Gorenjska Banka

Annual Report

2022

Gorenjska banka, d. d., Kranj and the
Gorenjska banka Kranj Group

Gorenjska banka, d.d., Kranj
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Definitions and Glossary

Bank	Gorenjska banka, d.d., Kranj
CAR	Capital Adequacy Ratio
CAEIR	Credit Adjusted Effective Interest Rate that is Applied on Initial Recognition
CB	Central Bank
CCF	Credit Conversion Factor
CET1	Common Equity Tier 1
CoR	Cost of Risk
CRM	Customer Relationship Management
EAD	Exposure at Default
ECB	European Central Bank
ESG	Environmental, Social, and Governanc
FVTOCI	Fair Value through other Comprehensive Income
FVTPL	Fair Value through Profit or Loss
GDP	Gross Domestic Product
Group	Gorenjska banka Kranj Group
IFRS	International Accounting Standard
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
IVS	International Valuation Standards
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LTD	Loan to Deposit
LTV	Loan to Value
NPE	Non-performing Exposures
NPL	Non-performing Loans
NSFR	Net Stable Funding Ratio
OCI	Other Comprehensive Income
PD	Probability of Default
PELTRO	Pandemic Emergency Longer-term Refinancing Operation
POCI	Purchased or Originated Credit-impaired Financial Assets
RUS	Right of Use Assets
SME	Small and Medium Enterprises
SPPI	Solely Payments of Principal and Interest on the Principal Amount Outstanding
TLTRO	Targeted Longer-term Refinancing Operation

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Management Report

Key Financial Data

Amounts in thousands of EUR

	Bank			Group[1]		
	2022	2021	2020	2022	2021	2020
STATEMENT OF FINANCIAL POSITION, as at 31 December						
Total assets	2,311,015	2,270,571	2,137,537	2,315,059	2,274,739	2,140,197
Total deposits from the non-banking sector, amortised cost:	1,919,943	1,896,198	1,738,782	1,918,449	1,895,512	1,738,444
• corporates and other entities engaged in the activity	549,551	598,037	549,922	548,057	597,351	549,584
• individual clients	1,370,392	1,298,161	1,188,860	1,370,392	1,298,161	1,188,860
Total amount of loans to the non-banking sector:	1,485,608	1,276,055	1,184,667	1,479,561	1,268,761	1,175,321
• corporates and other entities engaged in the activity	957,902	846,230	806,435	951,855	838,936	797,089
• individual clients	527,706	429,825	378,232	527,706	429,825	378,232
Total equity	271,799	246,937	217,502	273,580	248,522	218,568
Value adjustments and provisions for credit losses	(22,970)	(22,844)	(22,321)	(22,947)	(22,835)	(22,359)
Total off-balance sheet operations	454,625	377,575	390,220	452,748	373,984	387,129
INCOME STATEMENT						
Net interest income	53,447	43,293	41,261	53,392	43,236	41,166
Net non-interest income	21,199	26,807	19,619	24,072	29,699	22,091
Labour costs, general and administrative costs	(39,174)	(36,797)	(32,745)	(39,664)	(37,091)	(32,996)
Depreciation	(2,700)	(2,598)	(2,483)	(4,834)	(4,534)	(4,373)
Impairment and provisioning	(1,950)	269	(1,873)	(1,939)	253	(1,933)
Profit before income tax	30,823	30,975	23,779	31,027	31,563	23,955
Tax related to profit/loss	(2,914)	(3,140)	(1,563)	(2,918)	(3,212)	(1,588)
STATEMENT OF COMPREHENSIVE INCOME						
Other comprehensive income before tax	(3,772)	1,122	511	(3,777)	1,125	509
Tax related to other comprehensive income before tax	725	218	(93)	725	218	(93)
NUMBER OF BRANCHES, as at 31 December	20	20	21	25	25	26
NUMBER OF EMPLOYEES, as at 31 December	414	403	410	497	482	482
SHARES:						
Number of shareholders	2	2	2	2	2	2
Number of shares	387,938	387,938	387,938	387,938	387,938	387,938
Nominal share value or an amount belonging to non-par						
• share in registered capital (in EUR)	42	42	42	42	42	42
Book value per non-par share (in EUR)[2]	764	694	611	769	699	614

RATIOS (in %), transitional arrangements in accordance with the applicable acts of the European Union have not been applied:	Bank			Group[1]		
	2022	**2021**	**2020**	**2022**	**2021**	**2020**
Capital:						
• CET1 Capital ratio	14.34	15.59	14.88	14.32	15.58	14.87
• T1 Capital ratio	14.34	15.59	14.88	14.32	15.58	14.87
• Total Capital ratio	17.66	17.09	16.48	17.62	17.07	16.47
Assets quality:						
• Non-performing exposures / exposures classified	1.19	1.17	1.63	1.20	1.18	1.65
• NPL and other financial assets / loans and other financial assets classified (without CB and B[3])	2.00	2.08	2.92	2.01	2.10	2.97
• NPL and other financial assets / loans and other financial assets classified (with CB and B[3])	1.69	1.60	2.24	1.70	1.61	2.26
• Value adjustments for credit losses / NPL and other financial assets (without CB and B[3])	32.84	31.90	18.59	32.84	31.90	18.59
• Value adjustments for credit losses / NPL and other financial assets (with CB and B[3])	32.84	31.90	18.59	32.84	31.90	18.59
• Insurance received / NPL and other financial assets	64.77	65.77	77.96	64.77	65.77	77.96
Profitability:						
• Interest margin (net interest income to total assets)	2.34	1.93	2.04	2.33	1.92	2.03
• Financial mediation margin (net interest income and net non-interest income to total assets)	3.27	3.12	3.01	3.39	3.25	3.13
• Return on assets – before tax	1.35	1.38	1.18	1.36	1.40	1.18
• Return on assets – after tax	1.22	1.24	1.10	1.23	1.26	1.11
• Return on equity – before tax	12.03	13.38	11.25	12.07	13.59	11.30
• Return on equity – after tax	10.89	12.03	10.51	10.93	12.21	10.56
Operational costs:						
• Operational costs / average assets	1.83	1.76	1.74	1.94	1.85	1.85
• Operational costs / income	56.10	56.20	57.86	57.44	57.07	59.07
Liquidity and leverage ratios:						
• Liquidity coverage ratio	226.27	256.14	242.64	226.71	257.80	243.98
• Net stable funding ratio	136.71	155.20	154.19	136.12	155.06	153.51
• Leverage ratio	9.00	8.86	8.48	8.99	8.86	8.48

[1] The capital, liquidity and leverage ratios for the Group are calculated on the basis of prudential consolidation.
[2] In the calculation of the book value per non-par share, treasury shares are not considered.
[3] CB and B: Cash balances at central banks and other demand deposits at banks.

Statement of the President of the Management Board of Gorenjska banka, d.d., Kranj

Dear shareholders, customers, partners and employees,

the vision of the Bank, to be different and the first choice of clients wherever and whenever, conveys the message of our optimism, enthusiasm and the main goal to support the development of the economy and to allow our clients to realise their financial goals.

This is only possible by partnering with our employees, clients, business partners and the local community. With efficient and quality banking solutions that are based on understanding the needs and expectations of individuals, private entrepreneurs and companies, we are building long-term trust and cooperation.

In the year that was marked by the war in Ukraine, high inflation, the energy crisis and a challenging macroeconomic environment, the Gorenjska banka Group prudently fulfilled the set goals, and achieved good results in all of our business segments. We have therefore strengthened the foundations for the long-term sustainability and resilience of operations and further investments into development and digitalisation, while we also secured sufficient capabilities to adjust to future changes.

In 2022, we continued with the digital transformation of the Bank, with which we wish to improve our clients' user experience, provide the highest possible security level and optimise our business processes. In line with the expectations of our stakeholders, we have shifted towards the continued development of digital banking, the portfolio of banking products, and innovative and award-winning digital tools that support clients in making financial decisions. We are developing an omnichannel model, through which we support our clients regardless of whether they opt for digital services or personal visits in our network of branches.

Our employees are the driving force behind our development and progress, and their responsible work, commitment to clients and innovative thinking have contributed greatly to the business success of the Bank. The renewed framework of corporate culture and its value ambassador programme in 2022 promoted teamwork, cooperation and the further development of employees.

In the previous year, Gorenjska banka strengthened its endeavours in the ESG area by following the priority goals of sustainable development, social responsibility and high corporate governance standards. With our sustainable and socially responsible activities, we have increased the quality of life in our community, contributed to the protection of the environment, increased the financial and digital literacy of our clients, and therefore strengthened our main mission, values and ethical commitments.

Gorenjska banka continues to realise its business strategy, and is maintaining the role of a trusted banking partner that supports clients, business partners and employees. We thank you for your cooperation and your trust. We believe that we have set a strong foundation to successfully build our future together.

Mario Henjak
Management Board President

Report of the Supervisory Board of Gorenjska banka, d.d., Kranj

The Supervisory Board Structure in 2022

At the end of 2022, the Supervisory Board of Gorenjska banka, d.d., Kranj, operated with seven members: President Mrs Jelena Galić, Deputy President Mr Jurij Bajec, and members Mr Vladimir Sekulić, Mr Tim Umberger, Mr Aleksander Milostnik, Mrs Aleksandra Babić and Mrs Ana Živanović.

Mr Aleksander Milostnik was appointed as a new member of the Supervisory Board at the 41st session in Gorenjska banka d.d., Kranj, on 21 April 2022, under the suspensive condition of obtaining a licence from the European Central Bank (ECB). The licence from the ECB was granted on 15 July 2022. He was appointed to the position of Supervisory Board Member after the resignation of the previous member of the Supervisory Board and president of the Audit Committee, Mr Grašek, in April 2022.

In 2022, four committees operated in order to ensure more detailed and in-depth supervision over individual business areas: the Audit Committee, the Risk Monitoring, the Remuneration Committee and the Nomination Committee, which, in accordance with their authorities, have also been preparing professional bases and resolution proposals for the Supervisory Board.

In 2022, the Audit Committee had seven regular sessions, the Risk Committee had six regular sessions and two correspondence sessions, the Nomination Committee had five regular sessions, and the Remuneration Committee had one regular session.

Overview of the Supervisory Board Activities in 2022

In 2022, the Supervisory Board held seven regular sessions and three correspondence sessions. It monitored and supervised the Bank's operations and the Management Board's work in line with the powers, competencies, and duties laid down in the Slovenian and European legislations and internal acts of Gorenjska banka d.d., Kranj. The Bank's Management Board informed the members of the Supervisory Board, in due time, consistently and accurately, about the achieved results and all events related to the Bank's operation, strategy and risk management.

The Supervisory Board of Gorenjska banka d.d., Kranj, actively participated in the control over the operations of the Management Board and of the Bank. Based on our know-how and understanding of the business, the financial data of the Bank and the goals, strategies and policies of the Bank, and by considering the regulations and requirements of the Bank of Slovenia, the Supervisory Board discussed, reviewed and adopted regular reports and documents submitted for discussion.

The business plan of Gorenjska banka for the period 2023-2025 on baseline and adverse scenario was adopted in 2022. Moreover, in 2022, the Risk Management Strategy and the Risk Appetite Statement were adopted; they were supplemented in January 2022. Gorenjska banka is a step closer in pursuing potential growth, supported by a suitable infrastructure and investments in successful sustainable operations.

With the desire to pursue more modern forms of operation and to achieve high levels of competitiveness, the Bank further improved its processes and their automation.

The Supervisory Board also adopted the audited Annual Report of the Bank and of the Group for 2021 and the reports of the authorised auditor, the quarterly reports of the internal audit and risk as well as the semi-annual compliance reports. It familiarised itself with and consented to the transactions that present high exposures or transactions with related persons, and transactions with persons in a special relationship with the Bank, and it also performed a self-assessment of the work and efficiency of the Supervisory Board. The main priority of the Supervisory Board was the monitoring of the regular reports on the Bank's operations and risk management.

The Supervisory Board carried out the review of the ICAAP/ILAAP process. Based on the technical standards set by the Bank of Slovenia, the Bank appropriately reported on the performance of ICAAP and ILAAP, considering individual EBA guidelines. In 2022, Gorenjska banka continued with the ICAAP and ILAAP implementation on the basis of the consolidated position of its parent holding, Agri Europe Cyprus. The Supervisory Board is aware of the importance of respecting the ICAAP and ILAAP reporting, which is why it will continue to make its processes compliant with all the requirements of the regulator. Furthermore, pursuant to the European environmental regulations, the Supervisory Board placed great emphasis on the monitoring and control of the environmental and climate risk implementation process.

The Supervisory Board adopted the SRB recovery programme for the 2023 calendar year and the multi-annual plan of financing MREL 2022-2024. It adopted the new Capital management policy and the Internal management policy.

The Supervisory Board monitored the work of the Internal Audit Department on the basis of quarterly reports. Based on the internal audit report for 2022, it found that the Service acted independently and in line with the adopted programme of work and the internal audit rules of procedure. Within the framework of its tasks, the Supervisory Board gave its consent to the GBKR recovery plan on the consolidated level of the AEC financial holding.

Throughout the year, increased attention has been focused on monitoring the Bank's operations in relation to the possible negative consequences of the global health Covid-19 pandemic, the Ukrainian/Russian crisis and other uncertainties in the economic markets. The Supervisory Board focused on exercising relevant supervision over all the key banking segments and portfolios of the Bank. Despite the unforeseeable circumstances, the Bank managed to achieve its business strategy of balanced portfolio growth.

The sessions were held undisturbed and in line with the annual plan.

In the framework of their tasks, the members of the Supervisory Board assessed their work and efficiency. Based on the inspected range of successful activities and the implementation of guidelines for the work of the Supervisory Board and based on the self-assessment process, the Supervisory Board of Gorenjska banka d.d. considered that the work of the Supervisory Board was carried out professionally and productively and that there were no discrepancies from the best practice. The work of the Supervisory Board in individual areas has been and will continue to be on a higher or optimal quality level in accordance with the set criteria.

Cooperation and communication between the Supervisory Board and the Management Board of the Bank were on the highest professional level by pursuing the goal of having the best possible operating results in Gorenjska banka d.d., Kranj, and preventing the negative consequences of the Covid-19 epidemic and the Ukrainian/Russian crisis. The Supervisory Board gave its constructive opinions, efficiently monitored the decisions of the Management Board and effectively realised its role in adopting the policies and decisions in the framework of its powers.

The Operation of Gorenjska banka in 2022

The 2022 business year was very dynamic, and marked by some major economic and social factors. All restrictive factors linked to the Covid-19 epidemic had been eliminated in the first half of the year, but unfortunately, the world was surprised in February by the Russian-Ukrainian war, which did not cause any direct economic harm to Gorenjska banka, but it did have an impact on the further trends in the economic and monetary environment in the world, especially in Europe.

Nevertheless, in 2022, the Bank's operations were at the highest professional level, which resulted in excellent business results.

Net interest income was 23.5% higher than the year before and amounted to EUR 53.4 million. Non-interest revenue was 20.9% lower, amounting to EUR 21.2 million (2021: EUR 26.8 million); however, this was on account of the extraordinary revenue in 2021 from the sale of investment real estate and from the valuation of the securities portfolio. There were no major sales of investment real estate in 2022, and the Bank identified some negative impacts in the valuation of the securities portfolio.

The total operating costs amounted to EUR 41.9 million, which is 6.3% more than in 2021. The cost-effectiveness, measured using the ratio between the operating costs and income, amounted to 56.1%, and has decreased compared to the previous year.

In 2022, the Bank generated a profit before impairments and taxes in the amount of EUR 32.8 million. Considering the net allocated impairments and provisions in the amount of EUR 2.0 million and tax, the Bank realised a net profit of EUR 27.9 million. The return on equity after tax was 10.9%.

At the end of 2022, the Bank's capital adequacy amounted to 17.7%, and increased by 0.57 percentage points compared to 2021.

Information on the Approval and Adoption of the 2022 Annual Report

The Bank’s Management submitted the 2022 Annual Report to the Audit Committee, which gave a positive opinion thereon. The Management Board submitted the audited 2022 Annual Report to the Supervisory Board for verification within the statutory deadline, along with the audited financial statements of the Bank and Group and the certified auditor’s reports prepared by the audit firm BDO Revizija d.o.o.

Based on the performed audit of the non-consolidated financial statements of Gorenjska banka d.d., Kranj, (the Bank) and the consolidated financial statements of Gorenjska banka d.d., Kranj and its subsidiaries (the Group) as of 31 December 2022, which include the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and a summary of significant accounting policies and other notes, the auditing firm issued opinions (separately for non-consolidated and consolidated statements) stating that the financial statements presented a true and fair view of the financial standings of the Bank and Group as of 31 December 2022, as well as their profit or loss and cash flows for the then-finished year pursuant to the international financial reporting standards as adopted by the EU. The reports made by the auditing firm also include a positive opinion on the compliance of indications in the business report with the audited financial statements.

The Supervisory Board believes that the Bank’s Management and Supervisory Boards met all the legal requirements in the 2022 financial year.

Based on the above, the Supervisory Board approved and adopted the Annual Report of Gorenjska banka d.d., Kranj, and the Gorenjska banka Kranj Group for 2022, and adopted the reports of the certified auditor for the 2022 financial year and agreed with them.

