflow		249	-	8	24	101	116
- Outflow		(228)	-	(13)	(39)	(148)	(28)
Total	**21**	**21**	**-**	**(5)**	**(15)**	**(47)**	**88**
DERIVATIVE LIABILITIES							
IRS	27,846	(27,523)	(378)	(1,423)	(3,610)	(14,899)	(7,213)
- Inflow		2,026	97	104	157	742	926
- Outflow		(29,549)	(475)	(1,527)	(3,767)	(15,641)	(8,139)
Total	**27,846**	**(27,523)**	**(378)**	**(1,423)**	**(3,610)**	**(14,899)**	**(7,213)**
Net liquidity gap		**(27,502)**	**(378)**	**(1,428)**	**(3,625)**	**(14,946)**	**(7,125)**

(in thousands of euros)

As at 31 December 2019	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	1,139	1,130	(1)	43	36	327	725
Total liabilities	18,950	(18,793)	(1,097)	(540)	(2,558)	(11,933)	(2,665)
Total gap		**(17,663)**	**(1,098)**	**(497)**	**(2,522)**	**(11,606)**	**(1,940)**

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

The increase in cash flows from derivatives in 2020 is the result of new IRS contracts made with the aim of providing interest rate hedges 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 2020	Up to 1	1-3 months	3-12months	1-5 years	Over 5	Total
Documentary and commercial letters of credit	160	-	-	-	-	160
Guarantees	6,736	1,418	49,593	32,363	912	91,022
Credit commitments	162,156	17,722	105,843	19,499	56,425	361,645
Total	**169,052**	**19,140**	**155,436**	**51,862**	**57,337**	**452,827**

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

Financial assets available to support future funding

(in thousands of euros)

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

(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	-	305,572	1,262
Loans and advances other than loans on demand	-	21,153	418,027	1,576,594
Other assets	-	-	-	83,193

Bank's liquidity reserves

(in thousands of euros)

	31.12.2020		31.12.2019	
	Gross Carrying amount	Fair value amount	Gross Carrying amount	Fair value amount
Balances with central bank (deducted by mandatory reserve)	453,643	453,643	209,498	209,498
Balances with clearing agent for BIPS payments	16,408	16,408	10,704	10,704
Balances with banks up to 90 days	37,715	37,715	37,164	37,164
Unencumbered debt securities issued by sovereigns	217,718	202,877	261,885	248,488
Unencumbered debt securities eligible for use as collateral with central bank	28,015	26,966	43,686	42,129
Loans to customers eligible for use as collateral with central bank	393,868	325,047	415,621	304,839
Total	**1,147,367**	**1,062,656**	**978,558**	**852,822**

3.6 BANKING BOOK EQUITY RISK

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

The Bank acquired these equity investments mainly by taking possession of financial collaterals that it received during its normal lending activity. These investments are managed with the aim of disposal, in order to recover the Bank's credit exposures. In fact, most of these positions were already disposed of in previous years, therefore only a very limited equity position is still left in the Bank`s balance sheet as of the end of 2020 (note 23).

3.7 MARKET RISK

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

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

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

3.7.1 Derivative instruments

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

3.7.2 Currency Risk

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

For the purpose of measuring currency risk, the Bank takes into account the notional position (i.e. net difference between assets and liabilities in that currency) in a particular currency, FX spot transactions, and currency derivatives.

The Bank measures and monitors currency risk on a daily basis:
- 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% confidence level over a 1-day period. The VaR measure is proportional to the particular currency's open position, as well as to the exchange rate volatility.

The average utilisation of the FX VaR limit in 2020 stood at 7.15%. Due to high volatility caused by the COVID-19 pandemic, the Bank adjusted the Fixed Income VaR limit during the year. The average limit utilisation amounted to 69.21%.

Bank VAR by risk type

(in thousands of euros)

	12 months to 31 December 2020			12 months to 31 December 2019		
	Average	High	Low	Average	High	Low
Foreign exchange risk (trading and non-trading portfolio)	2.1	8.1	0.6	1.2	7.8	0.3
Debt securities risk (banking book)	482.9	896.0	190.0	307.0	717.0	206.0
Total VAR	**485.0**	**904.1**	**190.6**	**308.2**	**724.8**	**206.3**

Currency risk

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

(in thousands of euros)

As at 31 December 2020	EUR	USD	Other	Total
ASSETS				
Cash, cash balances at central banks and other demand deposits at banks	513,587	10,688	8,499	532,774
Financial assets held for trading	165	9	-	174
Non-trading financial assets mandatorily at fair value through profit or loss	1,333	2,585	-	3,918
Financial assets at fair value through other comprehensive income	224,312	46,570	-	270,882
Financial assets at amortised cost	2,052,084	297	19,603	2,071,984
- Loans to banks	29,928	-	17,136	47,064
- Loans to non-bank customers	2,011,433	288	2,464	2,014,185
- Advances	10,723	9	3	10,735
Derivatives - hedge accounting	21	-	-	21
Total	**2,791,502**	**60,149**	**28,102**	**2,879,753**
LIABILITIES				
Financial liabilities held for trading	161	9	-	170
Financial liabilities measured at amortised cost	2,501,940	57,576	28,479	2,587,995
- Deposits from banks and central banks	3,525	-	-	3,525
- Deposits from non-bank customers	2,397,615	57,190	28,478	2,483,283
- Loans from banks and central banks	79,601	-	-	79,601
- Other financial liabilities	21,199	386	1	21,586
Derivatives – hedge accounting	26,187	1,659	-	27,846
Total	**2,528,288**	**59,244**	**28,479**	**2,616,011**
Currency gap	**263,214**	**905**	**(377)**	**263,742**
Part of off-balance-sheet commitments sensitive to exchange rate changes in the year	**360,617**	**199**	**-**	**360,816**

(in thousands of euros)

As at 31 December 2019	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**

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 the contractual maturity for fixed-rate positions, and by the next contractual re-pricing date for floating rate positions.

Fixed interest rate positions were also included in the table below presenting the sensitivity to interest rate risk because it is assumed that after contractual expiring they will be reinvested or refinanced according to the prevailing market conditions.

Interest rate risk

(in thousands of euros)

As at 31 December 2020	Carrying amount	Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years	Non-interest bearing
ASSETS							
Cash and balances with central banks and other demand deposits at banks	532,774	368,057	-	-	-	-	164,717
Financial assets held for trading - derivatives	174	91	4	70	-	-	9
Non-trading financial assets mandatorily at fair value through profit or loss	3,918	-	94	541	-	3,283	-
Financial assets at fair value through other comprehensive income	270,882	62,454	63,219	53,132	70,590	7,637	13,850
Financial assets at amortised cost:	2,071,984	1,872,248	66,336	121,553	1,076	16	10,755
- loans to banks	47,064	46,569	495	-	-	-	-
- loans to non-bank customers	2,014,185	1,825,679	65,841	121,553	1,076	16	20
- advances	10,735	-	-	-	-	-	10,735
Derivatives – Hedge accounting	21	21	-	-	-	-	-
Total assets	**2,879,753**	**2,302,871**	**129,653**	**175,296**	**71,666**	**10,936**	**189,331**
LIABILITIES							
Financial liabilities - derivatives	170	91	-	70	-	-	9
Financial liabilities measured at amortised cost:	2,587,995	2,257,522	82,469	196,677	28,552	1,189	21,586
- deposits from banks and central banks	3,525	3,525	-	-	-	-	-
- deposits from non-bank customers	2,483,283	2,249,840	67,025	136,677	28,552	1,189	-
- loans from banks and central banks	79,601	4,157	15,444	60,000	-	-	-
- other financial liabilities	21,586	-	-	-	-	-	21,586
Derivatives – Hedge accounting	27,846	22,677	2,475	2,694	-	-	-
Total liabilities	**2,616,011**	**2,280,290**	**84,944**	**199,441**	**28,552**	**1,189**	**21,595**
Total interest repricing gap	**263,742**	**22,581**	**44,709**	**(24,145)**	**43,114**	**9,747**	**167,736**

(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
Total assets	2,628,430	2,034,441	100,260	186,705	169,538	68,602	68,884
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**

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

Interest rate risk is measured from two perspectives: it is analysed through the impact of market rate 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 is regularly reported to the Asset and Liability Committee:
- Sensitivity of net interest income to a yield curve parallel shift of +/-50 bps over a 1-year time period;
- Sensitivity of economic value or net present value of future cash flows to a yield curve parallel shift of +/- 100 bps and +/- 200 bps;
- Quarterly, the bank calculates Shift Sensitivity according to the Basel Committee of Banking Supervision (BCBS) prescribed shock scenarios.

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

- Sight model: assets and liabilities without contractual maturities are classified into specific time buckets, based on their estimated sensitivity on changes in interest rates. The sight model was updated in December 2020 with newer data, as part of a periodic review done by ISP HQ. Overall, the main effect of the changes came from the increase in volumes, as modelled sight deposits increased by 14.5%. This translated to an increase in shift sensitivity of sight deposits to an overall shift sensitivity of about 25%.
- Prepayment model: based on the probability that some of the loans outstanding will be paid off earlier than originally scheduled. Consequently, the planned cash flows of the outstanding loans are modified for the level of prepayment rate.
- Expected loss model: cash flows of outstanding loans are modified for the probability of default, and LGD rate originating from credit risk.
- Fund Transfer Pricing model: the entire spread on loans above the reference rate is divided into cost of funding and commercial spread. For interest-sensitive cash flows, only the spread representing cost of funding is taken.