Jelena Galić
Supervisory Board Chairwoman

Organisational Chart of the Bank

Management board

Management Board President: **Mario Henjak**
Management Board Member: **Marko Filipčič**
Management Board Member: **Mojca Osolnik Videmšek**

- Legal Affairs Division — **Dejan Kmetec**
- Internal Audit Division — **Simon Beravs**
- Organisation and HR Division — **Vesna Pungeršek Žalig**
- Compliance and AML[4] Division — **Peter Bogataj**

Business/ Commercial Area: Retail Banking — **Romina Sabadin**
- Marketing Division — **Maruša Nučič**
- Leasing Division — **Aleš Zrinski**
- Retail Banking Division — **Danijela Kranjc**

Business/ Commercial Area: Corporate Banking — **Gregor Kaiser**
- Corporate Banking with Small and Medium-size Companies Division — **Simon Šimonka**
- Corporate Banking with Large Companies Division — **Jure Poljšak**
- Factoring Division — **Damir Abdić**
- International and Project Finance Division — **Vanja Jeraj**

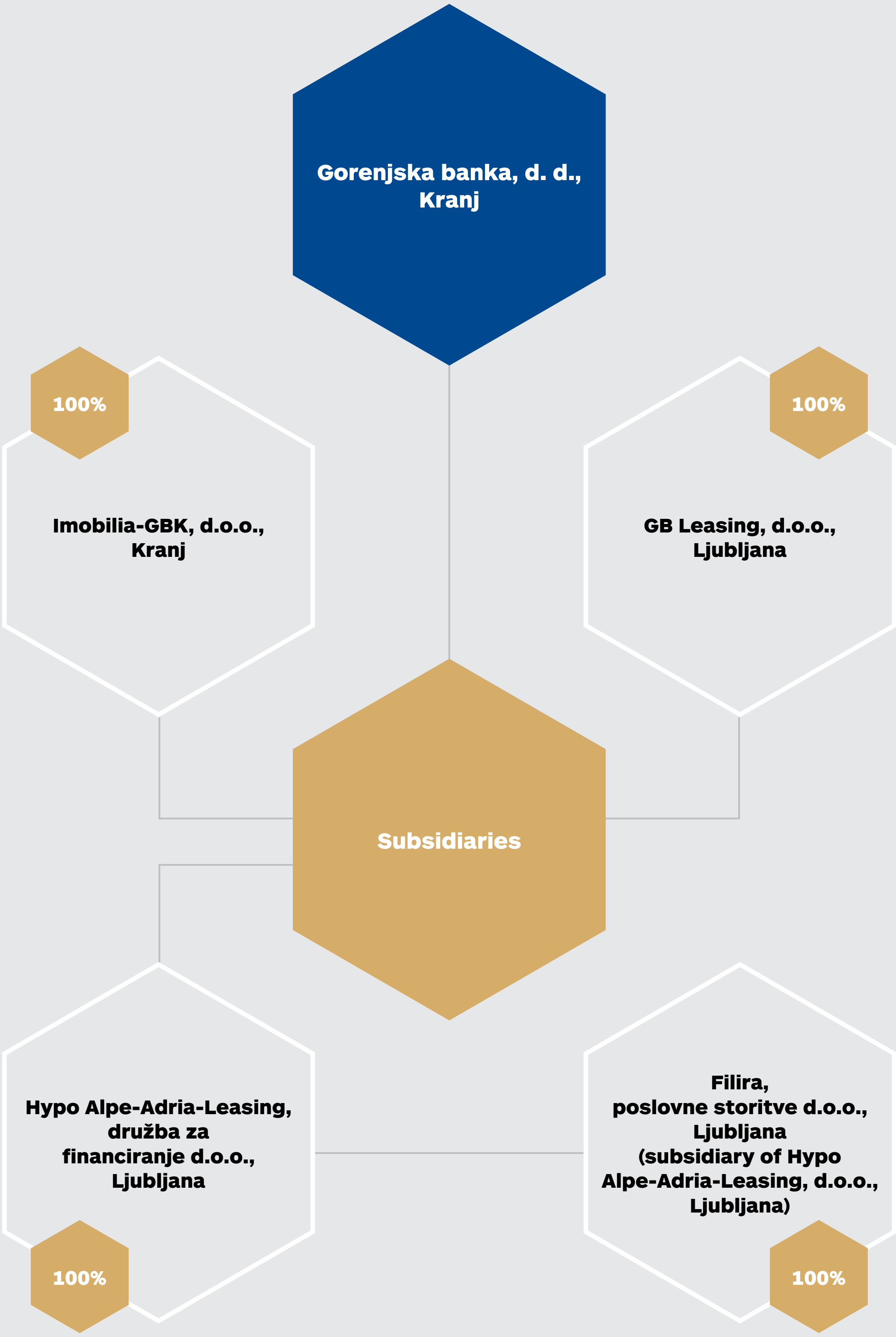
Risk Area — **Aljoša Bučak Gasser**
- Strategic Risk Management Division — **Špela Kern Šuklje**
- Credit Risk Management Division — **Karmen Kordiš**
- Distressed Asset Recovery Division — **Karmela Miškić**

Development and Business Support Area — **Natalija Prešern**
- Business Development Division — **Tamara Trajkovski**
- Information Communication Technology Division — **Erik Alič**
- Back Office Division — **Monika Modic**

Financial and Infrastructure Area — **Marko Filipčič**
- Financial Control and Accounting Division — **Stanko Gracar**
- Treasury Division — **Peter Jančič**
- Procurement, Property Management and General Affairs Division — **Mojca Šircelj**

[4] AML = Prevention of Anti-Money Laundering

Organisational Chart of the Group



Top Management Structure

General Meeting of Shareholders

Supervisory Board

Jelena Galić
Chairwoman

Jurij Bajec
Deputy President

Vladimir Sekulić
Member

Aleksander Milostnik
Member

Tim Umberger
Member

Aleksandra Babić
Member

Ana Živanović
Member

Audit Committee

Aleksander Milostnik
President

Ana Živanović
Deputy Chairwoman

Jurij Bajec
Member

Risk Committee

Tim Umberger
President

Vladimir Sekulić
Deputy President

Aleksandra Babić
Member

Remuneration Committee

Jurij Bajec
President

Aleksandra Babić
Deputy Chairwoman

Ana Živanović
Member

Nomination Committee

Jurij Bajec
President

Jelena Galić
Deputy Chairwoman

Tim Umberger
Member

Management Board

Mario Henjak
Management Board President

Marko Filipčič
Management Board Member

Mojca Osolnik Videmšek
Management Board Member

Branch Office Network

Business unit	Branch	Address	Telephone
Business unit Kranj	Branch Office Kranj	Bleiweisova cesta 1, Kranj	04 208 41 01
	Branch Office Primskovo	Cesta Staneta Žagarja 69, Kranj	04 208 45 16
	Branch Office Šenčur	Kranjska cesta 4, Šenčur	04 208 45 07
	Branch Office Cerklje	Trg Davorina Jenka 13, Cerklje	04 208 45 10
	Branch Office Tržič	Trg svobode 1, Tržič	04 208 45 28
Business unit Radovljica	Branch Office Radovljica	Gorenjska cesta 16, Radovljica	04 208 46 57
	Branch Office Lesce	Rožna dolina 51, Lesce	04 208 46 68
	Branch Office Bled	Kajuhova cesta 1, Bled	04 208 46 76
	Branch Office Bohinjska Bistrica	Trg svobode 2b, Bohinjska Bistrica	04 208 46 83
Business unit Jesenice	Branch Office Jesenice	Cesta maršala Tita 8, Jesenice	04 208 46 08
	Branch Office Kranjska Gora	Borovška cesta 95, Kranjska Gora	04 208 46 26
Business unit Ljubljana - Dunajska vertikala	Branch Office Ljubljana – Dunajska vertikala	Dunajska cesta 152, Ljubljana	04 208 45 55
	Branch Office Ljubljana – Center	Dalmatinova ulica 4, Ljubljana	04 208 45 45
	Branch Office Ljubljana – Celovška	Celovška cesta 268, Ljubljana	04 208 45 52
Business unit Škofja Loka	Branch Office Škofja Loka	Kapucinski trg 7, Škofja Loka	04 208 41 47
	Branch Office Grenc	Grenc 54, Škofja Loka	04 208 41 81
	Branch Office Železniki	Na Kresu 26, Železniki	04 208 41 63
	Branch Office Žiri	Trg svobode 1, Žiri	04 208 41 65
Business unit Koper	Branch Office Koper	Cesta Zore Perello - Godina 2, Koper	04 208 45 01
Business unit Maribor	Branch Office Maribor	Ulica kneza Koclja 22, Maribor	04 208 45 04

Ratings

Fitch Ratings	Long-Term Issuer Default Rating	BB-
	Short-Term Issuer Default Rating	B
	Viability Rating	bb-
	Watch	Stable

The Economic Environment and the Banking Sector

Economic Environment

The global outbreak of the coronavirus in 2020 was followed by the relaxation of pandemic restrictions in 2021 and partially in 2022, as well as the fastest economic recovery in recent decades. Taking into account multiple negative risk, global economic activity growth slowed down later in 2022, and the economic outlook deteriorated. One of the most significant factors that are reflected in the weaker economic activity is the high inflation, which was initially prompted by the high growth in energy source prices and food due to the shock on the supply side, the war in Ukraine and the implemented sanctions against Russia, and the inflationary pressures in the recent period that stem mostly from the accumulation of costs along the supply chains. Several central banks responded to the high inflation in 2022 by normalising their monetary policies.

From an economic perspective, the year 2022, especially the first half of the year, was also successful for the euro area; it was even one of the best years in terms of employment, although the second part of 2022 was marked by a decline in economic activity, mainly due to the geopolitical and energy crises. Prices in 2022 increased significantly in the euro area due to several factors, and consequently, the ECB decided in June 2022 to start normalising its monetary policy, whereby the September session proved to be key, because the ECB decided to take decisive action against the high inflation. Thus, the ECB increased the reference interest rates by 250 basis points in a very short period in 2022. The quickest growth of interest rates on the money market, due to the increases of the reference interest rates by central banks, reflected primarily in the rapid increase in indebtedness costs on the financial markets in 2022.

Higher risk, mainly in the international environment, also had an impact on domestic economic activity in 2022, which began to slow down in the same year. Despite the uncertain conditions, economic activity in Slovenia was relatively high in the first nine months, and above the euro area average. Based on the latest forecasts of the Bank of Slovenia, GDP growth should amount to 5 percent in 2022, which is mainly due to the effect of the transfer of growth from 2021, whereas the 2023 forecasts are poor, but still in the positive of 0.8 percent.

The table below shows the macroeconomic indicators of Slovenia's development in the period from 2020 to 2022.

	2020	2021	2022
Gross domestic product (GDP; real growth in %)	(4.3)	8.2	(N) 5.0
Private consumption (in %)	(6.9)	9.5	(N) 8.3
Productivity (in %)	(3.7)	6.8	(N) 2.5
Net export (contribution to the real GDP growth; in %)	0.1	(1.0)	(N) (1.7)
Unemployment rate (surveyed, in %)	5.0	4.7	(N) 4.3
Prices of basic necessities (HICP)	(0.3)	2.0	(N) 9.3
Current account (in % of GDP)	7.6	3.8	(N) 0.3

(N) - forecast
Source: Forecasts of macroeconomic trends in Slovenia, December 2022, Bank of Slovenia

The current situation on the labour market in Slovenia is reflected in the high level of economic activity. The unemployment rate in 2022 will be at 4.3 percent, based on the forecasts of the Bank of Slovenia, which is approximately 0.5 percentage point less than last year, and should continue to fall in the next couple of years in line with the employment growth. The inter-annual salary growth will amount to 4.3 percent in 2022, and will be lower than the productivity and inflation growth.

With the deceleration of economic growth and import prices in Slovenia, inflation will begin to slow down in the next period, and gradually reduce. Price increases will remain high at the start of 2023, and the Bank of Slovenia reports that the headline inflation of the 2023 average will reach 6.8 percent.

The Banking Environment

The banking system maintained a positive dynamic in 2022, both in the euro area and in Slovenia, and despite the increasing risk in 2022, it operated profitably and had sound capital. The resilience of the banking system to systemic risk remained high in 2022, just as the liquidity of the banking system, which remained good and extensive. The solvency of the banking system continues to be solid.

The general level of systemic risk for financial stability in Slovenia has recently increased, primarily risk that stems from the worsened macroeconomic outlooks, from the real estate market and due to the rapid increase in prices, and therefore the tightening of the requirements for taking out bank loans. Despite the increased risk, the share of non-performing loans was reduced in 2022, as was the share of loans with an increased risk. The lending activity of banks increased in 2022, and began to slow down in the last part of the year, mainly in the retail segment. Deposits of the non-banking division became stronger on average in 2022, especially demand deposits, and therefore remain a stable source of financing for Slovenian banks.

Banks' income effect improved in 2022, compared to the previous year, due to the increased lending activity and the gradually higher interest rates on the money markets. The increase in interest rates on the money markets had a positive impact on the Slovenian banking system in 2022, because the interest rates of loans increased more than those of deposits, which led to the increase in the interest and non-interest income of banks. Based on the initial estimations and outlooks, profit and return on capital in 2022 will slightly exceed last year's values.

With increased lending activities and on the basis of value reductions of securities, the capital ratios of Slovenian banks were reduced somewhat in 2022 and remained solid and near the European average. The capital adequacy of Slovenian banks remains good - according to the value of the total capital adequacy ratio of Slovenian banks, we are lagging behind the euro area average, but are above the average according to the value of the CET1 ratio. The LCR ratio remains well above the regulatory requirements and among the highest in the euro area. Conditions in the Slovenian banking system remained stable in 2022, which was also reflected on the international financial markets, since they maintained confidence in Slovenian banks in 2022, which was reflected in the investment ratings from the international credit agencies, which improved or did not change in 2022.

The banking environment will presumably also remain stable in 2023, and it will maintain a positive dynamic. The risk of a temporary economic stagnation or mild economic contraction in the euro area will continue to increase. The deceleration of economic activity will not significantly reduce inflation in the eurozone yet, and will come close to the target of two percent. Thus, the ECB will continue to gradually, albeit with a lower dynamic than in 2022, increase the reference interest rates in 2023, which are already exceeding neutral levels and are transitioning into the restrictive area. The ECB also plans the start of a gradual reduction of its own portfolio of Eurosystem bonds in March 2023, which will serve as an additional measure towards a less incentivised monetary policy.

About the Gorenjska banka Group

Composition of the Group

The Gorenjska banka Group (hereinafter "Group") includes Gorenjska banka d.d., Kranj, and subsidiaries: Imobilia-GBK d.o.o., Kranj, GB Leasing d.o.o., Ljubljana, Hypo Alpe Adria Leasing, družba za financiranje d.o.o., Ljubljana and Filira, poslovne storitve d.o.o., Ljubljana (which is 100% owned by Hypo Alpe-Adria Leasing d.o.o., Ljubljana).

Pursuant to the provisions of the IFRS 10, Gorenjska banka d.d., Kranj, has a controlling company, i.e. Agri Europe Cyprus Limited Group, Limassol. The Gorenjska banka Group is part of the Agri Europe Cyprus Limited Group, Limassol.

Organisational structure of Gorenjska banka Group as at 31 December 2022

Imobilia-GBK, d.o.o., Kranj

Equity holdings
(in %)
100

Nominal amounts
(in thousands of EUR)
4,589

GB Leasing, d.o.o., Ljubljana

Equity holdings
(in %)
100

Nominal amounts
(in thousands of EUR)
3,800

Hypo Alpe-Adria-Leasing, družba za financiranje d.o.o., Ljubljana

Equity holdings
(in %)
100

Nominal amounts
(in thousands of EUR)
8

Filira, poslovne storitve d.o.o., Ljubljana (subsidiary of Hypo Alpe-Adria-Leasing, d.o.o., Ljubljana)

Equity holdings
(in %)
100

Nominal amounts
(in thousands of EUR)
8

Presentation of the Bank

Gorenjska banka d.d., Kranj, (hereinafter: "Bank") is an independent public limited company with its head office in Kranj, at the address Bleiweisova cesta 1 (statistics number: 5103061000, tax number SI42780071, share capital EUR 16,188,366.33). The Bank's roots stretch back to the 19th century, when the first seeds of organised banking were formed in the Gorenjska region. On 25/05/1955, the first municipal bank in the Gorenjska region was formed in Kranj, followed by the bank in Škofja Loka and banks in Radovljica, Tržič and Bled the year after. Eventually, a joint bank was formed, which joined the Ljubljanska banka system in 1972, first as a subsidiary and later, as of 27/12/1989, as a limited company in the system of the sister banks of Ljubljanska banka with capital links with one another.

In 1994, the separation process from the Ljubljanska banka system was initiated, namely with the purchase of shares that Nova Ljubljanska banka d.d., Ljubljana, had in Gorenjska banka d.d., Kranj. The process was concluded in 1996, when the bank cancelled the shares.

Gorenjska banka d.d., Kranj, has the authorisation to perform banking services as per Article 5 of the Banking Act (Official Gazette of RS No. 29/21, with Amendments; hereinafter: ZBan-3). Banking services are services of accepting deposits and other repayable funds from the general public, as well as granting credits on its own account.

The Bank has an authorisation to perform mutually-recognised and additional financial services.

1. Receiving deposits and other repayable funds;
2. Granting of loans, including: consumer loans, mortgage loans, the purchase of receivables with or without recourse (factoring), financing of commercial transactions, including export financing based on the purchase of non-current non-past-due receivables at a discount and without recourse, secured by financial instruments (forfeiting);
3. Financial leasing;
4. Payment services;
5. Issuance and management of other payment instruments (i.e. travellers' cheques and bankers' drafts) in the part in which this service is not included in service of former point 4;
6. Issuing of guarantees and other commitments;
7. Trading for its own account or for the account of customers in foreign exchange, including exchange transactions; trading for own account in money market instruments, financial futures and options, exchange and interest-rate instruments and transferable securities;
8. Other services related to the safekeeping of securities;
9. Renting out safe deposit boxes.

The Bank may also carry out additional financial services as per Article 6 of the ZBan-3, which includes the sale of insurance policies as per the law governing the insurance market and the marketing units of investment funds.

In the period for which the respective business report has been drafted, the Bank performed the banking services and additional financial services for which it received authorisation from the Bank of Slovenia.

Presentation of Subsidiaries

Imobilia-GBK, d.o.o., Kranj

Gorenjska banka d.d., Kranj, holds a 100% stake in the subsidiary company, Imobilia-GBK, promet z nepremičninami in hipotekarnimi posli d.o.o., Kranj, with its head office in Kranj at Bleiweisova cesta 1.

Imobilia manages its own investment property, investment property owned by the Bank, and the real estate used by the Bank, in which the Bank performs operations, and which constitute its fixed assets. In 2022, Imobilia-GBK carried out activities for real estate brokerage services for all real property, activities relating to investments in and major maintenance of real estate, as well as activities in managing real estate and the ongoing maintenance of buildings and equipment. In addition to managing real property, the company Imobilia-GBK also manages and maintains the car fleet, and performs janitorial works and other services.

The company has no employees with specialised knowledge and competencies for real estate project development or for preparing project documentation. The company hires external contractors to perform such and similar services.

GB Leasing, d.o.o., Ljubljana

Gorenjska banka d.d., Kranj, holds a 100% stake in the subsidiary company GB Leasing, d.o.o., Ljubljana. The company is operating at the address Dunajska cesta 152, 1000 Ljubljana, with affiliates in Koper, Maribor and Novo mesto.