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

(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		**0,1**	**5,7**	**5,8**	**-**	**11,6**	**11,6**	**(0,3)**	**(4,3)**	**(4,6)**	**(0,1)**	**(4,5)**	**(4,6)**
Asset		**2,5**	**4,8**	**7,3**	**5,1**	**9,8**	**14,9**	**(2,5)**	**(3,7)**	**(6,2)**	**(2,6)**	**(3,7)**	**(6,3)**
Sight Loans*		2,5	-	2,5	5,1	-	5,1	(2,5)	-	(2,5)	(2,6)	-	(2,6)
Securities	FX	-	0,3	0,3	-	0,7	0,7	-	(0,3)	(0,3)	-	(0,3)	(0,3)
	FL	-	0,1	0,1	-	0,2	0,2	-	-	-	-	-	-
Loans	FX	-	0,7	0,7	-	1,4	1,4	-	(0,6)	(0,6)	-	(0,7)	(0,7)
	FL	-	3,7	3,7	-	7,5	7,5	-	(2,8)	(2,8)	-	(2,7)	(2,7)
Other Financial Assets	FX	-	-	-	-	-	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities		**(2,4)**	**(1,1)**	**(3,5)**	**(5,1)**	**(2,2)**	**(7,3)**	**2,2**	**1,0**	**3,2**	**2,5**	**1,0**	**3,5**
Sight Deposits		(2,4)	-	(2,4)	(5,1)	-	(5,1)	2,2	-	2,2	2,5	-	2,5
Securities Issued	FX	-	-	-	-	-	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-	-	-	-	-	-
Debts	FX	-	(0,8)	(0,8)	-	(1,6)	(1,6)	-	0,8	0,8	-	0,8	0,8
	FL	-	(0,3)	(0,3)	-	(0,6)	(0,6)	-	0,2	0,2	-	0,2	0,2
Other Financial Liabilities	FX	-	-	-	-	-	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-	-	-	-	-	-
Derivatives		**-**	**2,0**	**2,0**	**-**	**4,0**	**4,0**	**-**	**(1,6)**	**(1,6)**	**-**	**(1,8)**	**(1,8)**

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

(in million of euros)

		Total	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y
Total		**451.35**	**656.33**	**(149.53)**	**(97.55)**	**9.28**	**(6.59)**	**39.41**
Asset		**3,044.64**	**2,252.74**	**201.41**	**224.48**	**222.71**	**94.72**	**48.58**
Sight Loans*		532.77	532.77	-	-	-	-	-
Securities	FX	225.65	138.13	29.32	50.69	7.51	-	-
	FL	30.36	30.21	0.15	-	-	-	-
Loans	FX	924.02	293.95	150.89	157.28	192.83	85.21	43.85
	FL	1,331.84	1,257.67	21.05	16.51	22.37	9.51	4.73
Other Financial Assets	FX	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-
Liabilities		**(2,560.23)**	**(2,024.52)**	**(262.55)**	**(179.10)**	**(64.93)**	**(29.14)**	**-**
Sight Deposits*		(2,201.79)	(1,681.70)	(247.96)	(178.20)	(64.79)	(29.14)	-
Securities Issued	FX	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-
Debts	FX	(275.47)	(260.29)	(14.37)	(0.68)	(0.13)	-	-
	FL	(82.97)	(82.53)	(0.22)	(0.22)	(0.01)	-	-
Other Financial Liabilities	FX	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-
Derivatives		**(33.06)**	**428.11**	**(88.39)**	**(142.93)**	**(148.50)**	**(72.17)**	**(9.17)**

* *Sight loans and deposits are those available on demand*
General note: Cash flows in the table above also include future interests.

Sensitivity of net interest income of the Bank as of 31 December 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		**(1,3)**	**7,3**	**6,0**	**(2,5)**	**14,7**	**12,2**	**1,2**	**(6,4)**	**(5,2)**	**1,6**	**(7,5)**	**(5,9)**
Asset		**0,9**	**6,3**	**7,2**	**1,9**	**12,7**	**14,6**	**(0,9)**	**(5,5)**	**(6,4)**	**(1,1)**	**(6,4)**	**(7,5)**
Sight Loans*		0,9	-	0,9	1,9	-	1,9	(0,9)	-	(0,9)	(1,1)	-	(1,1)
Securities	FX	-	0,1	0,1	-	0,2	0,2	-	(0,1)	(0,1)	-	(0,1)	(0,1)
	FL	-	0,2	0,2	-	0,4	0,4	-	(0,1)	(0,1)	-	(0,1)	(0,1)
Loans	FX	-	0,6	0,6	-	1,2	1,2	-	(0,5)	(0,5)	-	(0,6)	(0,6)
	FL	-	5,4	5,4	-	10,9	10,9	-	(4,8)	(4,8)	-	(5,6)	(5,6)
Other Financial Assets	FX	-	-	-	-	-	-	-	-	0,00	-	-	0,00
	FL	-	-	-	-	-	-	-	-	0,00	-	-	0,00
Liabilities		**(2,2)**	**(1,1)**	**(3,3)**	**(4,4)**	**(2,1)**	**(6,5)**	**2,1**	**1,1**	**3,2**	**2,7**	**1,2**	**3,9**
Sight Deposits		(2,2)	-	(2,2)	(4,4)	-	(4,4)	2,1	-	2,1	2,7	-	2,7
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	-	1,0	1,0
	FL	-	(0,2)	(0,2)	-	(0,3)	(0,3)	-	0,2	0,2	-	0,2	0,2
Other Financial Liabilities	FX	-	-	-	-	-	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-	-	-	-	-	-
Derivatives		**-**	**2,1**	**2,1**	**-**	**4,1**	**4,1**	**-**	**(2,0)**	**(2,0)**	**-**	**(2,3)**	**(2,3)**

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

(in million of euros)

		Total	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y
Total		**376.01**	**514.24**	**(110.29)**	**(94.15)**	**31.36**	**(0.03)**	**34.90**
Asset		**2,739.24**	**1,929.88**	**168.04**	**223.45**	**271.65**	**97.31**	**48.92**
Sight Loans*		262.73	262.73	-	-	-	-	-
Securities	FX	279.62	145.56	28.81	63.87	41.37	-	-
	FL	40.65	40.32	0.27	0.07	-	-	-
Loans	FX	880.66	277.25	117.47	143.01	209.98	88.59	44.36
	FL	1,275.58	1,204.02	21.49	16.50	20.30	8.72	4.56
Other Financial Assets	FX	-	-	-	-	-	-	-
	FL	-	-	-	-	-	-	-
Liabilities		**(2,313.35)**	**(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	(90.27)	(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)**

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 the shift scenario, the rates drop below zero, in order to replicate actual circumstances on the market. In addition, for representation of sight deposits, a model which estimates the partial and delayed changes in customer rates, compared to changes in market interest rates, is used. In order to control quantitatively the Bank's interest margin risk, a limit of EUR -9 mln has been set up for a +/- 50 b.p. interest rates change. The impact on the Bank's interest margin due to an increase in market interest rates of 50 b.p., according to data as of end 2020, would be positive, in the amount EUR 5.9 mln, while in case of an instantaneous 50 b.p. drop in interest rates, the impact would be negative EUR 4.6 mln. The largest part of the margin sensitivity arises from the floating rate loans to customer exposure class.

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

(in million of euros)

Currency	Total	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y
EUR	**9.52**	(2.25)	4.78	5.74	3.52	3.08	(5.35)
USD	**(0.19)**	(0.05)	(0.05)	(0.09)	0.00	0.00	0.00
CHF	**(0.01)**	(0.01)	0.00	0.00	0.00	0.00	0.00
Other	**0.00**	0.00	0.00	0.00	0.00	0.00	0.00
Total Shift	**9.32**	**(2.31)**	**4.73**	**5.65**	**3.52**	**3.08**	**(5.35)**
Limit	**11**						
Utilization %	**84.7%**						

The table presents the interest rate risk exposure of the Bank in terms of shift sensitivity (EVE - economic value of equity), which measures the change of net present value of future cash flows as a result of a parallel shift of market yield curve by 100 b.p. Each time bucket shows the impact of interest rate change on net present value of cash flows, distributed by time tenors according to residual time to the next repricing. The most significant exposure is in EUR currency, while the risk for other currencies is less material. The total exposure limit for +100 bps shift sensitivity amounts to EUR 11 million, while the actual exposure at reference date is EUR 9.32 million. For the EVE measure, a floor assumption on market rates for negative shocks is in place. In 2019, EBA, through its Guidelines (EBA/GL/2018/02), introduced a non-constant floor that starts from a value of -100 b.p. and increases by 5 b.p. per year until eventually reaching 0% for maturities of 20 years and more. The main generators of interest rate risk are medium/long-term assets with fixed interest rates (e.g. housing loans, debt financial instruments), which are hedged by interest rate swaps. On the liabilities side, the highest portion of shift sensitivity derives from the sight deposits, where sight deposits are slotted into time buckets of up to 15 years, according to the sight deposit model.

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

Time bucket	Limit	Exposure
0–18 months	+/- 8 mln EUR	0,26 mln EUR
from 19 months–5 years	+/- 11 mln EUR	8.53 mln EUR
>5 years	+/- 8 mln EUR	(0.70) mln EUR

The impact of a 100 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	Total	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y
EUR	**5.14**	(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	**5.08**	**(3.09)**	**3.64**	**5.34**	**1.33**	**2.06**	**(4.20)**
Limit	**11.0**						
Utilization %	**46.20%**						

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

(in million of euros)

Currency (mln EUR)	Total	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y
EUR	**19.00**	(4.45)	9.42	11.21	6.75	5.77	(9.70)
USD	**(0.38)**	(0.09)	(0.09)	(0.20)	0.00	0.00	0.00
CHF	**(0.03)**	(0.03)	0.00	0.00	0.00	0.00	0.00
Other	**0.00**	0.00	0.00	0.00	0.00	0.00	0.00
Total Shift	**18.59**	**(4.57)**	**9.33**	**11.03**	**6.75**	**5.77**	**(9.70)**
Reg. Capital (Dec. 20)	**296.01**						
% of Reg. Capital (<15%)	**6.28%**						

The impact of a +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)	0.00	0.00	0.00	0.00	0.00
CHF	**(0.04)**	(0.03)	0.00	0.00	(0.01)	0.00	0.00
Other	**0.00**	0.00	0.00	0.00	0.00	0.00	0.00
Total Shift	**10.31**	**(6.07)**	**7.17**	**10.42**	**2.55**	**3.85**	**(7.61)**
Reg. Capital (Dec. 19)	**271.1**						
% of Reg. Capital (<15%)	**3.79%**						

The 200 b.p. shift is a standard measure defined by the Banking supervisor that treats an impact thereof on Economic value that exceeds 20% Tier I capital as outlying excessive risk exposure. As of 31 December 2020, the sensitivity reached 3.79% of Tier I capital. The 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.

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

(in thousands of euros)

As at 31 December 2020	Carrying amount	Market risk measure	
		Trading portfolios	Non-trading portfolios
Assets subject to market risk			
Cash, cash balances at central banks and other demand deposits at banks	532,774	-	532,774
Financial assets held for trading	174	174	-
Non-trading financial assets mandatorily at fair value through profit or loss	3,918	-	3,918
Financial assets at fair value through other comprehensive income	270,882	-	270,882
Derivatives - hedge accounting	21	-	21
Financial assets at amortized cost:	2,071,984	-	2,071,984
- debt securities	-	-	-
- loans to banks	47,064	-	47,064
- loans to non-bank customers	2,014,185	-	2,014,185
- advances	10,735	-	10,735
Liabilities subject to market risk			
Financial liabilities held for trading	170	170	-
Derivatives - hedge accounting	27,846	-	27,846
Financial liabilities measured at amortized cost:	2,587,995	-	2,587,995
- deposits from banks and central banks	3,525	-	3,525
- deposits from non-bank customers	2,483,283	-	2,483,283
- loans from banks and central banks	79,601	-	79,601
- loans from non-bank customers	-	-	-
- other financial liabilities	21,586	-	21,586
Fair value changes of the hedged items in portfolio hedge of interest rate risk	22	-	22

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

(in thousands of euros)

As at 31 December 2019	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:	2,226,091	-	2,226,091
- 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	-	-	-
- other financial liabilities	27,223	-	27,223
Fair value changes of the hedged items in portfolio hedge of interest rate risk	344	-	344

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 an 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 the 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

3.9.1 Fair value of financial instruments not measured at fair value

(in thousands of euros)

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

(in thousands of euros)

	2019				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and current accounts with banks	-	276,905	-	276,905	276,905
Loans to banks	-	39,929	21,105	61,034	61,034
Loans to non-bank customers	-	74,134	1,861,107	1,935,242	1,933,921
Financial liabilities					
Deposits from banks and central bank	-	2,107	4,698	6,805	6,774
Deposits from non-bank customers	-	1,990,924	235,018	2,225,942	2,225,968
Loans from banks and central banks	-		88,633	88,633	88,996
Loans from non-bank customers	-	-		-	-

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.

3.9.2 Fair value of financial instruments measured at fair value

Derivatives

Accounting for derivatives at fair value is performed on the basis of observable market inputs. Derivative financial instruments subject to valuation are: interest rate swaps, interest rate caps, foreign exchange swaps, forward foreign exchange contracts. The fair value of derivatives is determined with the support of Murex, a system developed by the parent company. The system takes input data from the official money market quotations and from the 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 investment and loan cluster 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 a fixed contractual rate to a floating rate according to the market benchmark, i.e. EURIBOR. The interest rate risk is hedged using the fair value method, and the effectiveness of the hedging relationship is regularly measured by calculating the prospective and retrospective effectiveness tests. For the prospective test, the Bank measures the relation between interest rate sensitivity of the derivative instrument, and sensitivity of the hedged item. In the retrospective test, the so-called "Dollar Offset Method"is used, where the fair value changes of the 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 a range of 80% and 125%.

For 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), on the other hand, is necessary to assess the hedge effectiveness from the view of 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 the hedged risk that match the hedging derivative.

According to the efficiency tests, as of 31 December 2020, all interest rate hedges were effective.

As of 31 December 2020, the Bank had 63 interest rate swap (IRS) contracts, 4 of which were underwritten in 2020, 23 are designated to hedge interest rates arising from fixed rate debt financial instruments, 22 for fixed rate housing loans, and 18 for large individual loans.

Hedged item	Number of IRS contracts	
	2020	2019
Fixed income bond-micro hedge	23	26
Housing loans packages-macro hedge	22	21
Individual loans-micro hedge	18	16
Total	**63**	**63**

The cumulative fair value of all the Bank`s IRS contracts, as of 31 December 2020, amounted to EUR -27.8 mln (2019: EUR -17.8 mln).

Notional of hedging derivatives

(in thousands of euros)

Benchmark interest rate	Maturity				Total
	Up to 1 year	From 1 year to 2 years	Over 2 years and up to 5 years	Over 5 years	
LIBOR USD					
Micro Fair Value Hedge	-	11,506	26,637	-	38,143
Debt securities - FVOCI		11,506	26,637		38,143
Total LIBOR USD	**-**	**11,506**	**26,637**	**-**	**38,143**
EURIBOR (Other benchmarks not affected by the reform)					
Micro Fair Value Hedge	10,000	10,000	87,725	210,206	317,931
Loans and advances			51,325	202,706	254,031
Debt securities - FVOCI	10,000	10,000	36,400	7,500	63,900
Macro Fair Value Hedge	-	-	-	149,278	149,278
Loans and advances				149,278	149,278
Total EURIBOR	**10,000**	**10,000**	**87,725**	**359,484**	**467,209**
Total	**10,000**	**21,506**	**114,362**	**359,484**	**505,352**

The amounts relating to items designated as hedging instruments:

(in thousands of euros)

Interest rate risk	Nominal amount		Carrying amount			
			2020	2019	2020	2019
	2020	2019	Assets	Assets	Liabilities	Liabilities
Interest rate swaps - hedge of bonds	102,043	132,365	-	302	3,309	2,661
Interest rate swaps - hedge of loans - MICRO HEDGE	254,031	217,371	-	491	14,290	9,463
Interest rate swaps - hedge of loans - MACRO HEDGE	149,278	155,981	21	346	10,247	6,826
Total	**505,352**	**505,717**	**21**	**1,139**	**27,846**	**18,950**

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	
	2020	2019	2020	2019
	Assets	Assets	Assets	Assets
Bonds	112,595	147,595	2,733	1,880
Loans - micro hedge	268,185	226,243	13,666	8,353
Loans - macro hedge	167,725	177,230	10,219	6,466
Total	**548,505**	**551,068**	**26,618**	**16,699**

IBOR reform

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs), with alternative almost risk-free rates (referred to as ' IBOR reform'). The Bank has exposure to IBORs on the following financial instruments, which are in the scope of the reform, since their maturities are beyond 31.12.2021:

- Mortgage loans linked to CHF Libor (stipulated with retail clients in the past; the outstanding amount as of 31.12.2020 is 2.8 mln CHF);
- Interest Rate Swaps linked to USD Libor, for hedging bonds denominated in USD (the outstanding nominal amount of hedged bonds as of 31.12.2020 is 46,843 mln USD).

It is expected that most reforms affecting the Bank will be completed by the end of 2021. However, consultations and possible regulatory changes are still in progress. Considering the currently available information after December 2021, the LIBOR publication is no longer guaranteed for almost all LIBOR currencies, while the publication of certain USD LIBOR tenors could be supported until mid-2023. Beyond these dates, the so-called "fallback"arrangements will be triggered in existing contracts. Fallback arrangements are legal clauses included in financial contracts which indicate the replacement rate or the calculation methodology to be applied to determine the replacement rate in case of temporary non-availability, discontinuation, or declaration of non-representativeness of the contractual rate by a competent authority.

The Bank is in the process of amending or preparing to amend the contractual terms for outstanding CHF Libor linked Mortgage Loan contracts, in response to IBOR reform, and there is still uncertainty over the timing and the methods of transition in the jurisdiction that the Bank operates in.
Derivative products are generally governed worldwide by the rules set out by the International Swaps and Derivatives Association (ISDA). The ISDA recently launched the new IBOR Fallback Protocol for existing derivatives contracts, and the IBOR Fallback Supplement for new contracts, to provide derivatives contracts with a hardwired fallback language, which will be triggered at the time of an IBOR discontinuation or, in case of LIBOR, if the Financial Conduct Authority declared that the rate is no longer representative of the underlying market. The Bank is in the process of adhering to the Protocol and Supplement, and further activities for the inclusion of the respective fallback clauses in the framework agreements for derivatives with client are envisaged to be put in place.

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

The main risks to which the Bank is exposed as a result of IBOR reform are operational. For example, the renegotiation of CHF Libor Mortgage loan contracts through bilateral negotiation with customers, the updating of contractual terms, updating of systems that use IBOR curves, and revision of operational controls related to the reform. Financial risk is predominantly limited to interest rate risk. The Bank's IBOR exposures with maturities beyond 31.12.2021 on floating-rate loans to customers include Euribor and CHF LIBOR. The Bank has IBOR exposure on its floating-rate investment securities (bonds) indexed to Euribor, and exposures in derivatives (interest rate swaps and caps) indexed to Euribor and USD Libor. EONIA is used as the remuneration rate for cash collateral held at ISP Milan, deriving from the Margin Call exchange.