The company carries out non-financial maintenance services for the Bank in the area of the financial leasing of movables. It began operating in 2016 when the Bank received a consensus from the Bank of Slovenia for financial leasing operations.

Hypo Alpe Adria leasing, družba za financiranje d.o.o., Ljubljana

Gorenjska banka d.d., Kranj, holds a 100% stake in the subsidiary company Hypo Alpe Adria Leasing, družba za financiranje d.o.o., Ljubljana, as of 2017. The company has no employees and no portfolio. Hypo Alpe-Adria-Leasing purchased a 100% share in the company Filira, poslovne storitve d.o.o., Ljubljana in 2022, which also has no employees. Both companies are not operational and will be terminated at the end of all the leasing contracts.

Key financial data of subsidiaries

in thousands of EUR

2022	GB Leasing	Imobilia-GBK	Hypo Alpe-Adria-Leasing
Assets	13,987	4,355	162
Liabilities	10,022	327	70
Equity	3,965	4,028	92
Loss/Profit	**2**	**140**	**(1)**

in thousands of EUR

2021	GB Leasing	Imobilia-GBK	Hypo Alpe-Adria-Leasing
Assets	11,097	7,715	96
Liabilities	7,130	3,827	2
Equity	3,967	3,888	94
Loss/Profit	**144**	**386**	**-**

Shareholders Information

At the end of 2022, the **Bank's capital stock** was distributed to 387,938 ordinary shares. As at 31/12/2022, Agri Europe Cyprus Limited and Gorenjska banka were registered in the Bank's share register with a fund of own shares (31/12/2021: AIK Banka a.d., Belgrade, and Gorenjska banka). Agri Europe Cyprus Limited had 91.70% of the registered share capital of the Bank (31/12/2021: AIK banka, a. d., Beograd 91.70%).

Net profit in 2022, achieved through the income statement, amounts to EUR 27,909 thousand, and comprehensive income to EUR 24,862 thousand. **Distributable profit**, which in addition to net profit in 2022 includes retained earnings in the amount of EUR 58,436 thousand, amounts to EUR 86,345 thousand.

Shareholders of Gorenjska banka, d.d., Kranj, as at 31 December 2022

Name of shareholder	Number of ordinary shares	Share in capital, in %	Share in voting rights, in %
Agri Europe Cyprus Limited	355,723	91.7	100.0
Gorenjska banka, d.d., Kranj – own shares	32,215	8.3	0.0
TOTAL	**387,938**	**100.0**	**100.0**

Strategic Orientations of the Bank and Group

The Bank's Vision

We are dedicated and passionate about building a modern, innovative client- and employee-friendly bank.

The Bank's Mission

We offer support to individuals in creating their future and at the same time build a partnership relationship with them.

The Bank's Values

The Bank fulfils the expectations of clients, business partners and owners with motivated employees, considering the fundamental legal and moral rules of the company. The key values of the Bank are: responsibility, innovation, excellence, dedication, trust.

The Bank's Strategic Goals Until 2024

During the planned strategic period, the interrelation between the continuous fulfilment of client requirements and needs with tailored products and excellent services, supported primarily by efficient processes and organisation, as well as motivated, innovative and dedicated employees, will be crucial for the Bank. The Bank aims to pursue the following within the elements set out below. In order to achieve these, the strategic initiatives and key activities are highlighted.

Sustainable Development

The Bank is aware of its influence, expectations and responsibility in realising the goals of sustainable development. It undertakes a strategic commitment to try to balance sustainable financial performance with consideration of environmental, social and governance factors and their impact on banking risks and opportunities in its operations. An interdisciplinary Committee for Sustainable Development is established in Gorenjska banka, which brings together experts from various fields within the Bank and focuses on the implementation of ESG principles in its operations.

Environmental responsibility

The Bank contributes to the transition to a low-carbon economy and society by reducing its direct environmental footprint by pursuing energy efficiency, reducing water and paper consumption, which it promotes by introducing paperless operations in the Bank's internal and external communication. The Bank improves its indirect environmental footprint by developing innovative business solutions that contribute to realising its commitment to sustainable development. Accordingly, in 2022 the Bank offered customers an "eco" housing loan with favourable financing conditions for ecological investments and favourable financing of sustainable projects in cooperation with public institutions at the national and EU level.

Corporate Social Responsibility

Gorenjska banka was the first bank in Slovenia to obtain the Socially Responsible Employer certificate in 2021, which confirms the efforts made so far and lays the foundation for the strategic and systemic management of the Bank's socially responsible operations.

The Bank's social responsibility is primarily related to the Bank's commitments to its employees, clients and the local community. In relation to its employees, the Bank strives to provide decent jobs that ensure gender equality, labour legislation compliance, social protection and social dialogue, professional and personal development of employees, and fair pay. In doing so, the Bank is constantly upgrading and implementing its employee treatment policy, which is manifested as e.g. flexible working hours, time bonus, children's time bonus, and care time bonus. Furthermore, the Bank encourages the development of employees' knowledge, competences and innovative thinking by facilitating educational programmes, managing talent and key personnel, encouraging employee rotation and implementing various forms of mentoring. The Bank places significant emphasis on health promotion, which enables employees to be aware of and manage the risks to their health and to implement measures to increase the level of health and well-being at the workplace. By upgrading its operation as a socially responsible employer, the Bank becomes and maintains its position as an attractive employer.

In relation to its clients, the Bank strives to form responsible, long-term and professional relationships, nurturing trust and data protection, and transparent communication. The transparent presentation of products and clear communication helps customers to make financial decisions. With the goal of financial literacy of its clients, the Bank organised days of housing loans, investments and insurance, as well as digital banking days, where it shared its expertise and experience with its clients.

In relation to the local community, the Bank proactively implements its donation and sponsorship policy, which improves the quality of life of the local and wider community and strengthens its basic mission, set values and ethical commitments. In doing so, the Bank strategically focuses on the area of environmental protection, assistance to families and individuals in need, and support for sports. In 2022, the Bank thus made possible to carry out the renovation of postpartum rooms in the Ljubljana Maternity Hospital, which offer women in labour a new standard of medical care, and their families an above-standard experience of staying in the hospital. In cooperation with its clients, the Bank collected donor funds for families and individuals in need as part of the humanitarian campaign "V Kranju dobro v srcu mislimo". It also continued the long-standing tradition of supporting local sports events, clubs and associations which promote movement and an active life, as well as the development of sports at the local and national level.

Corporate governance

The Bank systematically includes environmental, social and governance factors in its business strategy, thereby laying the foundations for the Bank's ESG transformation.

Banking Digitalisation

In order to increase cost efficiency, to establish a lean organisational structure, meet client needs and expectations, and effectively manage data, the Bank is continuing its digital transformation, which includes:

- Internal decision-making and business processes digitalisation, which minimises the possibility of errors, the extent of the costs incurred, and enables the establishment of a lean organisation;
- IT architecture upgrade towards “digital-ready”, including cooperation with FinTech and other technologically advanced companies, which enables the formation of value-added services;
- Upgrade of the Customer Relationship Management model which focuses on the needs of clients and their user experience;
- The introduction and upgrade of digital products, purchasing processes and communication channels, which enable an advanced user experience and a higher level of client satisfaction.

Key Sales Segments

Satisfied clients are a prerequisite for successful bank operations in the long run, meaning that the Bank must offer products and services tailored to its clients’ needs in a modern and innovative way. In retail banking, the Bank continues to pursue the goal of becoming an all-Slovenian bank, offering clients modern and competitive products along with a good user experience. In the scope of corporate banking, the Bank places great emphasis on the segment of medium and small companies and pay special attention to micro-companies. At the same time, strengthening its visible role in the project financing, factoring, and leasing markets.

Financial Objectives

Key performance indicators, as an operation guideline, are defined for the profitability, stability of funding, cost-effectiveness, and the quality of assets.

The key strategic focus of the Bank regarding financial goals will be to:

- ensure capital adequacy;
- ensure a suitable yield on the Bank's capital;
- ensure stable funding and liquidity through a suitable loan to deposit ratio, as well as the moderate growth of stable financing sources;
- become more cost-effective through the optimisation of business processes and the digitalisation of the operation;
- maintain a healthy investment structure, which is reflected in a small share of non-performing investments.

Policies of Subsidiaries

The subsidiary Imobilia–GBK, d.o.o., Kranj, will manage the real estate it has acquired or will acquire from debtors in bankruptcy that sell the real estate in order to meet their obligations to the Bank on its own behalf and for its own account, and in doing so shall observe the principle of economy and pursue the objective of the maximisation of the Group's profit, which includes the preservation and increasing of the value of properties.

The GB Leasing, d.o.o., Ljubljana subsidiary will continue its combative market coverage, especially in the used vehicle segment. Moreover, it will continue to strengthen cost and process efficiency and the digitalisation of operations.

The subsidiary, Hypo Alpe-Adria-Leasing, družba za financiranje d.o.o., Ljubljana, which also owns a 100% share of the company Filira d.o.o., is not operational.

Operations in 2022

2022 was a landmark year for many reasons. Following the global coronavirus outbreak in 2020, a rapid economic recovery was seen in the first part of 2022. The economic recovery was met with a more challenging period in the second half of the year due to the elevated geopolitical risks and the related Russian-Ukrainian war, which caused a shock and crisis on the energy markets that mostly affected Europe. Consequently, inflation increased severely in 2022, which led to the normalisation of the ECB's monetary policy. For the first time in eleven years, the ECB increased the key interest rates in 2022, which ended the long period of negative key interest rates and the negative EURIBOR period. In 2022, the ECB increased the key interest rate in the total amount of 2.5 percentage points, and the outlook for 2023 sees another increase by at least 1.25 percentage points. The rapid increase in the interest rates on the monetary markets had a positive impact on the net interest margin of the Bank in 2022, while on the other hand the interest risk is being increased.

At Gorenjska banka, we are carefully monitoring the development of events and are adjusting to the rapidly evolving conditions on financial markets with our pricing policy and other measures.

Financial Operations

In 2022, the Gorenjska banka Group disclosed EUR 28,109 thousand net profit, which is 0.7% higher than the profit in the Bank. Because there are no other major differences between the Bank and the Group, the indication below is focused only on the Bank.

In 2022, the Bank disclosed a profit before tax amounting to EUR 30,823 thousand (2021: EUR 30,975 thousand). It achieved a 12.03% return on equity before tax and a 1.35% return on assets before tax.

The table below shows the key elements of the Bank and the Group's income statements.

in thousands of EUR

	Bank		Group	
	2022	2021	2022	2021
Net interest income	53,447	43,293	53,392	43,236
Net non-interest income	21,199	26,808	24,072	29,700
Total income	**74,646**	**70,101**	**77,464**	**72,936**
Labour costs, general and administrative costs	(36,818)	(35,008)	(37,308)	(35,302)
Cash contributions to resolution funds and deposit guarantee schemes	(2,356)	(1,789)	(2,356)	(1,789)
Depreciation	(2,699)	(2,598)	(4,834)	(4,534)
Total operational cost	**(41,873)**	**(39,395)**	**(44,498)**	**(41,625)**
Impairment and provisioning	(1,950)	269	(1,939)	253
Profit before income tax	**30,823**	**30,975**	**31,027**	**31,564**
Tax related to profit	(2,914)	(3,140)	(2,918)	(3,212)
Net profit	**27,909**	**27,835**	**28,109**	**28,352**

The net interest amounted to EUR 53,447 thousand, which is 23.5% more than in 2021. The growth of net interest is particularly the result of all key business segments, as a result of growth in portfolio size and growth in reference interest rates in the second half of 2022.

Non-interest income amounted to EUR 21,199 thousand and has decreased by 20.9% compared to 2021, largely as a result of extraordinary income from the sale of part of the investment properties in 2021, and there were no major sales in 2022. The most important part of the non-interest income at the Bank is the commissions. Net commissions amounted to EUR 16,205 thousand, which is 14.3% more than in 2021. The highest increase in commissions derives from transaction accounts, card operations, payment transactions, and credit operations.

The total operating costs amounted to EUR 41,873 thousand, which is 6.3% more than in 2021. The largest share of operating costs is accounted for by labour costs (48.6%), followed by the costs of materials and services (39.4%), costs of cash contributions to resolution fund and deposit guarantee scheme (5.6%) and depreciation costs (6.4%). Labour costs were 8.1% higher than in 2021, the costs of materials and services by 1.8%, the costs of cash contributions to resolution funds and deposit guarantee schemes by 31.7% and depreciation costs increased by 3.9%, mainly as a result of accelerated investment in business digitalisation.

Expenses for provisions and impairments of the credit portfolio exceeded the income from the reversal of provisions and impairments of the credit portfolio and equity stakes by EUR 1,950 thousand in 2022 (2021: EUR 269 thousand of income from the reversal of provisions and impairments of the credit portfolio and equity stakes).

Comprehensive income, i.e. net profit or loss and other comprehensive income after tax, disclosed a profit of EUR 24,862 thousand in 2022 (2021: EUR 29,176 thousand). It includes a net profit of EUR 27,909 thousand (2021: EUR 27,835 thousand), EUR 3,518 thousand of loss related to investments into debt financial instruments (2021: EUR 1,089 thousand loss), actuarial gains amounting to EUR 45 thousand (2021: EUR 43 thousand), loss from fair value changes of equity instruments amounting to EUR 299 thousand (2021: gains EUR 2,169 thousand) and tax assets amounting to EUR 725 thousand (2021: EUR 218 thousand of tax assets).

The Bank's balance sheet total increased by EUR 40,444 thousand or 1.8% in 2022 and amounted to EUR 2,311,015 thousand at the end of 2022. The main factor in the growth of the balance sheet in 2022 is the growth of non-banking deposits. Most of the balance sheet growth is reflected in the investment side in the increase in loans to non-banking legal entities.

The table below shows the key elements of the Bank's and the Group's statements of financial position.

in thousands of EUR

	Bank		Group	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Cash, balances at CB and other demand deposits at banks	313,733	448,861	313,817	448,954
Loans to banks	46,178	105,740	46,178	105,740
Investments in securities	387,727	357,253	387,728	357,253
Loans to non-banking sector	1,485,608	1,276,055	1,479,561	1,268,761
Fixed assets	12,353	13,079	25,080	23,321
Investment property	44,383	44,584	47,223	50,343
Investments in subsidiaries	6,406	6,406	-	-
Other assets	14,627	18,593	15,472	20,367
Total assets	**2,311,015**	**2,270,571**	**2,315,059**	**2,274,739**
Due to non-banking sector	1,919,943	1,896,198	1,918,449	1,895,512
Borrowings from banks and central banks	98,115	109,284	98,115	109,284
Equity	271,799	246,937	273,580	248,523
Other liabilities	21,158	18,152	24,915	21,420
Total liabilities and equity	**2,311,015**	**2,270,571**	**2,315,059**	**2,274,739**

Placement of Funds

Cash, balances at CB and other demand deposits at banks decreased by EUR 135,128 thousand or 30.1%. Their share in assets stood at 13.6% at the end of 2022.

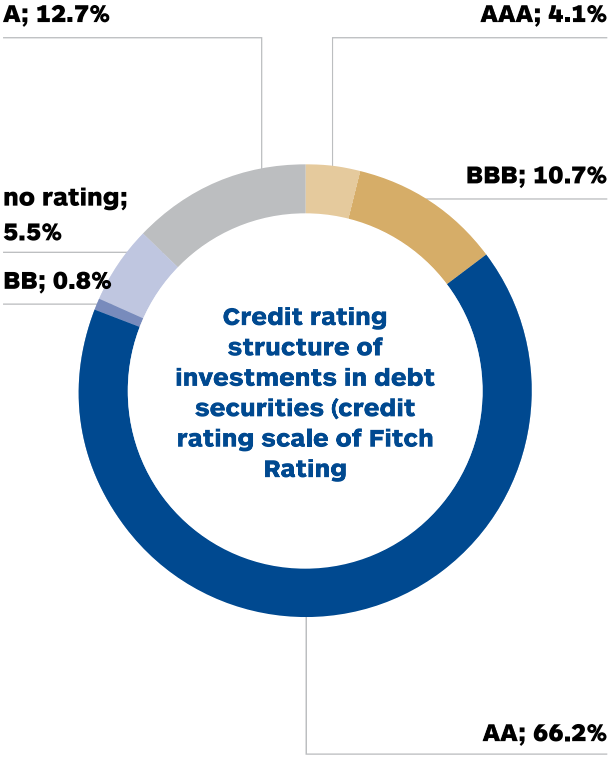
Loans to banks, which include deposits at banks, decreased by EUR 59,562 thousand or 56.3%. At the end of December 2022, their share in assets amounted to 2.0%.

The total value of the Bank's security portfolio amounted to EUR 387.7 million as at 31 December 2022 and increased by EUR 30.5 million with respect to the end of 2021, when it amounted to EUR 357.3 million. The majority of investments in securities (EUR 302.7 million) are classified as ECB eligible financial assets.

Investments in the equity of subsidiaries with a 0.3% share amounted to EUR 6,406 thousand, which is the same as it was at the end of 2021.

At the end of 2022, the Bank participated in the capital of twelve companies. In addition to investments in subsidiaries, these are mostly investments that the Bank acquired in the process of resolving non-performing loans or, rather, investments related to the performance of the Bank's activities (SWIFT, Bankart, Bank Resolution Fund).

The image below shows the credit rating structure of investments in debt securities (credit rating scale of Fitch Rating Ltd).

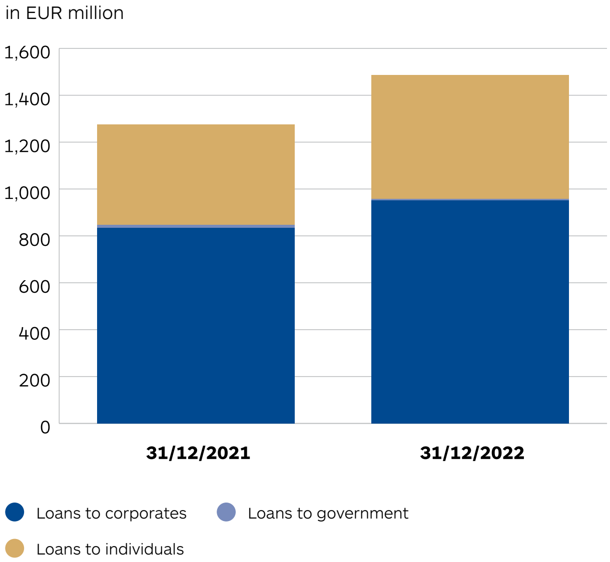


Participation in the capital, 31 December 2022

Company	% in equity
GB Leasing, d.o.o., Ljubljana	100.0000
Imobilia-GBK, d.o.o., Kranj	100.0000
Hypo Alpe-Adria-Leasing, družba za financiranje d.o.o., Ljubljana	100.0000
Merkur nepremičnine, d.d., Naklo	14.2680
Eurofond-1, d.d., Tuzla	5.1119
Sklad za reševanje bank	3.5300
Sava Turizem, d.d.	2.7290
NLB d.d. (global certificate of ownership)	0.3428
Bernardin Arkade, d.d., Portorož – regular shares	0.5860
Bernardin Arkade, d.d., Portorož – preferred shares	0.5860
Zavarovalnica Triglav, d.d., Ljubljana	0.0260
SWIFT, La Hulpe, Belgium	0.0036

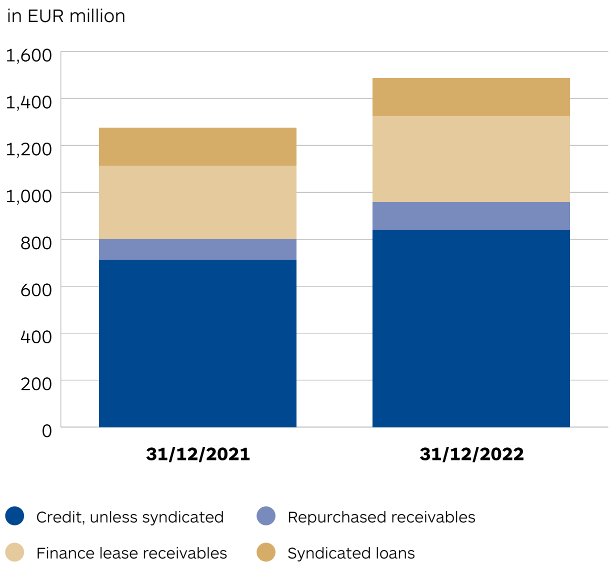
Loans to non-bank clients increased by EUR 209,553 thousand or 16.4%. Their share in the Bank's assets amounted to 64.3%.

The image below shows the structure of loans to non-bank clients by segment.



The gross loan portfolio increased by 10.7% in 2022 to EUR 1,552.1 million, of which gross loans to the non-banking sector increased by 16.1% to EUR 1,505.9 million.

The image below shows the structure of loans to non-bank clients by credit type.



The market share of Gorenjska banka in non-banking loans increased by 30 bps in 2022, and amounts to 5.4%, while the market share in legal entities amounts to 5.98%. In the area of corporate financing, in line with the strategy, the Bank remains focused primarily on the segment of micro, small and medium-sized enterprises, product factoring and leasing, and project financing with the aim of reducing concentration risk and diversifying credit risks as much as possible.

Pursuant to the strategy of the Bank on active presence in the international area and as part of the international banking group, we continue to actively operate on foreign markets, especially on markets (e.g. Croatia, Serbia, etc.) where a representative of our group is present. Project financing, which we have developed and implemented on the domestic market, is also implemented abroad in combination with domestic professionals and professionals in the local market, all with the documentation (appraisals and others) under international standards.

A several-year-long growth trend in gross retail crediting (excluding leasing) continued, with the Bank recording a 28% growth in 2022 compared to the previous year. In addition to the competitive conditions, the partnerships concluded with complementary service providers, the introduction of new and more effective communication and marketing channels, and the continued professional training of loan advisers contributed to that a great deal.

Gorenjska banka continued to increase the volume of its leasing portfolio in 2022, particularly due to a widespread and well-organised brokerage or partner network, through which it effectively responded to demand. Compared to 2021, it achieved 20% growth in that area.

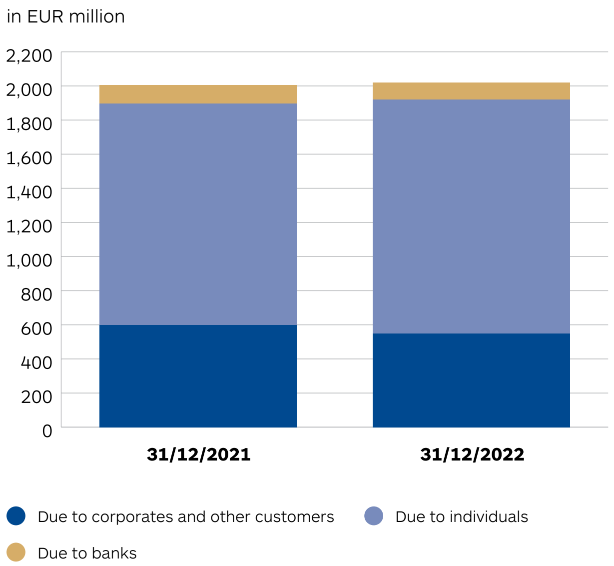
At the end of 2022, the Bank disclosed EUR 44,383 thousand in investment property and EUR 47,223 thousand at the Group level. That includes real estate that the Bank acquired in the process of acquiring collaterals of non-performing loans.

Liabilities

Liabilities to non-bank clients increased by EUR 23,745 thousand or 1.3%. Their share in liabilities amounted to 83.1% as at the end of 2022.

Deposits of the non-bank sector predominantly include retail deposits, which increased by EUR 72,231 thousand or 5.6%. They represent 59.3% of liabilities. As at 31 December 2022, liabilities to non-banking legal entities represents 23.8% of total liabilities and decreased by EUR 48,486 thousand or 8.1% in comparison to the end of the previous year.

The image below shows the structure of what is due to customers.



Debts to banks, which include deposits and loans of commercial banks and liabilities to the Central Bank, decreased by EUR 11,169 thousand or 10.2%. As at the end of 2022, their share represents 4.2% of liabilities.

The long-term indebtedness with commercial banks amounted to EUR 96.1 million. Of which EUR 50 million of subordinated debt from AIK bank (an additional EUR 30 million in December 2022) the rest are liabilities to other banks.

The Bank had loans placed on the interbank market in the amount of EUR 46.2 million at the end of December 2022, namely EUR 40 million at AIK bank, the rest at other banks. Due to high excess liquidity, at the end of September, the bank started placing its excess funds at Bank of Slovenia as overnight deposit.

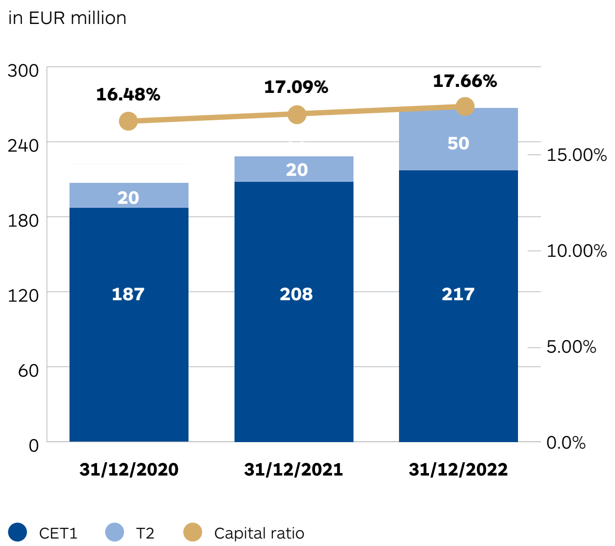
Capital and Capital Adequacy

The total capital increased in 2022 by EUR 24,862 thousand or 10.1%. Namely, it increased due to profit for the year (EUR 27,909 thousand) and negative OCI impact. The book value of a share, calculated from the total capital of the Bank, amounted to EUR 764.07 at the end of 2022 (31 December 2021: EUR 694.18).

As at 31 December 2022, **own funds** amounted to EUR 266,618 thousand (2021: EUR 228,157 thousand) and consists of common equity tier 1 capital (CET1) and tier 2 capital (T2).

The **capital adequacy ratio** for total capital increased in 2022 by 57 bps and amounted to 17.66% as at the end of December 2022 (2021: 17.09%), the capital adequacy ratio for common capital amounted to 14.34%. The Bank uses the standardised approach to calculate capital requirements for credit risks and the simple approach to calculating the capital requirement for operational risks. More about capital adequacy can be found in the financial section of the Annual Report (note 7.5).

The image below shows the trends of the bank's capital adequacy ratios.



Risk Management

The Bank pays a great deal of attention to understanding, monitoring, identifying, measuring and managing risks as required by developments in the wider economic environment, the financial system and the Bank's intention to pursue and include new development aspects in its risk management system, as brought by the good business practice of banks and the changing regulatory environment. The risk management system remains an important element of the Bank's strategy and performance. The goal of the Bank in risk management on a long-term basis and the Bank's attitude towards risks is also to take into account the risk from the macroeconomic environment in which the Bank operates.

One of the key principles of managing risk defines that all assumed risk must be assessed and included in the set profitability measures. This principle is realised by including the "ex-ante" costs in the structure of interest rate surcharges (credit calculator). Risk-adjusted profitability is an integral part of the Business Strategy and new investments.

The bases and basic principles of the risk management system are defined in more detail in the Risk Management Strategy and Risk Appetite Statement, which represent the umbrella documents of a comprehensive risk management system. The Risk Management Strategy lays down the goals of the Bank in managing risks on a long-term basis and the Bank's attitude to the risks it is exposed to or could be exposed to, considering the risks from the macroeconomic environment in which the Bank operates, and the strategic objectives defined in the current Business Strategy. The Bank complies with local regulatory requirements in the field of risk management and is at the same time aligned with the requirements of the banking group.

The Bank's Risk Appetite Statement defines at the highest level the types of risks and tolerance towards individual types of risks that the Bank is willing and able to assume in order to achieve the set objectives, and constitutes the incentives and restrictions in the process of making business decisions at the Bank. In addition to the qualitative orientations in the most important areas, the Bank defines its risk appetite in a quantitative manner through a set of key and supporting risk indicators. The definitions and key indicators defined in the Risk Management Strategy and the Risk Appetite Statement (RAS) also provide the basis for defining internal policies, methodologies and the monitoring of individual risk types, as well as the basis for setting up a more detailed limit system in all risk segments. The goal of limit management is to ensure complete control over the risk profile and reliable implementation of the Risk Management Strategy, including appropriate monitoring and escalation of activities that can significantly affect the Bank's risk profile.

Capital management is a regular process of determining and maintaining a sufficient amount and quality of capital, both according to the first (regulatory) pillar, as well as according to the second pillar (internal approach - ICAAP). The Bank has a capital management system as defined in the Bank's Capital Management Policy. The purpose of capital management is to achieve the efficient spending of available capital ensuring:

- the safety and profitability of operations at the level of the Bank,
- a high degree of trust by all stakeholders,
- the fulfilment of the regulatory requirements concerning capital adequacy,
- the attainment of proper capital adequacy in the ICAAP process.

For the optimum achievement of the strategic goals, the Bank also uses the capital management system to establish bases for the transparent and optimum economic allocation of capital to individual business areas based on risk-weighted profitability criteria.

Furthermore, the goal of capital management is to ensure a long-term and stable return on the owners' investment through dividend payments based on pre-defined criteria for the dividend policy, which allows the Bank to operate, grow and achieve strategic goals in a sustainable manner and in the long run, along with the satisfaction of all stakeholders and a stable ownership structure of the Bank.

In addition to capital management, the Bank also has a liquidity risk management process in place, where the Bank defines and implements preventive measures to reduce liquidity risk through liquidity gaps, stress testing and monitoring of regulatory and structural indicators to reduce liquidity risk and future exposure.

By comprehensively addressing risks and their potential impacts on the Bank's operations within the scope of the ICAAP (Internal Capital Adequacy Assessment Process), ILAAP (Internal Liquidity Adequacy Assessment Process) and the performance of stress tests, the Bank also provides bases for the timely adoption of proper business decisions at all levels of decision-making. It needs to be pointed out that testing exceptional situations is not a tool for forecasting, but rather a tool for managing operations, which helps the Bank manage the relationship between risk and profitability and offers a future-oriented view of the risk management profile in accordance with the risk appetite and risk management strategy. As part of the ICAAP and ILAAP process, the Bank also assessed the effects of the Covid-19 crisis and also took into account the impact of the Ukrainian crisis on the assessment of the required internal capital and internal liquidity.

Below is a detailed description of the key elements of exposure and the management of the Bank's credit, market and liquidity risks in 2022. Detailed information on the Bank's risk management and exposure to individual risks is disclosed in the financial reports of the Bank and the Group (chapter 7) and a separate document entitled "Disclosures of additional information for 2022", which contains disclosures pursuant to Part 8 of Regulation EU 575/2013, the provisions of the Banking Act and the requirements of the IFRS 9.

Credit Risks

Credit risk is the risk of financial loss incurred as a result of the debtor's inability to fulfil its financial or contractual obligation to the Bank, in part or in full, for any reason. Credit risk management is essential for the safe operations of the Bank. Prudent credit risk management includes the control and mitigation of credit risk through various aspects, such as the quality and structure of investments, concentration, investment security, maturity, currency, type of credit, country risk and other risk.

The goal of credit risk management at the Bank is to achieve and maintain the quality and diversification of the credit portfolio, ensuring stable operations and the prudent management of the relationship between risk and return.

In 2022, the Bank developed and implemented a scoring model for medium- and small-sized companies, the factoring scoring model, and began developing the credit rating model for project financing.

The Bank responded to the uncertain geopolitical events in the current year with an in-depth identification of the increased credit risk. The initial analysis has shown that the Bank has no direct exposure to Belarus, and an insignificant scope of exposure to Russia and Ukraine. The Bank also identified clients that will be indirectly exposed to the Russian-Ukrainian crisis, and later did the same for the energy crisis and formed two additional watch lists, the so-called RU/UK and energy watch lists. In 2022, the Bank amended its IFRS 9 methodology, both in terms of its regular calibration of credit risk parameters (PD, LGD and discount rate), as well as in terms of the model adjustment due to the uncertainties that stem mainly from the Russian invasion of Ukraine and more expensive energy products or basic necessities, which increases the risk exposure (especially to credit risk). The Bank has formed additional impairments through the conservative worsening of the macroeconomic outlook in the pessimistic and optimistic scenarios, the amendment of the weights of scenarios, and the reduction in the value of collaterals for the purpose of calculating impairments. The use of this approach should only be of a temporary nature until the Bank adjusts the model for estimating the expected credit losses to the actual conditions.

Pursuant to the Risk Management Strategy of Gorenjska banka d.d., Kranj, and the Risk Appetite Statement of Gorenjska banka d.d., Kranj, the Bank defines its appetite for credit risk with key and supporting matrices, and indicators of the quality and structure of the investment portfolio. In 2022, the Bank partly reviewed and upgraded the applicable limit system defined in the Credit Risk Management Policy, and attachment thereto, in accordance with the strategic directions of the Bank and the umbrella acts for managing risk.

In 2022, as part of the ICAAP (Internal Capital Adequacy Assessment Process), the Bank upgraded the process with the desired capital allocation, and considered the macroeconomic events in the process due to the Russian-Ukrainian war. Further upgrade of the ICAAP is planned for 2023, mainly in the part of assessing the materiality of each risk type.

The table below reveals the key credit risk indicators at the Bank.

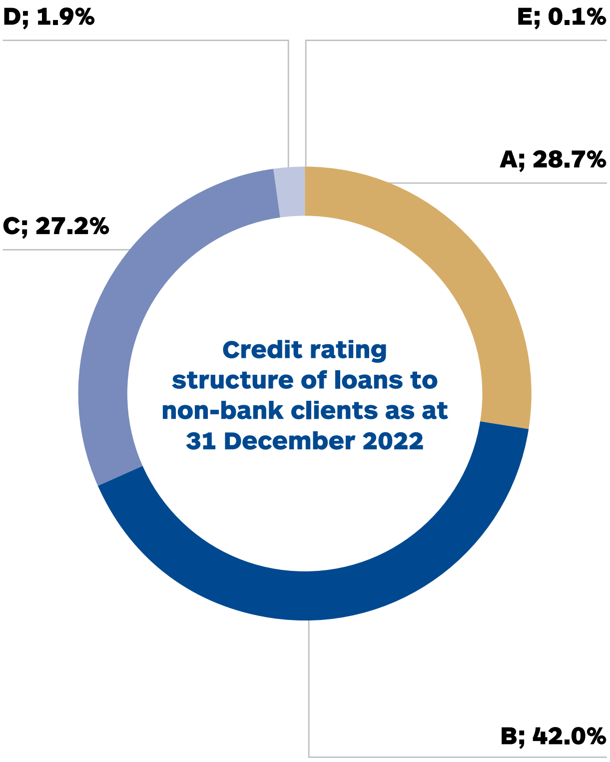
in thousands of EUR

	31/12/2022	31/12/2021	Change in the year	
			In EUR thousands	In %, p.p.
Gross loan portfolio[1]	1,847,564	1,830,904	16,660	0.9%
Loans to non-banking sector	1,510,393	1,300,154	210,239	16.2%
Non-performing loans (NPL)[2]	31,198	29,220	1,978	6.8%
Portfolio coverage by impairments and provisions	1.3%	1.5%		-0.2 p.p.
Share of non-performing loans (NPL)[3]	1.7%	1.6%		0.1 p.p.
Coverage rate of non-performing loans (NPL)[4]	33.4%	31.7%		1.7 p.p.

p.p. – Percentage point.
1 – gross credit portfolio (balance sheet exposure): gross credits of banks and non-bank clients and other financial assets and deposits with banks and CB
2 – gross non-performing credits (balance sheet exposure) and other financial assets
3 – the basis for the calculation of the NPL share is the exposure under EBA definition Risk Dashboard (the balance sheet exposure of non-performing loans/balance sheet exposure of the portfolio of loans and other financial assets and deposits with banks and central banks)
4 – balance of impairments for NPEs compared to the NPEs themselves.

Non-performing loans increased by 6.8% in 2022.

The figure below shows the credit rating structure of loans to non-bank clients as at 31 December 2022.



The structure of the credit portfolio is also adequate with respect to the segment of clients, since receivables due from the retail sector and small and medium enterprises (SMEs) account for more than 80% of the portfolio.