The reform of Euribor, the rate prevalent in the Eurozone, is now completed, and consisted of a change to the underlying calculation methodology, based on the so-called "hybrid approach", which made EURIBOR compliant to the BMR.

EONIA, another important reference rate for the Eurozone, which represented the level at which bank exchanges overnight loans on the interbank market, has also been involved in this widespread process of revision. Before 1 October 2019, EONIA was calculated as the weighted average of overnight unsecured lending transactions in the EU. From that date, EONIA has been calculated as the sum of the new benchmark – €STR – plus an 8.5 b.p. spread. EONIA will cease to be published on 3 January 2022, and solely €STR will be published as of that moment. The Bank has revised its internal treasury and risk management systems to calculate EONIA using the new methodology. The alternative reference rate for CHF LIBOR is the Swiss Average Rate Overnight (SARON), and for USD LIBOR is the Secured Overnight Financing Rate (SOFR). Changes to the contractual terms of outstanding mortgage loans indexed to CHF LIBOR to incorporate new benchmark rates are not yet complete, as at 31 December 2020.

The Bank is actively working on the amendment of existing mortgage loans with retail customers. These amendments will have to incorporate a fallback provision stating that the existing CHF LIBOR benchmark rate will be replaced by SARON, when LIBOR ceases to exist. The Bank plans to finish the process of amending the contractual terms by the end of 2021.

The Bank is monitoring the progress of transition from the IBORs to the new benchmark rates, by reviewing the total amounts of contracts that have yet to transition to an alternative benchmark rate, and the amounts of such contracts that include an appropriate fallback clause.

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

The calculation methodology of Euribor changed during 2019. In July 2019, the European Financial Services and Markets Authority granted authorisation with respect to Euribor under the European Union Benchmarks Regulation. This allows market participants to continue to use Euribor for both existing and new contracts, and the Bank expects that Euribor will continue to exist as a benchmark rate for the foreseeable future. Since the Euro is the domestic currency, the majority of the Bank's financial instruments and products for clients are linked to Euribor, where the Bank already introduced adequate fallback clauses in the new loan agreements with clients in 2020, which may be further updated during 2021, following the final recommendations of the ECB's Euro Risk Free working group.

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)

	2020			
	Level 1	Level 2	Level 3	Total
Asset				
Derivatives held for trading	-	174	-	**174**
Financial assets at FVOCI:	210,749	59,939	194	**270,882**
- debt	197,133	59,899	-	**257,032**
- equities*	13,616	40	194	**13,850**
FVTPL mandatorily:	-	3,283	635	**3,918**
- equities	-	699	-	**699**
- debt	-	2,584	-	**2,584**
- loans and advances	-	-	635	**635**
Derivatives – hedge accounting	-	21	-	**21**
Liabilities				
Derivatives held for trading	-	170	-	**170**
Derivatives – hedge accounting	-	27,846	-	**27,846**

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**

* *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)

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

(in thousands of euros)

	Mandatorily FVTPL		FVOCI	
Financial assets	***Equities***	***Loans***	***Equities***	***Securities***
As at 1 January 2019	**1,447**	**882**	**194**	**14,959**
Sale/Disposals	(1,093)	(246)	-	(15,053)
Purchases	-	-	-	-
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 2020, the Bank held an investment portfolio of 18 bonds measured at fair value through other comprehensive income (FVOCI), of which 3 are due to illiquidity, measured with the marked to model approach, while 15 were measured on market prices (level 1).
The Bank classifies securities as fair value level 2, in the case that the quoted market prices are not readily and regularly available. The reason that the prices are not available for the abovementioned bonds is that the presence of an active market could not be verified.

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

4. NET INTEREST INCOME

(in thousands of euros)

	2020	Restated 2019
Interest income calculated using the effective interest rate	**42,983**	**41,511**
Derivatives – hedge accounting	1,059	1,093
Financial assets at fair value through other comprehensive income	1,674	1,700
Loans and advances:	40,233	38,601
- debt securities	38	46
- to banks	-	845
- to other customers (without financial lease)	40,186	37,708
- other financial assets	9	2
Other assets (sight deposits within banks)	17	117
Other interest income	**1,589**	**1,991**
Held for trading (derivatives)	54	19
Non-trading financial assets mandatorily at fair value through profit or loss	61	27
Financial lease	1,474	1,945
Total income	**44,572**	**43,502**
Interest expense		
Derivatives – held for trading	44	19
Derivatives – hedge accounting	5,828	5,141
Financial liabilities measured at amortised cost:	982	1,389
- Bank deposits and borrowings	-	4
- Other customers	763	994
- Other borrowed funds	211	377
- leasing	8	14
Other	2	1
Financial assets (negative interest rate)	1,468	1,187
- Loans to banks	1,061	825
- FVOCI securities	407	362
Total expense	**8,324**	**7,737**
Total	**36,248**	**35,765**

Interest income includes EUR 1,277 thousand of interest income on impaired loans (2019: EUR 5,296 thousand).

5. DIVIDEND INCOME

(in thousands of euros)

	2020	2019
Financial assets FVOCI	128	161
Total	**128**	**161**

6. NET FEE AND COMMISSION INCOME

(in thousands of euros)

	2020	2019
Fee and commission income		
From current bank account management	4,763	4,233
From payment services	11,582	11,003
From credit card business	4,813	8,283
From interbanking operations	4,672	5,708
From loans granted (not included in EIR)	5,034	5,209
From guarantees given	994	1,099
From safe renting	129	124
From pension fund management	550	513
Depositary services	800	775
From payment systems management	1,585	1,768
From brokering of loans and insurance contract on behalf of others	371	316
Total fee and commission income from contracts with customers	**35,293**	**39,031**
Fee and commission expense		
For security trading	68	75
For loan brokerage on behalf of others	24	61
For custody services	212	273
For credit card processing	8,504	8,009
For payment transactions	817	3,596
Commitment fee for unused credit lines	470	419
Total fee and commission expense	**10,095**	**12,433**
Total	**25,198**	**26,598**

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)

	2020	2019
Net gains or losses of financial assets measured at fair value through other comprehensive income	2,419	-
• Gains	2,419	-
• Losses	-	-
Net gains or losses of financial assets measured at amortised cost	1,945	6,893
• Gains	2,057	8,257
- Sale	-	6,090
- Write-off in previous years	2,057	2,167
• Losses	(112)	(1,364)
- Sale	-	(965)
- Write-off	(112)	(399)
Total	**4,364**	**6,893**

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

(in thousands of euros)

	2020	2019
Trading of derivatives	1	(19)
- Realized	259	(11)
- Unrealized	(258)	(8)
Currency trading	784	948
Total	**785**	**929**

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

(in thousands of euros)

	2020	2019
Gains	1,674	664
- Realized	6	543
- Unrealized	1,668	121
Losses	(698)	-
- Realized	-	-
- Unrealized	(698)	-
Total	**976**	**664**

10. NET GAINS OR LOSSES FROM HEDGE ACCOUNTING

(in thousands of euros)

	2020	2019
Net effect on derivatives used as hedging instruments	(11,243)	(14,890)
Net effect on hedged items	9,920	14,785
Total	**(1,323)**	**(105)**

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

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

(in thousands of euros)

	2020	2019
Profit on sale of property and equipment	37	287
Total	**37**	**287**

12. OTHER OPERATING INCOME/EXPENSES

12a Other operating income

(in thousands of euros)

	2020	2019
Rents	1,151	2,537
Proceeds from the sale of repossessed leased assets	27	20
Other	172	36
Total operating income	**1,350**	**2,593**

12b Other operating expenses

(in thousands of euros)

	2020	2019
Taxes	-	(229)
Membership fees	-	(84)
Maintenance expenses arising from leased assets	(32)	(43)
Expenses from investment property under the operating lease	(3)	-
Expenses related to services from credit card business	(42)	(40)
Fraud from credit card business	(31)	(8)
Licences	(22)	(22)
Other	(196)	(417)
Total other operating expenses	(326)	(843)
Net operating income/expenses	**1,024**	**1,750**

13. ADMINISTRATIVE EXPENSES

(in thousands of euros)

	2020	2019
Staff cost	**27,864**	**30,908**
Salaries	19,429	20,680
Social security	1,473	3,075
Contributions to the pension scheme	1,792	1,862
Other*	5,170	5,291
Other administrative expenses	**12,380**	**11,659**
Material costs	1,022	1,704
IT costs	4,807	3,939
Rents	840	857
Professional services	1,056	1,116
Advertising and marketing	539	505
Consulting, auditing, legal and notarial fees**	247	261
Maintenance, governance and security of tangible fixed assets	1,475	1,137
Postal services and rent of communication lines	1,329	1,511
Travel costs	21	73
Education, scholarships and tuition fees	119	193
Bank's supervision	549	180
Other expenses	376	183
Total	**40,244**	**42,567**

* *Other staff costs relate to holiday incentives and accruals for bonuses.*
** *The Bank paid EUR 56 thousand for the statutory audit of financial statements, and EUR 38 thousand for other assurance services. Assurance services relate mostly to the quarterly audit of reporting package inputs for the preparation of the consolidated financial statements of the Intesa Sanpaolo Group. These figures do not include value added tax.*

14. DEPRECIATION AND AMORTISATION

(in thousands of euros)

	2020	2019
Amortisation	2,868	2,736
Depreciation	1,381	1,215
Total	**4,249**	**3,951**