Liquidity Risks

The basic goal of liquidity risk management in the Bank is to manage assets and liabilities in such a way that it enables the fulfilment of its due obligations at any time, minimises the costs of liquidity maintenance, anticipates extraordinary liquidity situations and implements measures to restore the Bank's adequate liquidity position in a timely manner.

The management of liquidity risk includes the harmonisation, monitoring and measuring of cash flows from the operating activities of the Bank and its clients and the provision of an adequate volume and structure of financing sources and liquidity reserves. In 2022, the structure of the Bank's financing sources had significant impact on the liquidity of the Bank. In 2022, the share of deposits of the non-banking sector slightly decreased in comparison to the end 2021 and was at 83% of financing sources. The deposit structure is still significantly affected by high share of demand deposits, consequently leading to the reduction of average deposit maturity. Interest rates were still low in 2022, despite the rapid growth of inflation in the second half of 2022 and the Ukrainian-Russian crisis and energy crisis worldwide.

In addition, the Covid-19 epidemic from the past, which continued in 2022 throughout the world, also contributed to this. As a result, all these influences, both on economic and financial markets, characterised the entire banking system.

The Bank's financial sources are diversified and mostly derive from non-bank deposits, which provide the Bank with a stable position, increases the reliability of the Bank's business model and enables the long-term growth of the Bank's credit portfolio.

In April 2022, the Bank updated the Liquidity Risk Management Policy from 2021, with a changed method and levels of stress scenarios and the final calculation of the survival period. In the Policy itself, it also changed the content of the annual Liquidity Contingency Plan (LCP). The Bank monthly calculates the liquidity gap, the required secondary liquidity or the liquidity volume, and assesses the adequacy of the composition of liquidity reserves by taking into account the applicable methodology, which takes into account conservatism in the assumption and management of liquidity risk. Throughout the entire period of 2022, the Bank had a sufficient volume and an adequate structure of secondary liquidity and was above the limit for the survival period. In addition to adequate liquidity reserves, the Bank also performs a monthly reverse stress test of liquidity indicators (Liquidity coverage ratio - LCR, Net stable funding ratio - NSFR and Loan to deposits ratio - LTD). As part of risk monitoring, the Bank also monitors exposure to banks on a daily basis and reports to the Banking Group.

Surplus short-term liquidity was regulated by the Bank primarily through approvals of short-term liquidity loans on the interbank money market and in December 2022 also with an Interbank long-term loan in the amount of EUR 40 million, high balances in accounts and investments in securities. Due to surplus liquidity throughout the year, the Bank did not borrow on the short-term interbank money market in 2022 and was a net creditor in the amount of EUR 59.3 million as at 31 December 2022. From the end of September 2022 onwards, the Bank also carried out daily overnight placements (margin deposit) with the ECB.

In 2022, the Bank did not borrow ECB's TLTRO III funds (targeted longer-term refinancing operation), where it may, based on pledge of eligible financial assets, obtain the financing sources needed to keep Bank's balance sheet maturities balanced. At the end of 2022, the Bank had no indebtedness to the ECB.

In 2022, the Bank didn't borrow on the wholesale market of debt securities, but within its group it borrowed an amount of EUR 30 million by issuing a subordinated loan (Tier 2), for which it obtained permission from the ECB on 29 December 2022.

The Bank is regularly calculating and monitoring the statutory ratios, the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR). The Bank is calculating its LCR on a monthly basis and NSFR on a quarterly basis as per the status on the last day of the month. From April 2021, the Bank monitors and calculates both liquidity indicators, LCR and NSFR, on a daily basis. During 2022, both ratios were above the regulatory and internal limits. Due to the Ukrainian-Russian war, the Bank of Slovenia reintroduced daily reporting and monitoring of the liquidity ratio (KL1) in February 2022. As a result, due to the stability and normalisation of operations, the Bank of Slovenia then made the decision that from June 2022 onwards, reporting and monitoring of the liquidity ratio - KL1 is no longer necessary.

Market Risks

Among the non-credit risks, the Bank considers interest rate risk to be the most important. The Bank monitors and manages exposure to interest rate risks based on a methodology of interest rate gaps and a stress test for various scenarios showing the effects of interest rate movements on interest revenues and the economic value of the Bank's capital.

The mismatch of positions according to the criterion of the interest rate redetermination period, the Bank's sensitivity to changes in the level of interest rates and the effects of stress scenarios on net interest income increased in 2022 compared to the level at the end of 2021 (by EUR 1.0 million), the impact on the economic value of the Bank's capital in 2022 decreased compared to the previous year 2021 (by EUR 1.5 million). The increase was mainly due to increased lending to the non-banking sector (in the first half of 2022, promotional offers for housing loans and due to the purchase of new debt securities). In the second half of 2022, the Bank upgraded the Interest Risk Management Policy, mainly due to the consideration of behavioural options (early repayment of loans and early termination of fixed deposits) in interest rate risk. In addition to the change in the Policy, the subordinate Module of this Policy was also supplemented as a result, and a new Module for dealing with behavioural options was also introduced. All documents are harmonised with the banking Group.

The Bank is exposed to foreign exchange risk at a minimum level, since the nature of its operations provides for low exposure limits by individual foreign currencies and a common open position and, the Bank monitors and reports daily to the banking group. From the point of view foreign exchange risks are irrelevant in terms of their impact on the Bank's operations.

In 2022, the Bank carried out an annual review of the Currency Risk Management Policy, and certain changes were made, namely in title of the Policy, now Market Risk Management Policy, general principles and substantive definition of market risk and their breakdown and process, identification and measurements of market risk and aligned with the document of the banking group. The Bank is not exposed to market risk stemming from the trading book (only currency risk) because it had no trade positions in 2022.

Operational Risks

The operational risk management system and associated processes are based on an internally established methodology and takes into account the Bank's characteristics as a whole, its size, organisation and scope of operations. In 2022, the Bank provided internal training and monitored entries into the Bank system in the management of operational risks, thus raising the awareness, understanding and quality of detecting potential operational risks or losses and their reporting. Within the framework of the Operational Risk Management Policy, in 2022 the Bank defined a new subordinate document entitled External Contractor Assessment Module, which defines the procedure for assessing the risk of an external contractor, responsibilities by individual sectors, and the structure of the assessment itself, as well as the definition of all external risk in the final assessment contractors and the necessary additional capital requirement.

The operational risks management process comprises two core processes:

- the process of identifying and managing potential operational risks in order to detect them in due time and assess possible effects, while defining the method of managing potential operational risks (the proactive operation of the Bank) and
- the process of managing loss events deriving from realised operational risks, which enables the detection, reporting and assessment of the loss incurred by realised operational risks. The core of the process is to report them in the uniform database of loss events (reactive operation of the Bank).

This process is integrated into all the business functions and major processes of the Bank, and covers all employees.

In 2022, the Bank supplemented the described system for the identification of potential operational risks in practice by monitoring the set of key operational risk indicators that indicate a possible increase in operational risks in the Bank's operations and by monitoring publicly available information on operational risks and loss events that have occurred affecting institutions in the financial sector or related activities and that could pose a risk for the Bank's operations. Key indicators are monitored by the Bank on a quarterly basis and information on their trends is included in reports for the competent management bodies.

The established operational risk management system ensures that the Bank's realised net loss in 2022 reached less than 2.05% of the capital requirement at Group level (less than 2.13% at Bank level), which is calculated by the Bank using the simple approach pursuant to the provisions of the CRR Regulation. The capital requirement increase is mainly due to the increase in loss events in the controlled company GB Leasing (the misappropriation of vehicles purchased on lease by customers); however, the Bank responded in a timely and responsible manner by filing criminal charges with the relevant legal authorities. It is expected that in the final phase, the Bank will not suffer a net loss under these loss events; nevertheless, court proceedings are rather long-lasting.

Climate Risks

In 2022, the Bank actively acceded to the implementation of environmental risk. It updated its internal rules in the organisation and compliance area. The Bank assessed the materiality in the area of risk associated with climate change, which is seen in the schematic below.

Risk associated with the transition to a low-carbon economy:

- Legal and regulatory risk
- Technological risk
- Market risk
- Reputational risk

Risk associated with the physical impacts of climate change:

- Acute risk
- Chronic risk

In order for the Bank to better understand the ESG risk at portfolio level, it participated in the draft of the ESG questionnaire as part of the workgroups of the Bank Association of Slovenia (ZBS). As one of the first banks in Slovenia, it completely assumed the questionnaire and digitalised it to the point where clients may download and submit the questionnaire through the web portal. In October 2022, the Bank began calling on clients in the large enterprises area to submit the questionnaire, and therefore actively approached to realising its own portfolio in the scope of ESG risk. The Bank plans to implement a shorter version of the questionnaire in 2023 for small and medium-sized companies, and therefore ensure additional data for the needs of evaluating environmental risk and regulatory reporting. At the same time, activities related to the updated internal reporting will be carried out at Group level and at Bank level, with additional key risk indicators and the implementation of environmental risk into the loan approval and monitoring process.

Development Projects

In 2022, the Bank continued with its technological development by accelerating the digitalisation of all parts of its banking operations, and optimising its processes. With such solutions, the Bank listens to and focuses on the client.

In the retail area, a modern CRM was implemented, which supports the operations of a bank worker whose focus is the client. We therefore strengthened customer relations and followed the trends and preferences of clients.

Together with analytics, the CRM solution makes it possible for the Bank to identify and offer an optimal solution to its clients at any given moment. In line with the trends, we promoted new distribution channels and payment methods while providing all the necessary security elements.

We are strengthening our cooperation with other providers of financial solutions, in order to provide alternative forms of savings to savers in addition to classic bank deposits when interest rates are on the rise. In cooperation with Zavarovalnica Triglav d.d., we continue to market banking and insurance services.

With the aim of comprehensive financial consulting, the Bank provides all clients with both banking and a range of insurance services in one place.

In order to identify opportunities in the field of online shopping, we strengthened our cooperation with the company Leanpay, which enables buyers to pay their instalments under the "buy now, pay later" plan for their purchases online or in store.

In addition, GB Leasing is facilitating accessibility of used cars to our clients with a different method of financing.

We invested a lot of effort into updating and redesigning the comprehensive system of card operations, and managing ATMs and POS terminals. We are pursuing the key goal of redesigning the card system to provide a higher quality of service and lower operating costs, as well as to shorten and optimise the entire business process.

In the corporate segment, we participated in tenders with a subsidised interest rate. We cooperated with SID Bank, municipalities, development agencies, chambers of crafts, and the Slovenian Enterprise Fund. We also approached clients regionally and in selected environments, as well as with the participation of external institutions, enabling them to finance business opportunities at a lower interest rate. Through marketing campaigns aimed at boosting lending, we increased the visibility of the fast credit approval process, as well as the Bank in terms of flexibility and client orientation.

Information Technology Upgrade

In 2022, IT followed the business strategy of increasing the scale of operations and the level of digitalisation with the appropriate selection of technology. There is continuous support for the optimisation of back offices and the technology itself. The biggest change in 2022 was the implementation of the modern CRM system, which was also a relatively large and modern technological upgrade, whereby we considered all of the existing infrastructural elements.

Further adjustments were needed due to the change of the card processor and upgrade of the Bank's information technology, and also due to the change of processes. Some activities were implemented as a post-migration process of card processing project from the end of 2021.

We continued with the processes that allow the Bank to operate as a system bank, which brings additional requirements with regard to the Bank's information technology. It is important to manage all aspects of information technology and data management. We also strengthened the data management department, which participates in these processes, and supported it accordingly. We also faced the sudden change caused by the war in Ukraine, and successfully managed it in the regulatory and also the infrastructural part.

We plan to apply this hybrid kind of work in the future, which is fully in line with the orientation towards the Bank's digitalisation. The application that was implemented by the call centre for the purpose of its work was expanded throughout the Bank, thus reaching multiple levels of support.

We are cooperating in AEC Group projects, where a shared data centre will be launched in 2023 for all banks in the Group; for the Gorenjska banka group, the primary location of the data centre will be in Slovenia, while the secondary location will be in Serbia.

Organisational and HR Changes

Organisational Interventions

We continued to monitor activities and delimit the thematic areas and tasks between the individual divisions. Changes were also caused by the reorganisation of card operations, because these became more complex with the transition to the new Euronet processor. With the abolishment of the Cash centre and the depot and vault service department and the ATM service, we are pursuing the strategy of the Bank to optimise the working processes and staff. ATM operations were therefore moved to the new department for card and cash operations, which covers card and ATM support transactions and all of the transactions of the abolished depot and vault service department. The enforcement area was moved from the department for support for the operations of individual clients to the payment transactions department, which contributes significantly to a leaner organisational structure of the Back-Office Support Division.

The tasks concerning the safety of people and assets and fire safety, as well as the tasks from the segment of the health of employees and occupational health was moved directly under the Bank's Management Board, based on the content and importance of the security of the Bank and the health of employees.

Number and Structure of Employees

On the last day of 2022, there were 414 persons employed in Gorenjska banka, which is 3% more than at the end of 2021.

The HR dynamics were very pronounced in 2022, due to organisational, economic and technological changes. The Bank recruited 68 persons, while 58 left the Bank, also due to retirement and business reasons. Furthermore, 125 employees transferred to new positions within the Bank.

New jobs were mostly due to substituting for those who left, maternity leave and the newly established positions of employment.

Employee transfers also reflected a lower average age and a somewhat improved educational structure of employees. The average age of employees was reduced by 0.5 years, from 44 years in 2021 to 43.5 years in 2022. The share of employees who attained a formal level of education is VI. or higher, increased from 66.67% in 2021 to 68.64% in 2022

The average number of employees broken down into groups with respect to the level of formal education achieved in 2020–2022 was:

Level of education	VIII.	VII.	VI.	V.	IV.	Total
Average number of employees in 2022	13	222	44	123	3	**405**
Average number of employees in 2021	10	201	57	125	9	**402**
Average number of employees in 2020	10	196	55	147	7	**415**

Education

The Bank allocated considerably more funds for employee training in 2022 than it did the previous year. 550 participants attended external training, with 132 different topics and a total duration of 5,792 hours. Training topics were mostly adjusted to the specific needs of the Bank (professional work-related content, ESG, banking school, leadership, foreign languages). Employees participated in professional consultations and conferences with a view to monitoring current affairs and trends. Employees in the business network also underwent training for the acquisition of a certificate for marketing investment funds and insurance brokerage activities in 2022. By the end of the year, as many as 67% of the staff had acquired both licences. External training was regularly supplemented with in-house training, both live and online training, which ensured the appropriate in-house transfer of knowledge, and the Bank thus continued with a practice that has proved to be very effective in the past few years.

Social Responsibility

As part of the Socially Responsible Employer certificate, which the Bank received in September 2021, activities are ongoing to obtain an advanced certificate. The certificate encompasses a commitment to social responsibility at the highest management level in the organisation or company, and addresses employees to actively participate in creating and carrying out activities for socially responsible operations of the Bank. This involves raising the level of awareness of social responsibility at all management levels.

The sustainable development committee began updating the sustainable development strategy. By forming the sustainable development strategy of the Bank, we pursue the sustainable development goals of the United Nations (UN) and the Paris Climate Accords, and comply with the principles of the UN Global Compact and the UN Guidelines on commercial and human rights. We also come from the ESG area, considering the environmental and social factors and factors concerning company management. We consider the following steps in the formation of the strategy:

- we focus on ESG areas that have the highest impact on the company's ability to generate value for its stakeholders,
- we define the relationship between the ESG areas and the financial performance of the Bank,
- based on the implemented analysis, we promote the development of products, services, processes and business models that prioritise key ESG areas, and we use those to define the goals and key performance indicators,
- we hold regular communications with the key stakeholders on the sustainable operations of the Bank.

Even the employees support socially responsible projects that go beyond the financial objective framework and are oriented towards the well-being of vulnerable groups, local communities and the environment. In December, the employees worked together on joint charity projects, namely "Delamo trojno dobro". The Bank therefore donated funds to the Slovenian Association of Friends of Youth Kranj, the "Palčica pomagalčica" society and the "Murenčki" kindergarten for refurbishing a room for children with special needs. The employees collected creative accessories for children for the "Palčica pomagalčica" society and the "Murenčki" kindergarten, and definitely made the holidays better for the young people and families in need.

The Bank is engaged in the "Vitalno podjetje", health promotion and well-being at work programme. Gorenjska banka allocates funds to each employee for various activities in order to support their well-being.

Statement on Internal Governance Arrangements

According to paragraph 5 of Article 70 of the Companies Act, Gorenjska banka d.d., Kranj, provides the following statement on internal governance arrangements, which is the scope of the business section of its Annual Report.

Gorenjska banka d.d., Kranj, realises internal governance arrangements, including corporate governance, in line with the legislation applicable in the Republic of Slovenia, while observing its internal acts, especially the Policy of internal governance in Gorenjska banka d.d., Kranj, and the Employee Business Ethics Code for Gorenjska banka d.d., Kranj. In doing so, Gorenjska banka d.d., Kranj, fully observes the acts from paragraph 2 of Article 9 of the Banking Act[5].

In order to strengthen the internal governance arrangements, the Bank observes in particular:

1. the provisions of the valid Companies Act (ZGD-1),
2. the provisions of the applicable Banking Act (Zban-3) laying down internal governance arrangements, particularly the provisions of chapter 3.4 (Bank governance system) and chapter 6 (Internal governance arrangements and adequate internal capital), in the part of the requirements applicable to the bank/savings bank or to members of the management body,
3. the Decision on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks[6], and
4. the EBA guidelines regulating internal governance, assessment of the suitability of members of the management body and key function holders, and the remuneration policy and practice based on the relevant decisions adopted by the Bank of Slovenia on the use of the guidelines[7].

At the same time, we strive to follow as much as possible the recommendations of the regulator, which were issued in the process of regular supervisory review and risk assessment of credit institutions in 2022.

In 2022, the Bank followed the Internal Management Policy of Gorenjska banka d.d., Kranj and the Group of Gorenjska banka in corporate governance. The Bank amended the changes and additions to the policy, which was adopted in February 2018, in 2020 and finally in July 2022. The amended policy is valid from 27/07/2022.

Significant Direct and Indirect Holdings of Securities by the Bank

The significant direct and indirect ownership of the Bank's securities in the sense of achieving a qualified share as defined by the law governing takeovers (5% of voting rights) was achieved by AIK banka, a.d., Beograd (number of ordinary shares 335,723, share in voting rights 100%) at the end of 2020, 2021 and until 30/12/2022.

In line with the Market and Financial Instruments Act (ZTFI-1) and the Decision on the obligation to disclose regulated information, the Bank made the information (NIH-1/23) on the change of the important shares in the Bank's equity as at 31/12/2022 public on the website of Seonet on 06/01/2023, namely that the shareholder Agri Europe Cyprus Limited notified the Bank on 05/01/2023 that it had purchased all 355,723 shares of Gorenjska banka d.d., Kranj (GBKR) from AIK BANKA A.D. Belgrade, which is 91.969% of shares and 100% of shares with voting rights in the Bank's share capital.

5 The Banking Act (ZBan-3), Official Gazette of the Republic of Slovenia, No. 92/2021 and 123/21 – ZBNIP;

6 The Bank of Slovenia's Decision on internal governance arrangements, the management body and internal capital adequacy assessment process for banks and savings banks, Official Gazette of the Republic of Slovenia, No. 115/2021;

7 https://www.bsi.si/en/financial-stability/regulation/seznam-predpisov/licensing.

Share Capital Structure

The Bank's share capital comprises 387,938 ordinary shares (2021: 387,938). Ordinary shares confer voting rights, whereby each share confers one vote at the general meeting of shareholders. Shareholders exercise their voting rights at the Bank's general meeting of shareholders with respect to the proportion of their shares in the share capital and with respect to the type of shares and in accordance with the Bank's articles of association. Treasury shares have no voting rights.

Gorenjska banka, d.d., Kranj, is a privately held company with more than EUR 4 million in total equity, and is therefore bound by the law that governs acquisitions.

Restrictions to Share Transfers

Bank shares are transferable in accordance with the regulations that govern dematerialised securities. Current shareholders have pre-emptive rights to new share issues corresponding to their proportion of the share capital held. The Bank has no other restrictions on shareholding, while approval from the Bank of Slovenia is required for the acquisition of a qualifying holding. There is no requirement for obtaining the consent of the Bank or other shareholders for the transfer of shares.

Restrictions of Voting Rights

Shareholders' voting rights are exercised with respect to the number of shares and are not restricted by the Articles of Association to a certain proportion or number of votes. Shareholders who are the holders of registered shares with voting rights, who are entered in the central register of book-entry securities.

Bank Rules on the Appointment and Replacement of Members of the Management and Supervisory Bodies and on Amendments to the Articles of Association

The Bank's rules on the appointment and replacement of members of the management and supervisory bodies and on amendments to the articles of association are defined in the articles of association of Gorenjska banka, d.d., Kranj.

The supervisory board appoints and recalls members of the Bank's general meeting of shareholders. Persons who do not fulfil the conditions for membership of the Bank's supervisory board pursuant to the Companies Act or the Banking Act may not be appointed to the supervisory board. Members of the supervisory board are appointed for a five-year term and may be reappointed. Members of the supervisory board may terminate their terms early through recall or on the basis of a written resignation from the member.

The president and members of the Bank's management board appoint and discharge or recall the supervisory board. Only persons who fulfil the conditions for appointment pursuant to the Companies Act or the Banking Act may be appointed president of the Bank's management board. The president of the management board and the members of the management board are appointed for a five-year term and may be reappointed.

The articles of association may be amended through a resolution of the Bank's general meeting of shareholders. The Bank's general meeting of shareholders may authorise the supervisory board to make amendments to the articles of association, which comprise the harmonisation of the wording with currently adopted resolutions.

Management Authorisations

The Bank may acquire and dispose of treasury shares pursuant to the Companies Act. The Bank's management board decides on the conditions for the acquisition and disposal of treasury shares, and must notify the Bank's general meeting of shareholders about transactions involving treasury shares.

With the approval of the supervisory board, the Bank's management board may increase the Bank's share capital up to a total amount of EUR 8,094,183.16 within five years from the day of entry of fourteen amendments to the articles of association of Gorenjska banka, d.d., Kranj, in the court register. Preference shares without voting rights may also be issued within the scope of this capital increase. The fourteenth amendments and supplements to the Articles of Association were entered in the Court Register on 26 July 2018.

Diversity Policy and Representation in Management and Supervisory Bodies

The Bank follows the principle of gender balance according to the Internal Governance Policy of Gorenjska banka d.d., Kranj, under the assumption that the management body (Management Board, Supervisory Board) consists of minimum 20% members of each gender. The management body composition reflects a diversity of theoretical expert knowledge and experience from different fields, thus ensuring:

- the expected (required) qualification member structure according to the size, demanding level and bank risk profile,
- the basis (background) for encouraging different views (opinions) on the discussed matters (issues).

At least half of the supervisory body members should consist of independent members. This includes members with no conflict of interests and who act and decide independently and objectively in favour of the Bank, having no close economic connection to the Bank, the Management Board or more shareholders.

The management body structure (and the sufficient number of independent directors) itself can ensure the effective reaching of substantiated, objective and independent decisions in favour of the Bank.

Last but not least, the diversity policy also requires certain actions by the members of the Bank's Supervisory Board; namely to carry out the assessment of the effectiveness of their work and a self-assessment of collective suitability once a year and to adopt a programme of measures to improve the effectiveness of their work.

Diversity is important also in following the measures for experience assessment. If during such an assessment of a candidate for a member of the management body and the higher bank management, the quantitative criteria thresholds (previous work experience) are not achieved, the candidate can still be regarded as appropriate if they provide a suitable justification after the supplementary assessment and interview. Adequate diversity and a broad range of experience from the viewpoint of the management body as a whole are also considered.

Significant Events After the Date of the Statement of Financial Position

There were no other significant events after the balance sheet date.

Other Explanations

Shareholders in Gorenjska banka, d.d., Kranj, do not have any special controlling rights.

The Bank has agreements between the Bank and the management board or Bank employees that foresee compensation if they were dismissed without grounds or their employment relations terminated because of a bid as defined by the law that governs acquisitions. In the event of a recall or termination of the employment contract without good reason, the management board, executive directors and directors are entitled to severance pay. If the term of office of the President of the management board terminates on his/her request (resignation), the severance pay can be paid based on a positive assessment of its work by the Supervisory Board.

A Code of Business Ethics is put in place at the Bank that represents a set of fundamental values and principles guiding our conduct in relation to associates, partners and clients. The Code is available on the Bank's website:

https://www.gbkr.si/wp-content/uploads/2022/01/code-of-business-ethics-gorenjska-banka.pdf

Internal Controls Mechanism

The Bank provides appropriate internal controls mechanism. Internal control mechanisms are established in a way that the rules and supervision over the implementation of the organisational, business and operational procedures of banks are independently and qualitatively determined and are consistently implemented. The system provides systematic control over all the significant risks of the Bank, which is implemented on the basis of the Bank's strategy, policies, processes and measures. Within the internal control mechanisms, the Bank has also established and organised internal control functions and organisational sectors. These provide an independent and objective assessment of the effectiveness and coherence of the Bank's internal governance arrangements based on the review and assessment of the relevant strategies, processes, procedures and methodologies of the risk management of the Bank.

Gorenjska banka has established independent control functions: Internal Audit Division, Compliance and AML Division, Credit Risk Management Division, Strategic Risk Management Division and Distressed Asset Recovery Division.

The Bank provides a description of the main characteristics of the internal control and risk management systems at the Bank, data on the activities of the General Meeting, management and supervisory bodies, and their committees, in additional disclosures pursuant to part 8 of Regulation 575/2013 (EBA/GL/2016/11 dated 4 August 2017) and Article 104 of the Banking Act, which are available on the Bank's website.

Internal Controls and Risk Management in Financial Reporting

Gorenjska banka manages the risks associated with the keeping of business books and financial reporting, with properly defined internal acts, which are constantly adjusted to the applicable legislation and by performing internal controls based on these acts. The purpose of internal controls is to ensure the completeness and timeliness of the collection of data on business events and the preparation of financial statements that are a true and fair presentation of the financial position statement, income statement, cash flows and changes in equity and in accordance with applicable regulations. Internal controls thus include control over the reality of events, the completeness of data coverage and their equality with the actual situation, as well as the information systems used in this area, including the audit trail and the authorisation control systems.

By signing this Statement, we also undertake to proactively strengthen and promote suitable internal governance arrangements and corporate integrity in the wider expert, financial, economic and other public.

Kranj, 28 February 2023

Mojca Osolnik Videmšek	**Marko Filipčič**	**Mario Henjak**	**Jelena Galić**
Management Board Member	Management Board Member	Management Board President	Supervisory Board Chairwoman

A Concise Risk Statement Approved by the Management Body

In accordance with Article 17 of the Regulation on Internal Governance Arrangements, the Management Body and the Internal Capital Adequacy Assessment Process for Banks and Saving Banks (Official Gazette of the Republic of Slovenia, No. 73/15 and 49/16, 68/17, 33/18, 81/18, 45/19, 92/21 – Zban-3 in 115/21) and Article 435.1 f of Regulation (EU) 575/2013 and 876/2019, the Management Board and the Supervisory Board of Gorenjska banka, d.d., Kranj, provide the following

Statement on the management of risk

Due to the development and characteristics of the financial system and significant changes in the economy and the environment, the determination, takeover, measurement and management of risk have become an important element of the Bank's strategy and performance.

The primary objectives pursued by the Bank in the context of the risk management system are:

- Ensure compliance with the regulatory frameworks;
- Minimise potential losses;
- Provide support in the process of defining strategic objectives and adopting business decisions;
- Improve profitability;
- Manage relationships with all stakeholders;
- The establishment of a suitable organisational and management structure of the Bank.

In accordance with the strategy and policies of the Bank's operation, risk management is a key component in business decision-making. Risk management is integrated into all the business processes at the Bank and has two main aspects. The first is the definition of the Bank's risk appetite and the optimisation of decisions pursuant to the expressed risk appetite, while the other is related to the monitoring and quantitative assessment of the assumed risks.

In so doing, the Bank pursues the following principles:

- The delimitation of powers, which prevents errors, fraud and irregularities, and in particular eliminates conflicts of interest to the greatest possible extent.
- The separation of commercial function and units that enter into transactions and take risks (front office) from the back-office function, which monitors and manages transactions (back office), and function, which monitors and manages risks.
- The establishment of an independent control system. The internal audit independently assesses the controls.

In accordance with these principles, the Bank has established a so-called three-step model of risk management.

1.

Defence line – taking risk and risk ownership

Sales units

- Enter into transactions
- The ongoing monitoring of business
- The optimisation of the investment portfolio
- The awareness of the importance of risk

2.

Defence line – risk management

Risk management

- The risk management policy
- The principle of "get to know your customer"
- The process for approving investments
- The monitoring process
- The assessment of new business initiatives
- Ensuring business compliance

3.

Defence line – monitoring and control

Internal audit

- The periodic inspections of the implementation of the principles and policies
- Implementing and monitoring the implementation of the provisions of conformity

Considering the business model (universal commercial bank), the risks the Bank is exposed to are mainly traditional banking risks. The most important is credit risk, followed by liquidity risk, while exposure to market risk and other types of risk are reduced.

The Bank's Risk Profile

The Bank has established a modern and transparent risk measurement and risk profile monitoring system. Based on the defined risk appetite and internal limit system, the Bank has defined a set of key indicators for each type of risk and limit values for the review of the risk assessment and its importance for each one.

The calculated weighted assessments of risk levels by individual segment and their trends are reflected in the so-called risk dashboard of the Bank, which is shown in the figure below according to the balance as at 31 December 2022.

In 2022, there were no significant changes in the risk profile of Gorenjska banka, d.d., Kranj, with the exception of the identification of a new major risk, i.e. model risk, which is understood as the risk of an occurring loss, or possible damaging consequences due to financial assessments or decisions which are based on the abuse, wrong design, or incorrect usage of models used by the Bank. In 2022, the Bank also assessed changes and trends in its risk profile in terms of macroeconomic conditions and developments in the business environment, which continued to be unfavourable in Slovenia and globally, as a result of the Russia-Ukraine war and energy crisis. No major changes were detected in the risk profile of Gorenjska banka d.d., Kranj in 2022; however, due to the events in the macroeconomic environment, the outlook for the next year is changing, whereby the Bank has identified the following areas that have increased risk: increased risk, identified as: credit, currency, and operational risk.

	Irrelevant	Low	Medium	High	2022 Forecast
Credit risk					Increased
Liquidity risk					Stable
Interest rate risk					Increased
Currency risk					Stable
Operational risk					Increased
Model risk					Stable

The Bank believes that:

- The credit risk has been increased by volatile macroeconomic conditions,
- The interest risk has been increased by the increase in interest rates,
- The operational risk has been increased by the increased cyber risk.

The Bank is also measuring the risk profile through the exposure to risk, measured with the capital demand for individual risk types, and internally set methodologies and indicators for monitoring and measuring risk.

The total capital requirement of the Bank amounted to EUR 120.81 million at the end of 2022, and increased by EUR 12.84 million compared to the previous year. The increase is the result of increased capital requirement for credit risk, which derives mainly from a larger volume of retail banking and exposure to large enterprises.

The Bank's exposure to operational risk, measured through the capital requirement and calculated by applying the simple approach, was somewhat higher in 2022 compared to the previous year.

The table below shows the Bank's position as at 31 December 2022 compared to the previous period.

in thousands of EUR

	31 Dec. 2022	Structure 2022	31 Dec. 2021	Structure 2021	Change
Credit risk	110,963	92%	98,123	92%	12,840
Market risk	-	0%	-	0%	-
Operational risk	9,848	8%	8,688	8%	1,160
Total capital requirements	**120,811**	**100%**	**106,811**	**100%**	**14,000**

The Bank is carefully monitoring and managing other risks as well, which originate from the Bank's operations and the dynamic business environment, e.g. compliance risk, reputational risk, strategic risk, capital risk and the risk to profitability. For all of the listed risk types, the Bank has defined internal approaches to promptly detect, measure and prepare measures for their management and control.

Readiness to Assume Risk and Capability of Assuming Risks

Risk appetite is the level of risk that the Bank is willing to assume with the purpose of realising its strategic/business goals. Risk appetite is defined with regard to the Bank's Business Strategy and Risk Management Strategy. When determining risk appetite and risk tolerance, the Bank considers the ability to assume risk, which is reflected by the amount of available internal capital of the Bank.

The Bank is strategically focused on maintaining credit, interest and model risk at a medium level, and liquidity, currency and operational risk at a low level.

In addition to risk, the Bank also defines the level of tolerance for accepting risk through set internal limits, which enable the Bank to keep its risk profile compliant with the Risk Appetite Statement. The Bank's risk profile is an assessment of the Bank's exposure to risk, expressed with numerous indicators and qualitative statements.

The table below firstly shows the key metrics of capital and liquidity management as the main elements for managing the stability and sustainability of the Bank's operations (going concern). In addition to the key indicators below, the Risk Appetite Statement also contains a broad spectrum of other indicators.

Date	Common Equity Tier 1 (CET1)	Tier 1 ratio (T1)	Total Capital ratio (TCR)	Risk bearing capacity (RBC)	Leverage ratio (LR)	Liquidity coverage ratio (LCR)	Net stable funding ratio (NSFR)
31/12/2021	15.6%	15.6%	17.1%	64.0%	8.9%	321.2%	155.1%
31/12/2022	14.3%	14.3%	17.7%	*	9.0%	213.4%	136.1%
Limit	> 11.32%	> 13.44%	> 15.75%	< 90%	> 4%	> 120%	> 110%

In 2022, the values of the mentioned indicators were within the normal limits and reached levels that do not exceed the set target or limit values at the end of the year.

Pursuant to Article 545 of the Companies Act (ZGD-1), we declare that the Bank, in the circumstances known to it at the time, for legal transactions performed or acts that were committed or omitted, the Bank received an appropriate refund for each legal transaction and/or was not disadvantaged by the fact that the act was committed or omitted.

Kranj, 28 February 2023

Mojca Osolnik Videmšek
Management Board Member

Marko Filipčič
Management Board Member

Mario Henjak
Management Board President

Jelena Galić
Supervisory Board Chairwoman

Social responsibility

Because the growth and progress of each and every one of us depends on family, Gorenjska banka has been part of projects that improve the quality of living, and are aimed at improving the daily lives of children, young families and socially disadvantaged groups.

In 2022, the Bank participated in the regional project **Podpora družini** and donated to **Maternity Ljubljana**, thus enabling the renovation of post-natal rooms that provide a new healthcare standard for birthing mothers, and an outstanding living experience of maternity for their families. The socially responsible initiative Podpora družini, in which the MK Group and AIK banka also took part, allowed for substantial renovations last year and the purchases of new medical equipment at six maternity wards in the Adriatic region.

At the end of 2022, the Bank traditionally joined the project **V Kranju dobro v srcu mislimo**. The initiative, in the framework of which funds were collected for families and individual persons in need that are living in Kranj and its vicinity, was organised by the Tourist and Culture Board of Kranj in cooperation with the Slovenian Association of Friends of Youth of Kranj and the Slovenian Association of Friends of Slovenia. The Bank donated funds and called on its clients and employees to donate coins of the Croatian "kuna" currency, which could not be exchanged for euros, for the charity project at chosen branches of the Bank.

In the scope of the socially responsible project **Delamo trojno dobro**, the Bank chose two organisations last year based on the votes cast by its employees, which it then supported with donations - the "Murenčki" kindergarten and the "Palčica Pomagalčica in dobrodelni škratki" charity organisation. The kindergarten used the donation to obtain a sensory room to aid in the development of special needs children, and the charity organisation will be able to continue their mission of helping children from vulnerable groups. Employees actively participated in the project and collected art accessories for the organisations.

When fires erupted at Kras, to which several **firefighters** responded, including many employees of Gorenjska banka who are voluntary firefighters, the Bank made a donation for the purchase of equipment, food and drinks. It also called on employees to participate, who responded in vast numbers and aided the local fire services all over Slovenia.

Supporting sports

Gorenjska banka is aware of the importance of sport participation, which is why it continued its long-lasting tradition in 2022 of supporting local sporting events, clubs and associations that promote movement and an active lifestyle and the development of sports on the local and national level.

As the supporter of the young section of the Cedevita Olimpija Ljubljana basketball club, the Bank proudly supported the socially responsible project **One Team**, in the framework of which the local basketball clubs help marginalised social groups. In the 2021/22 season, the Cedevita Olimpija basketball club participated with the “Malči Beličeve” youth home. Gorenjska banka and the representatives of the club visited the residents of the home and cheered them up with basketballs and other gifts, and the basketball players participated in sports workshops together with the residents and hosted them at basketball games.