15. PROVISIONS

(in thousands of euros)

	2020	2019
Release of provisions for off-balance sheet exposures (note 46)	427	1,868
Release of provisions for legal proceedings and future contract obligations	505	450
Additional provisions for termination of employment for business reasons	-	(155)
Additional provisions / release of provisions for cash returns from discontinued products	754	(650)
Additional provisions for maintaing minimun yield of Pension Fund	(34)	-
Total	**1,652**	**1,513**

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

16. IMPAIRMENTS

(in thousands of euros)

	2020	2019
Impairments of financial assets, not measured at fair value through profit and loss		
Impairments of financial assets at fair value through other comprehensive income (Note 23)	**9**	**19**
Impairments on assets measurement at amortised cost:	**(5,236)**	**(2,767)**
- debt securities	1	-
-loans to banks	9	10
- loans to non-bank customers*	(5,369)	(2,401)
- impairments of advances (Note 27)	162	(152)
- impairments of other assets	(39)	(224)
Impairment of non-financial assets	**(622)**	**86**
Impairment on imovable properties (Note 29)	(444)	-
Impairment on investment property (Note 30)	(178)	86
Total	**(5,849)**	**(2,662)**

* *In the amount EUR 5,369 thousand is included income from collected interest in the amount of EUR 1,516 thousand written-off in previous periods (2019: EUR 1,911 thousand).*

17. PROFIT OR LOSS FROM NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE, NOT QUALIFYING AS DISCONTINUED OPERATIONS

(in thousands of euros)

	2020	2019
Rents	43	1,355
Maintenance expenses	(195)	(427)
Impairment	(712)	(604)
Gains from sale	501	3,698
Losses from sale	(40)	(605)
Total	**(403)**	**3,417**

18. TAX EXPENSE

(in thousands of euros)

	2020	2019
Current tax expense	2,608	4,886
Deferred tax (note 39)	102	323
Total	**2,710**	**5,209**

(in thousands of euros)

	2020	2019
Total income tax	**15,547**	**28,963**
Prima facie tax calculated at a tax rate of 19%	2,954	5,503
Income form already taxed dividends	(28)	(30)
Expenses not deductible for tax purposes:		
- staff costs not assessable for tax	173	178
- other expenses not deductible for tax purposes	27	46
- other non-tax deductible expenses	(1)	(3)
Tax reliefs	(415)	(485)
Total income tax	**2,710**	**5,209**
Effective tax rate	*17,43%*	*17,98%*

For 2020 the income tax rate was 19% (2019: 19%).

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

Changes in income tax from items that are recognised in FVOCI

(in thousands of euros)

	31.12.2020		
	Before tax	Tax (expense) benefit	After tax
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**3,732**	**(710)**	**3,022**
Fair value changes of equity instruments measured at fair value through other comprehensive income	221	(41)	(180)
Tangible assets	3,520	(670)	2,850
Actuarial gains or losses on defined benefit pensions plans	(9)	1	(8)
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	**(1,066)**	**203**	**(863)**
Valuation gains or losses taken to OCI	2,346	(445)	1,901
Transferred to profit or loss	(3,412)	648	(2,764)
TOTAL	**2,666**	**(507)**	**2,159**

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**
Valuation gains or losses taken to OCI	4,606	(875)	3,731
Valuation gains or losses taken to equity	(1,569)	298	(1,271)
TOTAL	**4,574**	**(872)**	**3,702**

19. EARNINGS PER SHARE

(in thousands of euros)

	2020	2019
Net profit for the year	12,837	23,754
Weighted average number of ordinary shares in issue	530,398	530,398
Basic and diluted profit per share (in EUR per share)	**24,20**	**44,79**

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, and there are no share options schemes.

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

(in thousands of euros)

	2020	2019
Cash in hand	18,631	21,748
Balances with central banks	493,581	241,706
Other sight deposits	20,571	13,462
Gross cash, cash balances at central banks and other demand deposits at banks	**532,783**	**276,916**
Impairment	(9)	(11)
Net cash, cash balances at central banks and other demand deposits at banks	**532,774**	**276,905**
Including: mandatory reserve liability to central banks	23,531	21,504

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

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

21. DERIVATIVE FINANCIAL INSTRUMENTS

The majority of the derivative contracts are 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 the fixed interest rate.

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

(in thousands of euros)

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

(in 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)	8,111	108	-
Interest rate cap (PUT)	8,111	-	108
Interest rate			
Interest rate cap (CALL)	3,709	8	-
Interest rate cap (PUT)	-	-	-
Total held for trading derivatives	**20,733**	**118**	**110**
Hedging derivatives			
Interest rate swap – micro hedge	349,736	794	12,124
Interest rate swap – macro hedge	155,981	345	6,826
Total derivative for hedge accounting	**505,717**	**1,139**	**18,950**

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)

	2020	2019
Equities:		
- listed	699	693
- unlisted	-	-
Debt securities:	-	-
- listed	-	-
- unlisted*	2,584	-
Loans and advances	635	703
Total financial assets mandatorily at fair value through profit or loss	**3,918**	**1,396**

* *The amount relates to Visa preferred bond.*

Movement

(in thousands of euros)

	2020	2019
At beginning of year	**1,396**	**3,019**
Sale/ Disposals of loans	(107)	(168)
Valuation of loans	39	(11)
Valuation of shares	6	339
Sale of shares	-	(1,783)
New recognition of shares	2,584	-
At end of year	**3,918**	**1,396**

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(in thousands of euros)

	2020	2019
Equities:		
- listed	14	17
- unlisted	13,836	15,567
Debt securities:		
Government securities:		
- listed	229,053	273,319
- unlisted	-	-
Other debt securities		
- listed	28,025	43,691
- unlisted	-	-
Total financial assets FVOCI (Gross)	**270,928**	**332,594**
Impairment	(46)	(55)
Total financial assets FVOCI	**270,882**	**332,539**

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 11.4 million are encumbered.

Company	2020		2019	
	Fair value	Dividend income	Fair value	Dividend income
Visa INC US	2,903	4	4,681	29
Intesa Sanpaolo s.p.a.	14	-	17	3
Bankart	194	123	194	129
Sklad za reševanje bank	10,699	-	10,654	-
Swift	40	-	38	-
Total	**13,850**	**127**	**15,584**	**161**

Movement

(in thousands of euros)

	2020	2019
At beginning of year	**332,539**	**314,631**
Acquisitions	54,911	126,893
Impairment (Note 16)	(9)	19
Interest accrual	6,395	6,328
Paid interests	(6,866)	(6,812)
Disposals (sale and redemption)	(109,770)	(115,664)
Gains/losses from changes in fair value	2,577	6,124
Exchange differences	(4,214)	1,020
Derecognition	(4,681)	-
At end of year	**270,882**	**332,539**

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 2019)	**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**
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Release of impairments	(9)	-	-	(9)
At the end of year (31 December 2019)	**46**	**-**	**-**	**46**

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)

	2020	2019
Corporate bonds	-	1,262
Total	**-**	**1,262**

Fair value of corporate bonds, as at 31.12.2019, amounted to EUR 1,277 thousand.

25. LOANS TO BANKS

(in thousands of euros)

	2020	2019
Placements with other banks	47,086	61,063
Gross loans to banks	**47,086**	**61,063**
Impairment	(22)	(29)
Net loans to banks	**47,064**	**61,034**

As at 31 December 2020, EUR 28,206 thousand are pledged to cover liabilities from interest rate swaps (2019: EUR 21,153 thousand).

26. LOANS TO NON-BANK CUSTOMERS

(in thousands of euros)

	2020	2019
Loans to individuals:	**732,866**	**715,286**
- Overdrafts	20,387	24,728
- Credit cards	9,060	11,294
- Term loans	151,562	147,898
- Mortgages	547,554	526,447
- Financial leases	4,303	4,919
Loans to sole proprietors	**53,207**	**52,759**
Financial leases	7,253	7,239
Other loans	45,954	45,520
Loans to corporate entities	**1,282,656**	**1,216,452**
Financial leases	37,967	37,241
Other loans	1,244,689	1,179,211
Gross loans and advances	**2,068,729**	**1,984,497**
Less provision for impairment	(54,544)	(50,576)
Net loans and advances	**2,014,185**	**1,933,921**

Movement in provisions for impairments

(in thousands of euros)

2020	Corrected Opening balance	Increases due to origination and acquisition	Decreases due to derecognition	Changes due to change in credit risk (net)	Changes due modifications of the methodology*	Decrease in allowance account due to write-offs	Other adjustments	Closing balance
Allowances for financial assets (Stage 1)	**10,463**	**4,648**	**(2,751)**	**(2,416)**	**3,157**	**-**	**1**	**13,102**
Individuals	4,694	1,791	(500)	(584)	1,835	-	-	7,236
Sole proprietors	792	610	(294)	(350)	466	-	(3)	1,221
Corporate entities	4,977	2,247	(1,957)	(1,482)	856	-	4	4,645
Allowances for debt instruments (Stage 2)	**3,305**	**3,646**	**(1,195)**	**(78)**	**843**	**-**	**-**	**6,521**
Individuals	1,450	2,169	(413)	186	725	-	-	4,117
Sole proprietors	279	269	(103)	-	45	-	-	490
Corporate entities	1,576	1,208	(679)	(264)	73	-	-	1,914
Allowances for credit-impaired debt instruments (Stage 3)	**36,808**	**3,729**	**(4,538)**	**536**	**1,304**	**(2,837)**	**(81)**	**34,921**
Individuals	10,671	1,135	(802)	514	311	(1,712)	-	10,117
Sole proprietors	2,195	132	(146)	(116)	135	(121)	(637)	1,442
Corporate entities	23,942	2,462	(3,590)	138	858	(1,004)	556	23,362
Total	**50,576**	**12,023**	**(8,484)**	**(1,958)**	**5,304**	**(2,837)**	**(80)**	**54,544**

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

(in thousands of euros)

2019	Opening balance as reported	Corrections of previous periods	Corrected opening balance	Increases due to origination and acquisition	Decreases due to derecognition	Changes due to change in credit risk (net)	Decrease due to sale	Decrease in allowance account due to write-offs	Other adjustments	Closing balance
Allowances for financial assets (Stage 1)	**8,757**	**-**	**8,757**	**3,911**	**(2,378)**	**173**		**-**	**-**	**10,463**
Individuals	3,315	-	3,315	1,184	(749)	943		-	1	4,694
Sole proprietors	822	-	822	322	(135)	(213)		-	(4)	792
Corporate entities	4,620	-	4,620	2,405	(1,494)	(557)		-	3	4,977
Allowances for debt instruments (Stage 2)	**6,741**	**-**	**6,741**	**847**	**(4,227)**	**(62)**		**-**	**6**	**3,305**
Individuals	526	-	526	114	(1,732)	2,542		-	-	1,450
Sole proprietors	356	-	356	98	(102)	(73)		-	-	279
Corporate entities	5,859	-	5,859	635	(2,393)	(2,531)		-	6	1,576
Allowances for credit-impaired debt instruments (Stage 3)	**72,367**	**9,589**	**81,956**	**1,373**	**(778)**	**5,453**	**(39,081)**	**(12,155)**	**40**	**36,808**
Individuals	8,895	1,216	10,111	121	(528)	3,372	-	(2,423)	18	10,671
Sole proprietors	4,828	1,423	6,251	84	(574)	732	(4,146)	(152)	-	2,195
Corporate entities	58,644	6,950	65,594	1,168	324	1,349	(34,935)	(9,580)	22	23,942
Total	**87,865**	**9,589**	**97,454**	**6,131**	**(7,383)**	**5,564**	**(39,081)**	**(12,155)**	**46**	**50,576**

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

Customer loan portfolio by economic sector

At the end of 2020, the share of loans to non-bank customers on the domestic market amounted to 89.9%, and the remaining share of 8.3% related to the EU market, and 1.7% to other markets respectively.

(in thousands of euros)

	2020	2019
Non-financial entities	985,695	922,270
- transport and storage	259,947	245,137
- manufacturing	211,807	197,580
- wholesale and retail trade	196,287	179,922
- information and communication	46,171	53,024
- accommodation and service activities	27,035	21,877
- construction	14,485	14,612
- other non-financial entities	229,963	210,118
Government	12,407	16,412
Other public entities	184,097	190,972
Financial entities	99,008	85,850
Individuals	732,866	715,286
Sole proprietors	53,208	52,759
Non-profit institutions serving households	1,448	948
Gross loans and advances to customers	**2,068,729**	**1,984,497**
Less provision for impairment	(54,544)	(50,576)
Net loans and advances to customers	**2,014,185**	**1,933,921**

Analysis of financial leases by residual maturity:

(in thousands of euros)

	2020	2019
Future minimum lease payment (finance lease)		
Not later than 1 year	14,893	14,344
Later than 1 year and not later than 5 years	29,418	28,309
Later than 5 years	5,212	6,746
Total	**49,523**	**49,399**
Impairment	(6,207)	(5,836)
Present value of future minimum lease payments:		
Not later than 1 year	13,298	12,888
Later than 1 year and not later than 5 years	26,608	26,103
Later than 5 years	3,410	4,572
Total	**43,316**	**43,563**

Forborne exposures as at 31.12.2020

(in thousands of euros)

	Corporates	Individuals	Total
Performing exposures	8,069	6,159	**14,228**
Instruments with modifications in their terms and conditions	22,487	3,857	**26,344**
Refinancing	1,056	1,105	**2,161**
Total gross carrying amount	**31,612**	**11,121**	**42,733**
Performing	(667)	(1,995)	**(2,662)**
Instruments with modifications in their terms and conditions	(11,483)	(2,033)	**(13,516)**
Refinancing	(842)	(985)	**(1,827)**
Accumulated impairment, and provisions	**(12,992)**	**(5,013)**	**(18,005)**
Performing exposures	7,402	4,164	**11,566**
Instruments with modifications in their terms and conditions	11,004	1,824	**12,828**
Refinancing	214	120	**334**
Net carrying amount	**18,620**	**6,108**	**24,728**

Forborne exposures as at 31.12.2019

(in thousands of euros)

	Corporates	Individuals	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**

Forbearance measures are concessions made to a borrower facing or about to face financial difficulties, by agreeing to change the agreed contractual terms and conditions, so as to make them for the borrower more favourable for the borrower than those that would be granted under normal conditions. Forbearance measures are conceded in order to maximise collection and minimise the risk of default. A forborne exposure can be performing or non-performing, and related to retail or corporate customers.

According to the Bank regulations, individual loan contracts are flagged as exposures with forbearance measures, for the purpose of evidencing the portfolio of forborne exposures, i.e. exposures 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, the rules governing the forborne exposures did not have a significant impact on the Bank's income statement.

Loans and advances are further analysed as 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)

	2020	2019
Commissions receivables	405	447
Cheques	1	1
Receivables	707	1,086
Claims to Europay	4,710	8,705
Claims to citizens	656	812
Claims relating to interbank settlement for Visa card	1,198	5,424
Claims due to recovery procedures	478	667
Other	3,421	4,027
Gross advances	**11,576**	**21,169**
Impairments	(841)	(1,054)
Net advances	**10,735**	**20,115**

Movement of impairment:

(in thousands of euros)

As at 31 December 2018 as previously reported	**1,356**
Correction of open balance	359
As at 31 December 2018 - restated	**1,715**
Additional provision for impairment	223
Amounts recovered during the year	(71)
Included in income statement	152
Write off of impairment	(211)
Release of impairments due to sale	(602)
As at 31 December 2019	**1,054**
Additional provision for impairment	48
Amounts recovered during the year	(210)
Included in income statement	(162)
Write off of impairment	(51)
Release of impairments due to sale	-
As at 31 December 2020	**841**

28. NON-CURRENT ASSETS HELD FOR SALE

(in thousands of euros)

	2020	2019
At the beginning of the year	**9,191**	**14,592**
Sale	(362)	(6,753)
Transfer to inventories repossessed assets	(1,559)	-
Transfer out of repossessed assets	-	3,769
Transfer to investment property	-	(1,812)
Impairments	(712)	(605)
At the end of the year	**6,558**	**9,191**

The premises held for sale were valued in accordance with the offered prices from the identified buyer.

29. PROPERTY, PLANT AND EQUIPMENT

Based on the accounting policy, where property is valued in accordance with the revaluation model, the Bank checks the adequacy of the value of fixed assets every year.

Real estate appraisal was performed by an independent real estate appraiser, based on cash-generating units (by individual location). In the valuation, the market comparison method and the method based on the capitalisation of returns were used. The appraiser also assessed value in use, but this method was not applied because it was lower than fair value less costs to sell. The valuation was performed according to the condition of the real estate on 31.12.2020.

Location	Type of asset	Valuation technique	Assumptions and parameters used (inputs for the level 3)
Costeline areas of Slovenia (Koper, Izola, Piran, Nova Gorica, Sežana)	Commercial – retail & offices	The Income Approach through a capitalisation approach	EUR 9 to 25 per sq. m per month for the office area Non-recoverable costs: 3.0% of gross rental income CAPEX: EUR 0 - 100 per sq. m of gross area for office space Cap Rate: 7.50%-9%
Central regional area- excluding Ljubljana (Postojna, Pivka, Logatec, Ilirska Bistrica)	Commercial – retail & offices	The Income Approach through a capitalisation approach	average rent of EUR 5 - 9 per sq. m per month Non-recoverable costs: 3.0% of gross rental income CAPEX: EUR 0 - 100 per sq. m of gross area for office space Cap Rate: 9%-10%
	Parking	A Direct Sales Comparison approach	EUR 8,000 per parking place
Ljubljana	Commercial – retail & offices	The Income Approach through a capitalisation approach	Rent of EUR 11 per sq. m per month for office space Non-recoverable costs: 3.0% of gross rental income CAPEX: 0 Cap Rate: 8.25%- 8,75%
Maribor; Celje, Jesenice	Commercial – retail & offices	The Income Approach through a capitalisation approach	Rent of EUR 8 - 11 per sq. m per month for office space and EUR 60 per parking spaces per month Non-recoverable costs: 3.0% of gross rental income CAPEX: 0 Cap Rate: 8.75%

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

(in thousands of euros)

	Land and buildings	Hardware equipment	Other equipment	Right of use	Total
Movement in year 2019					
Net book amount as at 31 December 2018	**26,430**	**750**	**794**	**-**	**27,974**
Increase related to property received from leasing contracts	-	-	-	4,605	4,605
Opening net book amount as at 1 January 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 31 December 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 2019	**26,000**	**926**	**1,274**	**4,161**	**32,361**
Movement in year 2020					
Opening net book amount	**26,000**	**926**	**1,274**	**4,161**	**32,361**
Additions	44	394	186	172	796
Disposals	-	-	-	(32)	(32)
Depreciation charge	(1,089)	(345)	(269)	(1,165)	(2,868)
Closing net book amount before valuation	**24,955**	**975**	**1,191**	**3,136**	**30,257**
Revaluation of properties recognised in OCI	3,520	-	-	-	3,520
Impairment of properties	(444)	-	-	-	(444)
Closing net book amount	**28,031**	**975**	**1,191**	**3,136**	**33,333**
As at 31 December 2020					
Cost	30,791	5,155	10,116	5,364	51,426
Accumulated depreciation	(2,760)	(4,180)	(8,925)	(2,228)	(18,093)
Net book amount as at 31 December 2020	**28,031**	**975**	**1,191**	**3,136**	**33,333**

In 2020, there was no property, plant and equipment pledged (2019; nil).