The Bank is also a proud supporter of sporting events in the local environment. Last year it supported the premiere **L’Etape Slovenia** cycling spectacle under the wing of the Tour de France, the host of which was the Municipality of Kranj in cooperation with the Tourist and Culture Board Kranj. Many clients, business partners, employees and their children joined in the social cycling event with the competition prefix for amateur cyclists and family trials, and the Bank rewarded them for successfully passing the cycling trial.

The Bank carries out regular joint positive activities in the local environment with the associations and organisations that it supports. Last year it hosted 70 pupils from the Polde Stražišar primary school from Jesenice at the Podmežakla sports hall, together with hockey players from **HDD SIJ Acroni Jesenice**, and organised an unforgettable sports day for special needs children. We also had a tour of the hall and wardrobe, and the hockey players presented their equipment to the children, showed them some tricks and organised a training session on the training ground. The Bank also gave a financial donation to the Polde Stražišar primary school.

Environmental protection

Gorenjska banka is aware of its influence, expectations and responsibility in the realisation of the sustainable development goals. It is committed to managing climate change and is actively supporting projects that place the protection of the environment at the forefront because the preservation of the ecosystem's biodiversity, carbon balance and strengthening of the bond between man and nature are the core forms of social responsibility.

In the scope of the project **Skupaj za boljši jutri**, the Bank made a donation to the Slovenia Forest Service last year, allowing them to thoroughly restore the Visoko learning path by planting 32 saplings of 12 different tree types. In addition to the restoration, the online application of learning paths around Slovenia was also developed in the framework of the project, which gives visitors a better sense of orientation and allows them to get to know each learning path and its characteristics.

By cooperating with the Slovenia Forest Service and the Municipality of Kranj, the Bank also contributed to a tidier and healthier image of the Carniolan metropolis and to a higher quality of life and less air pollution. It therefore planted 26 saplings of Pyrus calleryana 'Chanticleer' west of the Cesta Rudija Šeliga road, which will contribute significantly to the early pasture of bees every spring, improve the well-being and health of the nearby residents, and preserve the biodiversity and ecological stability of the environment.

The Bank is also displaying its care for the environment through the establishment of the **Digital beehive**, with the help of which visitors can get to know the various areas within the beehive and test themselves in activities that contribute to the protection of bees and therefore the environment. The project, which also has the option of adopting bees, is being implemented by the Bank in cooperation with the Academica Association, which also participated in the New Year's wishes of the Bank by having it printed on paper with seeds of honey-friendly plants.

The Bank is committed to protecting the environment - it is digitising all of its processes and is transitioning to **paperless operations**, whereby it has digitised over 20 million documents since 2016, preserving over 2,000 trees in the process. It is regularly informing and encouraging its clients and is offering support in the transition to digital banking and the electronic version of bank statements.

02

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT
To the owner of GORENJSKA BANKA D.D., KRANJ
(Translation from the original in Slovene language)

REPORT ON AUDIT OF FINANCIAL STATEMENTS

Opinion

We have audited the separate financial statements of GORENJSKA BANKA D.D., KRANJ (the Company) and consolidated financial statements of GORENJSKA BANKA D.D., KRANJ and its subsidiaries (the Group), which comprise the separate and consolidated statements of financial position as at December 31, 2022 and the separate and consolidated income statements, separate and consolidated statement of changes in equity and separate and consolidated cash flow statements for the year then ended, and notes to the separate and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements present fairly, in all material respects, the financial position of the Company and the Group as at December 31, 2022, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by EU.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) 537/2014 of the European Parliament and of the Council, dated April 16, 2014, on specific requirements regarding statutory audit of public-interest entities. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements* section of our report. We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants' *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 separate and consolidated financial statements of the year ended December 31, 2022. 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 fulfilled all our obligations described in the *Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements*, including those related to these matters. Therefore, the audit comprised the implementation of the procedures determined on the basis of our assessment of the risk of material misstatement in the separate and consolidated financial statements. The results of our audit procedures, including the procedures performed in relation to the matters stated hereinafter, serve as the basis for issuing our audit opinion about the attached separate and consolidated financial statements.

<u>Impairment of loans to non-bank customers (expected credit losses) in separate and consolidated financial statements</u>

In their separate and consolidated financial statements for the year ended December 31, 2022 the Company and the Group presented loans to customers in the amount of EUR 1.485.608 thousand (December 31, 2021: EUR 1.276.055 thousand) and EUR 11.479.561 thousand (December 31, 2021: EUR 1.268.761 thousand). Out of this amount gross amount in separate financial statements as at December 31, 2022 are EUR 1.5050.900 thousand (December 31, 2021: EUR 1.296.893 thousand) and in consolidated financial statements EUR 1.499.781 thousand (December 31, 2021: EUR 1.289.575 thousand) respectively. Total expected credit loss in separate financial statements as at December 31, 2022 was EUR 20.292 thousand (December 31, 2021: EUR 20.838 thousand) and in consolidated financial statements EUR 20.220 thousand (December 31, 2021: EUR 20.814 thousand).

Key audit matter	How the matter was addressed in our audit
Credit risk represents one of the most important types of financial risks to which the Group is exposed to. Determining appropriate methods and models by the Management to measure and manage credit risk is therefore one of the most important areas in safeguarding the Company's and the Group's capital. As part of the credit risk management process, appropriate determination of impairment allowances for expected credit losses on loans and receivables from customers represent key considerations for the Company's and the Group's Management. Credit impairment is an accounting estimate, where the assumptions used in the impairment model are primarily subject to a subjective assessment of the management. Due to the above and the fact that loans to customers other than banks are important from the point of view of the financial statements, and that impairments are based on a complex model, we determined the impairments of loans to customers other than banks as a key audit matter. In determining both the timing and the amount of impairment allowances for expected credit losses on loans and receivables from customers, the Management exercises significant judgement in relation to the following areas: - use of historic data in the process of determining risk parameters; - estimation of the credit risk related to the exposure; - assessment on the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether significant increase in credit risk has occurred, leading to changes in stage allocation and the required measurement of lifetime expected credit losses; - expected future cash flows from operations; - valuation of collateral and assessment of realization period on individually assessed credit-impaired exposures. Management has provided further information about the impairment allowance on loans from customers in notes 2.2.5 – Impairment of financial instruments, 5.7 – Loans and receivables to non-bank customers measured at amortised cost, 4.15 – Impairment and 7.1 – Credit risk.	In order to address the risk associated with impairment allowances for expected credit losses on loans from non-bank customers, identified as key audit matter, we have designed audit procedures thar allowed us to obtain sufficient and appropriate audit evidence for our conclusion. In doing so, we also relied on general controls in the information system, which we checked with the help of experts - auditors of information systems. We performed following audit procedures with respect to area of loans: - reviewing the Company's and the Group's methodology for recognizing provisions for expected credit losses and comparing the reviewed methodology against the requirements of IFRS 9; - obtaining of basis and arguments for adjustments and improvements of the model, taken into consideration by the Company and the Group in current year in light of current macroeconomic conditions and forecasts and assessing if these are sufficient and justified; - obtaining understanding of control environment and internal controls implemented by the Management within the process of measuring impairment allowance for expected credit losses; - evaluating design and implementation of identified internal controls that are relevant to the process of measuring impairment allowance for expected credit losses; - testing identified relevant controls for operating effectiveness; - assessing quality of historical data used in determination of risk parameters; - disaggregating loans account balance based on stage allocation for the purposes of sample selection (based on Stages from Stage 1 to Stage 3). In Stage 3, individually assessed loans are classified, the criteria for selection included, but was not limited to: client's credit risk assessment, industry risk, days past due and other criteria; - performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of loans allocated to Stage 1 and Stage 2, with the focus on: i. parameters applied in stage allocation and transitions between stages; ii. assumptions used by the Management in the expected credit loss measurement models; iii. criteria used for determination of significant increase in credit risk; iv. assumptions applied to calculate lifetime probability of default; v. methods applied to calculate loss given default; vi. methods applied to incorporate forward-looking information; - performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of individually assessed non-performing loans allocated to Stage 3, which included: i. assessment of borrower's financial position and performance following latest credit reports and available information ii. critical assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations taking into consideration borrower's financial status and performance

iii. reviewing and critically assessing estimated value of collateral and estimated realization period as well as associated legal agreements and supporting documentation to assess the legal right to and existence of collateral
iv. critical assessment of discount rates used in the estimation of the expected cash flows from operations and/or collateral
v. re-performing calculation of expected credit losses by applying parameters that were subject to review.

- Reviewed disclosures in annual report in connection with loans and impairments, especially based on requirements of IFRS 7 – Financial instruments: disclosures.

Interest income from loans, measured at amortized cost in separate and consolidated financial statements

Interest income in separate financial statements in the year 2022 were EUR 57.659 thousand (2021: EUR 48.765 thousand), out of this interest income from loans, measured at amortized cost, were EUR 52.592 thousand (2021: EUR 43.701 thousand). Interest income in consolidated financial statements in the year 2022 were EUR 57.610 thousand (2021: EUR 48.713 thousand), out of this interest income from loans, measured at amortized cost, were EUR 52.542 (2021: EUR 43.649 thousand.

Key audit matter

Interest income is a key item in the income statement. The recognition largely depends on the established and functioning general controls in the information system, both in terms of access management and change management. Functioning IT general controls and other internal controls, established to ensure the accuracy and completeness of the input data, provide a basis for correctly recognized interest income.

Due to the size of the amount and risks, related to non-functioning of IT general controls, we identified interest income from loans, measured at amortized cost, as key audit matter.

Management has provided additional information on the recognition of interest income in the notes to the financial statements 2.8 - Interest income and expenses and 4.1 - Net interest income.

How the matter was addresses in our audit

To manage the risks associated with the recognition of interest income, which is identified as a key audit matter, we have developed the following audit procedures to obtain sufficient appropriate audit evidence for our conclusion. During the audit, we wanted to obtain a high level of assurance in implemented internal controls in the field of interest income recognition as well as the information system (software support) used by the Group in the process of generating interest income. A part of our procedures was performed by auditors of financial statements, while as a part, related to the audit information system, was performed by an auditor's expert - the auditor of information systems.

We performed the following audit procedures:

- we got acquainted with the control environment and with the existing controls introduced in the process of recognizing interest income and assessed their design;
- we tested the design and effectiveness of the established controls in the areas of change management and access management in information systems, used in the process of recognizing interest income. We checked whether only certain users can create, change or delete user accounts and how access control is established, as well as whether changes to software solutions are properly planned, approved and implemented.
- on the basis of the findings related to the above procedures, we tested the application controls, which ensure the accuracy of the calculated interest on loans;
- on the sample of loans to natural and legal persons and concluded leasing contracts, we checked whether the correct interest rates were used;
- we performed analytical procedures that confirmed the accuracy, completeness and existence of recognized interest on loans.

Other information

Management is responsible for the other information. The other information comprises the information included in Annual report, other than the financial statements of the Company and the Group and our auditor's report thereon. Other information was obtained prior to the date of auditor's report except the report of supervisory board, which will be available later. Our opinion on the separate and consolidated financial statements does not cover the other information and we express no assurance thereon.

In connection with our audit of the separate and the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and the consolidated financial statements, regulatory requirements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. With regards to these procedures, we report on the following:

- Other information is consistent with audited separate and consolidated financial statements in all respect
- Other information is prepared in line with regulatory requirements and
- Based on our knowledge and understanding of the Company and the Group and their environment, obtained during the audit, no material inconsistencies were found in relation to other information.

It is our responsibility to report whether other information contains material misstatements based on our knowledge and understanding of the company and its environment that we have acquired during the audit. We have not identified any material misstatements regarding other information.

Responsibilities of Management and Supervisory board for the Separate and Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the separate and the consolidated financial statements in accordance with International Financial Reporting Standards, as adopted in EU, and for such internal control as management determines is necessary to enable the preparation of separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements of the Company and the Group, management is responsible for assessing their 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 Company and the Group or to cease operations, or has no realistic alternative but to do so.

Supervisory Board is responsible for overseeing the Company's and the Group's financial reporting process and confirmation of audited annual report.

Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the separate and the consolidated 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 Company's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that

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

- Evaluate the overall presentation, structure and content of the separate and the consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated to Audit Committee and Supervisory Board, we determine those matters that were of most significance in the audit of the separate and the consolidated financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

REPOERT ON THER LEGAL AND REGULATORY REQUIREMENTS

Appointment of the Auditor and the Period of Engagement
BDO Revizija d.o.o. was appointed as the statutory auditor of the Company and the Group by the shareholder on General Shareholders' Meeting held on March 20, 2020, the president of the Supervisory board signed the engagement letter on July 20, 2020. Our total uninterrupted engagement has lasted 3 years. Engagement partner responsible for the audit on behalf of BDO Revizija d.o.o. is Maruša Hauptman, certified auditor.

Confirmation to the Audit Committee
We confirm that our audit opinion on the separate and the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on February 28, 2023 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in the Article 5(1) of Regulation ((EU) No. 537/2014 of the European Parliament and the Council were provided. There are no services, in addition to the statutory audit which we provided to the Company and its controlled undertakings, and which have not been disclosed in the Annual Report.

BDO
BDO Revizija d.o.o.
Družba za revidiranje

Ljubljana, February 28, 2023

BDO Revizija d.o.o.
Cesta v Mestni log 1, Ljubljana

(Signature on original Slovene independent auditor's report)

Maruša Hauptman,
Certified auditor

03

Financial Report of the Bank and the Group

Statement of the Management's Responsibilities

The Management Board of the Bank hereby confirms the Financial Statements of Gorenjska banka, d.d., Kranj, and the Gorenjska banka Group for the year ended on 31 December 2022, as well as the accounting policies applied and the Notes on the Financial Statements.

The Management Board is responsible for the preparation of the Annual Report so that it presents a true and fair view of the Bank's and the Group's financial position and operating results for the year ended on 31 December 2022.

The Management Board hereby confirms that they have consistently applied the accounting policies and made the accounting estimates according to the principles of prudence and due diligence. The Management Board also confirms that the Financial Statements have been prepared on the basis of the assumption of a going concern of the company and in line with the applicable legislation, as well as the International Financial Reporting Standards adopted by the EU.

The Management Board is also responsible for the appropriate keeping of accounting records, the implementation of suitable measures for the protection of assets, and for the prevention and detection of abuse and other irregularities or illegal acts.

The Tax Office may review the books of accounts of Group companies at any time within the period of five years from the day the tax needed to be levied, which can subsequently cause the imposition of an additional tax liability or penalty. The Bank's Management Board is not aware of any fact or circumstance that could cause significant liabilities of this type.

Kranj, 28 February 2023

Mojca Osolnik Videmšek
Management Board Member

Marko Filipčič
Management Board Member

Mario Henjak
Management Board President

Income Statement

in thousands of EUR

		Notes	Bank 2022	Bank 2021	Group 2022	Group 2021
1	Interest income		57,659	48,765	57,610	48,713
2	Interest expenses		4,212	5,472	4,218	5,477
3	**Net interest income (1-2)**	**4.1**	**53,447**	**43,293**	**53,392**	**43,236**
4	Dividend income	4.2	311	444	311	444
5	Fee and commission income		16,789	14,776	16,898	14,836
6	Fee and commission expenses		584	598	587	598
7	**Net fee and commission income (5-6)**	**4.3**	**16,205**	**14,178**	**16,311**	**14,238**
8	Gains less losses on financial assets and liabilities not measured at fair value through profit or loss	4.4	(3)	25	(3)	25
9	Gains less losses on financial assets and liabilities held for trading	4.5	291	630	291	630
10	Gains less losses on non-trading financial assets mandatorily at fair value through profit or loss	4.6	(717)	4,365	(717)	4,365
11	Exchange differences	4.7	241	41	241	41
12	Gains less losses on derecognition of non-financial assets	4.8	275	1,318	(332)	1,063
13	Other operating gains less losses	4.9	4,605	5,807	7,979	8,894
14	Administration costs	4.10	(36,818)	(35,008)	(37,308)	(35,302)
15	Cash contributions to resolution funds and deposit guarantee schemes	4.11	(2,356)	(1,789)	(2,356)	(1,789)
16	Depreciation	4.12	(2,699)	(2,598)	(4,834)	(4,534)
17	Modification gains/(losses)	4.13	(9)	-	(9)	-
18	Provisions	4.14	(986)	202	(998)	171
19	Impairment	4.15	(964)	67	(941)	82
20	**PROFIT BEFORE TAX FROM CONTINUING OPERATIONS (3+4+7 to 19)**		**30,823**	**30,975**	**31,027**	**31,564**
21	Tax	4.16	(2,914)	(3,140)	(2,918)	(3,212)
22	**PROFIT AFTER TAX FROM CONTINUING OPERATIONS (20+21)**		**27,909**	**27,835**	**28,109**	**28,352**
23	**PROFIT FOR THE YEAR (22)**		**27,909**	**27,835**	**28,109**	**28,352**

Statement of Comprehensive Income

in thousands of EUR

		Bank		Group	
		2022	2021	2022	2021
1	**PROFIT FOR THE YEAR AFTER TAX**	**27,909**	**27,835**	**28,109**	**28,351**
2	**OTHER COMPREHENSIVE INCOME AFTER TAX (3+4)**	**(3,047)**	**1,341**	**(3,051)**	**1,344**
3	**ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS**	**(197)**	**2,223**	**(202)**	**2,226**
3.1	Actuarial gains on defined benefit pension plans	45	43	41	46
3.2	Fair value changes of equity instruments measured at fair value through other comprehensive income	(299)	2,169	(299)	2,169
3.3	Income tax relating to items that will not be reclassified to profit or loss	57	11	57	11
4	**ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS**	**(2,850)**	**(882)**	**(2,850)**	**(882)**
4.1	Debt instruments measured at fair value through other comprehensive income	(3,518)	(1,089)	(3,518)	(1,089)
4.1.1	Valuation gains/(losses) taken to equity	(3,536)	(1,089)	(3,536)	(1,089)
4.1.2	Transferred to profit or loss	18	-	18	
4.2	Income tax relating to items that may be reclassified to profit or loss	668	207	668	207
5	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR AFTER TAX (1+2)**	**24,862**	**29,176**	**25,058**	**29,695**

The notes are an integral part of these financial statements.