30. INVESTMENT PROPERTY

(in thousands of euros)

	2020	2019
As at 1 January 2019	**1,898**	**-**
Transfer from non-current assets held for sale	-	1,812
Decreases	-	-
Impairments	(178)	86
As at 31 December 2019	**1,720**	**1,898**

The valuation of investment property was performed by an independent real estate appraiser. In estimating value, the method of market comparisons and the yield-based capitalisation method were used. The appraiser also assessed value in use, but this method was not applied because it was lower than fair value less costs to sell. The valuation was performed according to the condition of the real estate on 31.12.2020.

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

In 2020, the Bank generated EUR 186 thousand in rental income from investment property (2019: nil). The cost of maintaining investment property amounted to EUR 3 thousand (2019: nil).

31. INTANGIBLE ASSETS

(in thousands of euros)

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

The Bank has not pledged any intangible fixed assets.

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

In 2020, the Bank did not recognise any expenditure related to development in the income statement. All development expenditure in 2020 was capitalised as intangible fixed assets, of which staff expenses amounted to EUR 739 thousand (2019: EUR 604 thousand).

32. OTHER ASSETS

(in thousands of euros)

	2020	2019
Accruals	825	2,292
Inventory	5	5
Taxes and contributions	381	562
Repossessed assets*	5,756	1,491
Prepayments	2,246	91
Other	3	4
Impairment on repossessed assets	(2,929)	(224)
Total	**6,287**	**4,221**

* *In 2020, transfer from non-current assets held for sale in the amount EUR 4,225 thousand.*

The increase in prepayments in 2020 relates to the acquisition of goods for finance leases.

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

Movement in impairment

(in thousands of euros)

	2020	2019
At beginning of year	**224**	**2,862**
Additions included in Income statement under impairments	39	224
Diminution due to sale (included in sale effect)	-	(2,862)
Transfer from non-current assets held for sale	2,666	-
At end of the year	**2,929**	**224**

33. DEPOSITS FROM BANKS AND CENTRAL BANKS

	2020	2019
Demand deposits	1,191	2,085
Term deposits	2,334	4,689
Total	**3,525**	**6,774**

34. DEPOSITS FROM NON-BANK CUSTOMERS

(in thousands of euros)

	2020	2019
Individuals		
- demand deposits	1,184,711	1,028,815
- term deposits	485,522	501,319
Sole proprietors		
- demand deposits	112,259	97,683
- term deposits	2,207	1,957
Corporate customers		
- demand deposits	648,703	539,973
- term deposits	49,881	56,221
Total	**2,483,283**	**2,225,968**

As at 31 December 2020, deposits in the amount of EUR 8,665 thousand have been pledged for covering potential credit risk on assets (2019: EUR 9,674 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)

	2020		2019	
	Short term	Long term	Short term	Long term
In local currency	-	79,601	-	84,130
In foreign currency	-	-	-	4,866
Total	**-**	**79,601**	**-**	**88,996**

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

36. OTHER FINANCIAL LIABILITIES

(in thousands of euros)

	2020	2019
Unpaid commissions	312	354
Liabilities form credit card business	2,045	4,088
Not yet processed payment	5,948	6,322
Unpaid dividend	-	118
Creditors	1,241	2,138
Salaries	2,272	2,603
Deferred income	5,122	6,612
Lease liabilities	3,151	4,163
Other	1,495	825
Total	**21,586**	**27,223**

37. PROVISIONS FOR LIABILITIES AND CHARGES

(in thousands of euros)

	2020	2019
Provisions for restructuring	58	1,249
Provisions for legal proceedings	321	833
Provisions for off-balance sheet liabilities	2,112	2,540
Provision for redundancies	728	985
Provisions for cash returns from discontinued products (AMEX)	15	776
Reservation for maintain min yield on Pension Fund	25	-
Total	**3,259**	**6,383**

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 credit, and irrevocable contractual commitments for granted, but undrawn loans. Off-balance sheet exposures are modified by the credit conversion factor (CCF), and then the same principles as for provisions for on-balance sheet items are applied.

As at 31 December 2020, the Bank was involved in several legal proceedings against it. Contingent liabilities in this respect are estimated in the amount of EUR 671 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 321 thousand.

Movement in provisions 2020:

(in thousands of euros)

	Off-balance sheet commitments	Litigation	Restructuring and other commitments towards employees	Other	Reservation to maintain min yield on Pension Fund	Total
At beginning of year (1 January)	**2,540**	**833**	**2,234**	**776**	**-**	**6,383**
Additional provision	3,562	246	13	-	34	3,855
Releases	(3,989)	(751)	-	(754)	-	(5,494)
Included in income statement under provisions	(427)	(505)		(754)	34	(1652)
Included in income statement under staff cost			13			13
Utilised		(7)	(1,462)	(7)	(9)	(1,485)
As at 31 December 2020	**2,113**	**321**	**785**	**15**	**25**	**3,259**

(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	-	42	650	4,924
Releases	(6,100)	(450)	(42)	-	(6,592)
Included in income statement under provisions	(1,868)	(450)	-	650	(1,668)
Utilisation of provisions	(3)	(450)	(1,009)	(224)	(1,686)
As at 31 December 2019	**2,540**	**833**	**2,234**	**776**	**6,383**

38. RETIREMENT BENEFIT OBLIGATIONS

(in thousands of euros)

	2020	2019
Retirement severance pay and long service bonuses	2,871	2,866
Total	**2,871**	**2,866**

Movements

(in thousands of euros)

	2020	2019
At beginning of year	**2,866**	**2,898**
Additional provisions (included staff costs)	183	155
Amounts recovered during the year	-	-
Charged to income statement	**183**	**155**
Change in actuarial gains/loss	9	33
Utilised provisions	(187)	(220)
At end of year	**2,871**	**2,866**

The actuarial calculation of long-term benefits is based on the Book Reserve Method. The calculation estimates the liability to employees incurred in the accounting period (current service cost) and the increase in the present value of the liability in the period, due to the approaching of time for fulfilment of obligations (interest cost). The increase in liabilities in the period exceeding the abovementioned two estimates, less payments in the period, represents the actuarial loss/gain in the period.

In the actuarial calculation, the following assumptions were used:
- 1.8% salary growth in the Bank, 2.5% average salary growth in the country;
- the fluctuation of employees in 2020 by age class;
- discount rate in line with 15-year high-rated corporate bonds in the Euro area (1.09% per annum);
- mortality tables of the Slovenian population from 2007;
- minimum conditions for acquiring the right to a state pension;
- benefits related to severance pay upon retirement, and jubilee bonuses arising from the employment contract of individual employees.

39. DEFERRED INCOME TAXES

Deferred tax liabilities

(in thousands of euros)

	2020	2019
Valuation of tangible fixed assets	3,289	2,621
Valuation and impairments of assets FVOCI	328	1,111
Actuarial gain	72	73
Total	**3,689**	**3,805**

Deferred tax assets

(in thousands of euros)

	2020	2019
Retirement and other employee benefits	345	345
Provisions for reorganisation	6	119
Valuation and impairments of assets FVOCI	19	118
Loan impairments from leasing contracts	12	16
Other (depreciation above tax prescribed rate)	57	41
Total	**439**	**639**
Net deferred tax liabilities	**(3,250)**	**(3,166)**

Movement in deferred taxes (offsetting of assets and liabilities)

(in thousands of euros)

	2020	2019
At beginning of year	3,166	1,971
Deferred taxes charged in income statement	102	323
Derecognition of FVOCI shares	(525)	-
Valuation and impairment of FVOCI (note 18)	(162)	875
Valuation of tangible fixed assets (note 18)	670	-
Actuarial gain (note 18)	(1)	(3)
At end of year	**3,250**	**3,166**

Deferred taxes charged in income statement

(in thousands of euros)

	2020	2019
Retirement and other employee benefits	-	14
Provisions for reorganization	113	56
Impairment on FVOCI financial assets	2	216
Loan impairments from leasing contracts	4	56
Other (depreciation above tax prescribed rate)	(17)	(19)
Total (note 18)	**102**	**323**

40. OTHER LIABILITIES

(in thousands of euros)

	2020	2019
Accruals	1,064	690
Prepayments received	1,133	851
Taxes and contributions	1,174	1,497
Total	**3,371**	**3,038**

41. SHARE CAPITAL

(in thousands of euros)

	Number of shares	Ordinary shares	Share premium	Treasury shares
As at 31 December 2018	531,359	22,173	7,499	(49)
As at 31 December 2019	531,359	22,173	7,499	(49)
As at 31 December 2020	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 issued shares.

42. ACCUMULATED OTHER COMPREHENSIVE INCOME

(in thousands of euros)

	2020	2019
Revaluation reserves:		
- Debt securities	1,125	1,989
- Equity securities	227	2,292
- Tangible fixed assets	14,023	11,171
Actuarial gain/losses	689	697
Total	**16,064**	**16,149**

Movement

(in thousands of euros)

Movement	Revaluation reserves
As at 1 January 2019	**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 gain/loss	(30)
Gain from valuation of tangible fixed assets	-
As at 31 December 2019	**16,149**
Equity securities	**(2,064)**
- Fair value adjustment, net of tax	180
- Derecognition	(2,244)
Debt securities	**(863)**
- Fair value adjustment, net of tax	1,901
- Disposals and realised gains	(2,073)
- Valuation of hedge items transferred to profit or loss	(691)
Other comprehensive income	**2,842**
Actuarial gain/loss	(9)
Gain from valuation of tangible fixed assets, net of tax	2,851
As at 31 December 2020	**16,064**

43. RESERVES FROM PROFIT AND RETAINED EARNINGS

(in thousands of euros)

	2020	2019
Legal reserves	17,837	17,195
Statutory reserves	214,055	214,055
Other reserves from retained earnings	22,566	-
Treasury share`s reserves	49	49
Retained earnings	16,376	24,503
Total	**270,883**	**255,802**

Movement in reserves

(in thousands of euros)

	Legal reserves	Statutory reserves	Other reserves from earnings	Treasury shares reserves	Retained earnings	Total reserves
As at 1 January 2020	**17,195**	**214,055**	**-**	**49**	**24,503**	**255,802**
Net profit for the financial year	-	-	-	-	12,837	12,837
Dividends	-	-	-	-	-	-
Transfer to other reserves from earnings	-	-	22,566	-	(22,566)	-
Transfer to legal reserves	642	-	-	-	(642)	-
Net profit from reclassification of FVOCI equity instrument	-	-	-	-	2,244	2,244
As at 31 December 2020	**17,837**	**214,055**	**22,566**	**49**	**16,376**	**270,883**

(in thousands of euros)

	Legal reserves	Statutory reserves	Treasury shares Reserves	Retained earnings	Total reserves
As at 1 January 2019	**16,007**	**214,055**	**49**	**12,143**	**242,254**
Net profit for the financial year	-	-	-	23,754	23,754
Dividends	-	-	-	(10,178)	(10,178)
Transfer to legal reserves	1,188	-	-	(1,188)	-
Loss from disposals of FVOCI shares	-	-	-	(28)	(28)
As at 31 December 2019	**17,195**	**214,055**	**49**	**24,503**	**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, the part of the net profit that remains after any losses carried forward, legal reserves, and reserves for own shares that have been covered, can be allocated to statutory reserves.

44. 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 2019, the Bank, due to Bank of Slovenia restrictions connected to the COVID-19 crisis, did not disburse any dividends.

(in thousands of euros)

Distribution of the profit of the year	2020	2019
Net profit for the period	12,837	23,754
Net profit from reclassification of FVOCI instrument recognised in retained earnings	2,197	-
Allocation of the profit to the legal reserves (5%)	(642)	(1,188)
Net profit for the period available for distribution	**14,392**	**22,566**
Total net profit available for distribution at the AGM	**14,392**	**22,566**

45. CASH AND CASH EQUIVALENTS

(in thousands of euros)

	2020	2019
Cash and balances with central bank*	509,243	255,401
Loans and advances to banks	17,136	23,692
Total	**526,379**	**279,093**

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

46. CONTINGENT LIABILITIES AND COMMITMENTS

Capital commitments, At 31 December 2020, the Bank had no capital commitments (2019: nil)..

Credit related commitments. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, are exposed to credit risk, as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer, authorising a third party to draw funds from the Bank up to a stipulated amount under specific terms and conditions, are secured by the underlying shipments of goods to which they relate, and therefore have significantly less risk, also because the Bank does not generally expect the third party to draw funds under such agreements.

With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to losses in an amount equal to the total unused commitments. However, the credit risk is lower than the total unused commitments, since most commitments to extend credit are contingent upon customers' fulfilment of specific credit standards which need to be met before the carrying out of the drawing. The Bank monitors the term to maturity of credit commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The following table indicates the contractual amounts of the Bank's off-balance sheet position by type of instrument.

(in thousands of euros)

	2020	2019
Documentary and commercial letters of credit	160	160
Guarantees	112,519	175,904
Credit commitments:	361,968	347,189
- original maturity up to 1 year	243,049	221,536
- original maturity over 1 year	118,919	125,653
Total	**474,647**	**523,253**
Provisions for off-balance sheet liabilities:		
Guarantees	(913)	(1,314)
Credit commitments	(1,200)	(1,226)
Total	**472,534**	**520,713**

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 2019	**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	(3)	-	-	**(3)**
As at 31 December 2019	**1,253**	**138**	**1,149**	**2,540**
Additional impairments	**662**	**124**	**159**	**945**
Release of impairments	(824)	(65)	(483)	**(1,372)**
Included in income statement	**(162)**	**59**	**(324)**	**(427)**
Transfer from/to stage 1	-	(5)	(34)	(39)
Transfer from/to stage 2	5	-	1	6
Transfer from/to stage 3	34	(1)	-	33
Usage to cover guaranteed yield of pension fund	-	-	-	-
As at 31 December 2020	**1,130**	**191**	**792**	**2,113**

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

47. RELATED PARTY TRANSACTIONS

(in thousands of euros)

	Directors and employees with managerial contract		Management board		Supervisory board	
	2020	2019	2020	2019	2020	2019
Loans						
At beginning of the year	340	119	78	57	-	-
Loans issued during the year	-	334	24	78	-	-
Loan repayments during the year	(26)	(113)	(7)	(57)	-	-
At end of year	**314**	**340**	**95**	**78**	**-**	**-**
Impairment as at 31 December	3	3	1	1	-	-
Collateral received as at 31 December	997	979	88	88	-	-
Interest expense on deposits	2	2	1	-	-	-
Interest income earned	14	7	5	-	-	-
Other revenue – fee income	8	2	2	1	-	-
Remuneration	**1,616**	**1,736**	**1,718**	**1,767**	**105**	**111**

(in thousands of euros)

Related parties	Intesa SanPaolo Group without PBZ Group		PBZ Group		Intesa SanPaolo Group	
	2020	2019	2020	2019	2020	2019
Loans						
At beginning of the year	44,815	15,913	97,585	8,055	142,400	23,968
Loans issued during the year	1,114,099	1,737,998	50,834	93,842	1,164,933	1,831,840
Loan repayments during the year	(1,093,541)	(1,709,096)	(70,654)	(76,313)	(1,164,195)	(1,785,409)
At end of year	**65,373**	**44,815**	**77,765**	**25,584**	**143,138**	**70,399**
Impairments	31	34	37	38	68	72
Collateral received	40,000	40,000	45,765	51,000	85,765	91,000
Deposits						
At beginning of the year	76,794	29,804	-	-	76,794	29,804
Deposits received during the year	66,773	111,314	-	-	66,773	111,314
Deposits repaid during the year	(73,564)	(64,324)	-	-	(73,564)	(64,324)
At end of year	**70,003**	**76,794**	**-**	**-**	**70,003**	**76,794**
Interest expense on deposits	496	522	-	-	496	522
Interest income earned	92	807	814	835	906	1,642
Other revenue – fee income	80	128	26	21	106	149
Guarantees issued by the bank and commitments	9,837	6,058	174	567	10,011	6,625

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

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

GALLERIE D'ITALIA.
THREE MUSEUMS, A NATIONWIDE CULTURAL NETWORK.

Gallerie d'Italia enables Intesa Sanpaolo to share its artistic and architectural heritage with the general public: 1,000 of its artworks are displayed in historic palazzos in three cities, creating a unique network of museums.

Housed in a palace of great architectural importance, **Gallerie d'Italia - Piazza Scala, Milan** has a selection of two hundred 19th-century Lombard masterpieces from art collections owned by Fondazione Cariplo and Intesa Sanpaolo, with a dedicated exhibit on Italian art of the 20th century.

Gallerie d'Italia - Palazzo Leoni Montanari, Vicenza is home to art of the Veneto region from the 1700s as well as Attic and Magna Graecia pottery. It also holds one of the most important collections of Russian icons in the West.

Gallerie d'Italia - Palazzo Zevallos Stigliano, Naples hosts the Martyrdom of Saint Ursula, the last known painting by Caravaggio, alongside more than 120 examples of Neapolitan art dating from the early 17th to the early 20th century.

A fourth hub for **Gallerie d'Italia is currently under construction in Piazza San Carlo, Turin,** with a special focus on photography and the digital world

Cover photo:

The New Gallery in Milan with night-time passers-by was painted by the artist Carlo Canella, who specialised in perspective views of various Italian cities, particularly Milan and Verona, from the mid-1830s onwards.
His painting depicts the Galleria Vittorio Emanuele II a few years after it opened in 1867. The new Gallery found instant favour and acclaim among the people of Milan. The annals tell us that singers were the first to frequent the Gallery, trying out their voices in spontaneous singing contests beneath the great dome of the Octagon. Luxurious cafés, bookshops and numerous fashionable clothes stores flourished on the Gallery's ground floor.
The painting received instant praise for its novel subject matter and the artist's success in setting the scene in a gallery, which appears brightly lit despite the upper part being in shadow.

The piece is part of the collection on permanent display at Gallerie d'Italia - Piazza Scala, Intesa Sanpaolo's museum hub in Milan. Its 19th-century section begins with Neoclassicism and goes right through to the early 20th century, taking in a century of Italian art on the way, with historic paintings, Italian unification battles, vedute and landscapes, genre paintings and masterpieces of Symbolism.

CARLO CANELLA
(Verona, 1800 – Milan, 1879)
The New Gallery in Milan with night-time passers-by, 1870
oil on canvas, 60.90 x 54.50 cm
Intesa Sanpaolo Collection
Gallerie d'Italia - Piazza Scala, Milan

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