Statement of Financial Position

in thousands of EUR

		Notes	Bank 31/12/2022	Bank 31/12/2021	Group 31/12/2022	Group 31/12/2021
1	Cash, cash balances at central banks and other demand deposits at banks	5.1	313,733	448,861	313,817	448,954
2	Non-trading financial assets mandatorily at fair value through profit or loss	5.2	9,457	10,016	9,457	10,016
3	Financial assets measured at fair value through other comprehensive income	5.3	32,927	35,214	32,928	35,214
4	Financial assets measured at amortised cost		1,881,546	1,696,981	1,875,838	1,690,958
	• debt securities	5.4	345,343	312,023	345,343	312,023
	• loans and receivables to banks	5.5	46,178	105,740	46,178	105,740
	• loans and receivables to customers	5.6	1,485,608	1,276,055	1,479,561	1,268,761
	• other financial assets	5.7	4,417	3,163	4,756	4,434
5	Investments in subsidiaries	5.8	6,406	6,406	-	-
6	Tangible assets		53,548	53,627	69,033	69,499
	• property and equipment	5.9	9,165	9,043	21,810	19,156
	• investment property	5.10	44,383	44,584	47,223	50,343
7	Intangible assets	5.11	3,188	4,036	3,270	4,165
8	Tax assets	5.18	4,952	4,500	5,030	4,526
	• current income tax assets		78	-	132	9
	• deferred income tax assets		4,874	4,500	4,898	4,517
9	Other assets	5.12	5,147	2,237	5,393	2,434
10	Non-current assets classified as held for sale	5.13	111	8,693	293	8,973
11	**Total assets (from 1 to 10)**		**2,311,015**	**2,270,571**	**2,315,059**	**2,274,739**
12	Financial liabilities measured at amortised cost		2,029,901	2,014,582	2,030,667	2,015,218
	• due to banks	5.15	1,966	40,007	1,966	40,007
	• due to customers	5.14	1,919,943	1,896,198	1,918,449	1,895,512
	• borrowings from banks and central banks	5.15	96,149	69,277	96,149	69,277
	• other financial liabilities	5.16	11,843	9,100	14,103	10,422
13	Provisions	5.17	4,502	3,970	4,624	4,074
14	Tax liabilities	5.18	-	980	-	1,036
	• current income tax liabilities		-	784	-	840
	• deferred income tax liabilities		-	196	-	196
15	Other liabilities	5.19	4,813	4,102	6,188	5,888
16	**Total liabilities (from 12 to 15)**		**2,039,216**	**2,023,634**	**2,041,479**	**2,026,216**
17	Paid-up capital		16,188	16,188	16,188	16,188
18	Share premium		20,023	20,023	20,023	20,023
19	Accumulated other comprehensive income		(2,171)	890	(2,171)	895
20	Reserves from profit		177,421	177,421	177,430	177,430
21	Treasury shares		(26,007)	(26,007)	(26,007)	(26,007)
22	Retained earnings (including income from the current year)		86,345	58,422	88,117	59,994
23	**Total equity (from 17 to 22)**	**5.20**	**271,799**	**246,937**	**273,580**	**248,523**
24	**Total liabilities and equity (16+23)**		**2,311,015**	**2,270,571**	**2,315,059**	**2,274,739**

The notes are an integral part of these financial statements.

Statement of Changes in Equity

in thousands of EUR

	Bank	Notes	Paid-up capital	Share premium	Accumulated other comprehensive income (financial assets at fair value)	Accumulated other comprehensive income (actuarial gains on pension schemes)	Reserves from profit	Retained earnings (including net profit for the financial year)	Treasury shares	Total equity
1	**1 January 2021**		**16,188**	**20,023**	**1,736**	**47**	**177,421**	**28,094**	**(26,007)**	**217,502**
2	**Total comprehensive income for the year 2021**		**-**	**-**	**1,298**	**43**	**-**	**27,835**	**-**	**29,176**
3	Actuarial gains		-	-	-	(6)	-	6	-	-
4	Profit from sale of investments in equity instruments measured at FVTOCI		-	-	(2,228)	-	-	2,228	-	-
5	Tax adjustment		-	-	-	-	-	261	-	261
6	**31 December 2021**	5.22	**16,188**	**20,023**	**806**	**84**	**177,421**	**58,422**	**(26,007)**	**246,937**
7	**Profit for appropriation for the year ended 31 December 2021**		**-**	**-**	**-**	**-**	**-**	**58,422**	**-**	**58,422**
1	**1 January 2022**		16,188	20,023	806	84	177,421	58,422	(26,007)	246,937
2	**Total comprehensive income for the year 2022**		-	-	(3,092)	45	-	27,909	-	24,862
3	Actuarial gains		-	-	-	(14)	-	14	-	-
4	**31 December 2022**	5.22	**16,188**	**20,023**	**(2,286)**	**115**	**177,421**	**86,345**	**(26,007)**	**271,799**
5	**Profit for appropriation for the year ended 31 December 2022**		**-**	**-**	**-**	**-**	**-**	**86,345**	**-**	**86,345**

The notes are an integral part of these financial statements.

Statement of Changes in Equity

in thousands of EUR

	Group	Notes	Paid-up capital	Share premium	Accumulated other comprehensive income (financial assets at fair value)	Accumulated other comprehensive income (actuarial gains on pension schemes)	Reserves from profit	Retained earnings (including net profit for the financial year)	Treasury shares	Total equity
1	**1 January 2021**		**16,188**	**20,023**	**1,736**	**49**	**177,422**	**29,157**	**(26,007)**	**218,568**
2	**Total comprehensive income for the year 2021**		**-**	**-**	**1,298**	**46**	**-**	**28,351**	**-**	**29,695**
3	Transfer of net profit to reserves		-	-	-	-	7	(7)	-	-
4	Actuarial gains		-	-	-	(6)	-	6	-	-
5	Profit from sale of investments in equity instruments measured at FVTOCI		-	-	(2,228)	-	-	2,228	-	-
6	Tax adjustment		-	-	-	-	-	261	-	261
7	**31 December 2021**	5.22	**16,188**	**20,023**	**806**	**89**	**177,429**	**59,994**	**(26,007)**	**248,522**
1	**1 January 2022**		16,188	20,023	806	89	177,429	59,994	(26,007)	248,522
2	**Total comprehensive income for the year 2022**		-	-	(3,092)	41	-	28,109	-	25,058
3	Actuarial gains		-	-	-	(14)	-	14	-	-
4	**31 December 2022**	5.22	**16,188**	**20,023**	**(2,286)**	**116**	**177,429**	**88,117**	**(26,007)**	**273,580**

The notes are an integral part of these financial statements.

Cash Flow Statement

in thousands of EUR

		Notes	Bank 2022	Bank 2021	Group 2022	Group 2021
A	**Operating activities**					
a)	**Interest received**		**57,658**	**48,765**	**57,609**	**48,713**
	Interest paid		(4,212)	(5,472)	(4,218)	(5,467)
	Dividend received	4.2	311	444	311	444
	Fee and commission receipts		16,789	14,776	16,898	14,836
	Fee and commission paid	4.3	(584)	(598)	(587)	(598)
	Realised gains on financial assets not measured at fair value through profit or loss	4.4	-	122	-	122
	Realised losses on financial assets not measured at fair value through profit or loss		(3)	(97)	(3)	(97)
	Net trading incomes		291	351	291	351
	Cash payments to employees and suppliers	4.11	(36,818)	(35,008)	(37,308)	(35,303)
	Other incomes		4,889	6,035	8,263	9,123
	Other expenses		(2,934)	(2,399)	(885)	(440)
	Cash flows from operating profits before changes in operating assets and liabilities (a)		**35,387**	**26,919**	**40,372**	**31,684**
b)	**(Increase)/decrease in operating assets**		**(251,403)**	**(76,087)**	**(251,581)**	**(77,141)**
	Net (increase)/decrease in non-trading financial assets mandatorily at fair value through profit or loss		(158)	30,754	(158)	30,754
	Net (increase)/decrease in financial assets measured at fair value through other comprehensive income		(618)	(5,085)	(618)	(5,085)
	Net increase in loans and receivables measured at amortised cost		(254,563)	(103,300)	(254,856)	(104,504)
	Net (increase)/decrease in non-current assets held for sale		6,554	(116)	6,652	129
	Net decrease in other assets		(2,618)	1,660	(2,600)	1,565
c)	**Increase/(decrease) in operating liabilities**		**14,761**	**102,083**	**14,481**	**102,985**
	Increase in deposits and borrowed funds, measured at amortised cost		14,050	104,835	14,181	104,419
	Decrease in other liabilities		711	(2,752)	300	(1,434)
č)	**Cash flow from operating activities (a+b+c)**		**(201,255)**	**52,915**	**(196,728)**	**57,528**
d)	**Income tax refund**		**(3,400)**	**(710)**	**(3,501)**	**(652)**
e)	**Net cash flow from operating activities (č+d)**		**(204,655)**	**52,205**	**(200,229)**	**56,876**

in thousands of EUR

		Notes	Bank 2022	Bank 2021	Group 2022	Group 2021
B	**Investing activities**					
a)	**Cash receipts related to investing activities**		**25,403**	**63,543**	**28,330**	**64,418**
	Cash receipts from the sale of tangible assets		3,305	5,913	6,232	6,788
	Cash receipts from the disposal of investments in debt securities measured at amortised cost		22,098	57,630	22,098	57,630
b)	**Cash payments related to investing activities**		**(59,696)**	**(84,406)**	**(67,272)**	**(89,952)**
	Cash payments to acquire property and equipment		(1,693)	(1,808)	(9,235)	(7,284)
	Cash payments to acquire intangible assets		(583)	(1,704)	(617)	(1,774)
	Cash payments to acquire debt securities measured at amortised cost		(57,420)	(80,894)	(57,420)	(80,894)
c)	**Net cash flow from investing activities (a-b)**		**(34,293)**	**(20,863)**	**(38,942)**	**(25,534)**
C	**Financing activities**					
a)	**Cash proceeds related to financing activities**		**-**	**-**	**-**	**-**
b)	**Cash payments related to financing activities**		**(322)**	**-**	**(108)**	**-**
	Expenditure on leases		(322)	-	(108)	-
c)	**Net cash flow from financial activities (a+b)**		**(322)**	**-**	**(108)**	**-**
D	**Effect of exchange rate changes on cash and cash equivalents**		**745**	**1,816**	**745**	**1,816**
E	**Net increase / (decrease) in cash and cash equivalents (Ae+Bc+Cc)**		**(239,271)**	**31,342**	**(239,280)**	**31,342**
F	**Cash and cash equivalents at beginning of the year**		**554,436**	**521,278**	**554,529**	**521,371**
G	**Cash and cash equivalents at end of the year (D+E+F)**	6.2	**315,910**	**554,436**	**315,994**	**554,529**

Loans to banks with an original maturity of less than 90 days are considered as cash equivalents in the amount of EUR 2,117 thousand (2021: EUR 105,522 thousand) in the cash flow statement.

The notes are an integral part of these financial statements.

Notes on the Financial Statements

1 General Information

Gorenjska banka, d.d., Kranj, (hereinafter: "Bank") is a Slovenian privately-owned public limited company that performs universal banking transactions. The Gorenjska banka Group (hereinafter: "Group") is composed of the Bank, the subsidiary Imobilia-GBK, d.o.o., the subsidiary GB Leasing, d.o.o., Ljubljana, and the subsidiary Hypo Alpe-Adria-Leasing, d.o.o., Ljubljana.

The Bank is a privately-owned PLC and its shares are not traded on the organised capital market. The Bank's business address is: Gorenjska banka, d.d., Kranj, Bleiweisova cesta 1, 4000 Kranj, Slovenia.

The Imobilia-GBK, d.o.o., Kranj, was registered in the register of companies in 1991, but only became active in 2012. It is wholly owned by the Bank. The company performs services (real estate management) that rank it among companies offering ancillary services.

In 2016, the Bank established the company GB Leasing d.o.o., Ljubljana. The company, which is fully owned by the Bank, has the role of a service company marketing and rendering financial leasing services on behalf of and for the account of the Bank. In 2017, it acquired a 100% shareholding in the company Hypo Alpe-Adria-Leasing, d.o.o., Ljubljana. In 2022, Hypo Alpe-Adria-Leasing, d.o.o., Ljubljana acquired 100% of Filira, poslovne storitve, d.o.o., Ljubljana. The companies ranked among companies offering ancillary services.

The Bank is committed to meeting the credit rating requirements on a consolidated basis as the parent bank in the Republic of Slovenia in accordance with Article 133, paragraph two of the ZBan-3, which, as of 31 July 2019, includes its own subsidiary GB Leasing, d.o.o., Ljubljana, in the scope of credit rating consolidation. Gorenjska banka d.d., Kranj, is included in the consolidated position of the EU parent financial holding Agri Europe Cyprus Limited, Limassol, together with its subsidiary company GB Leasing d.o.o., Ljubljana.

Pursuant to the provisions of the IFRS 10, Gorenjska banka d.d., Kranj, has a controlling company, i.e. Agri Europe Cyprus Limited, Limassol, which prepares the consolidated annual report for the group companies, which includes the Gorenjska banka Kranj Group. The consolidated annual report is publicly available.

Notes on the Financial Statements relating to the Bank and the Group.

The Financial Statements of Gorenjska banka, d.d., Kranj, are confirmed by the Management Board on 28. February 2023.

2 Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. The Bank applied the same accounting policies for the preparation of the financial statements for 2022, as for the compilation of financial statements for 2021, except for the accounting standards and other changes applicable as of and including 1 January 2022 that were confirmed by the EU.

2.1 Basis of Preparation

The Bank's financial statements for the year 2022 have been prepared in accordance with International Financial Reporting Standards adopted by the EU (IFRS) and under the assumption of a going concern. Additional information required by national regulations is included where appropriate.

If appropriate, additional information required by national regulations is considered.

The financial statements comprise the income statement and statement of other comprehensive income (showing as two statements), the statement of financial positions, the statement of changes in equity, the cash flow statement and the notes.

The financial statements are presented in euros, which is the Banks's functional and presentational currency. The figures shown in the financial statements are stated in thousands of euros.

Rounding may result in rounding differences.

Management of the risks the Bank is exposed in its business is presented in Note 7.

The preparation of the financial statements in conformity with the IFRS requires the use of certain critical accounting estimates. These required financial statements have been compiled to comply with the legal requirements. According to the law, the Bank is obligated to have these financial statements audited by an independent auditor. The audit is limited to the required financial statements for general purposes, so that the legal requirement of auditing the required financial statements is met. The audit covers the required financial statements as a whole and gives no assurance as to individual line items, accounts or transactions. The audited financial statements are not intended to be used by any party for deciding on ownership, financing or any specific transactions referring to the Bank. As a result, the users of the required financial statements may not rely solely on the financial statements and are obligated to conduct other appropriate procedures before adopting decisions.

It also requires management to exercise its judgement in the process of applying the accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period when the assumptions changed. The Management believes that the underlying assumptions are appropriate and that the Bank's financial statements, therefore, present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

2.1.1 Initial Usage of the New Amendments to Existing Standards Applicable in 2022

The following standards, amendments to existing standards, and new clarifications, issued by the International Accounting Standards Board (IASB) and adopted by the EU, apply in the current reporting period:

- Contingent Contracts - Contract Performance Costs (an amendment to IAS 37 Provisions, Contingent Liabilities and Contingent Assets). The amendments relate to the clarification that, when assessing a contingent contract, contract performance costs include all costs that relate directly to the contract.
- Property, plant and equipment: proceeds before intended use (amendment to IAS 16 Property, plant and equipment - Proceeds before intended use). Proceeds from sales (e.g. of samples) before a fixed asset is available for its intended use can no longer be deducted from the cost of the fixed asset, but are recognised in the income statement together with the cost of production. In doing so, the entity will need to distinguish between the costs of producing and selling the asset before it is available for its intended use and the costs associated with preparing the asset for its intended use.
- Reference to the Conceptual Framework (amendments to IFRS 3 Business Combinations that relate to a refreshed reference to the 2018 Conceptual Framework and that introduces new recognition and measurement exemptions under IFRS 3 to ensure that the new reference does not change the determinations of which assets and liabilities qualify as business combinations).
- Annual Improvements to IFRSs 2018-2020 (amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41). The annual improvements include amendments to IFRS 1 - First-time Adoption of IFRS, simplifying the adoption of IFRS by a subsidiary applying IFRS for the first time, followed by amendments to IFRS 9 - Financial Instruments, which provide clarification on which fee costs to consider in the '10% test' for derecognition of financial liabilities, then the amendments to the illustrative example to IFRS 16 Leases and IAS 41 Agriculture, where the requirement to exclude cash flows for tax purposes when measuring fair value is removed, thereby bringing fair value in line with the definition in IFRS 13.

Adopting these new standards, amendments to existing standards and clarifications have not led to any significant changes to the company's financial statements.

The potential IAS 37 liabilities relate to a class action brought by the Collective 99 Institute against several Slovenian banks on behalf of consumers who have entered into a variable rate consumer or home loan agreement with the bank, seeking reimbursement for alleged deprivation of borrowers due to the failure to take negative Euribor values into account when calculating interest.

The Bank also recognises a contingent liability for the reimbursement of origination costs on early repayment of loans to individuals. During 2022, a process for the recovery of approval costs on early repayment of retail loans has been established. There were few claims in 2022 so there is no material impact on the profit and loss account.

2.1.2 Standards and Changes to Existing Standards Issued by the IASB and Adopted by the EU, but that are Not Yet in Force

On the date of approval of these financial statements, the IASB issued the following amendments to the existing standards, which were adopted by the EU and which have not yet entered into force.

The following amendments are effective for the reporting period beginning on 1 January 2023:

- Disclosure of accounting policies (Amendments to IAS 1 and IFRS 2 Statement of Practice). IAS 1 contains two amendments - an amendment related to the presentation of current and non-current liabilities and an amendment related to the disclosure of accounting policies. In January 2020, IFRIC issued amendments to IAS 1 that clarify the criteria used to determine whether liabilities are classified as current or non-current. The amendments clarify that classification as current or non-current is based on whether an entity has the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that 'settlement' includes the transfer of cash, goods, services or equity instruments, unless the obligation to transfer the equity instruments arises from a conversion feature that is a separate component of a compound financial instrument. The amendments were initially effective for annual reporting periods beginning on or after 1 January 2022, but in May 2020 the effective date was delayed to annual reporting periods beginning on or after 1 January 2023. The amendment to IAS 1 relating to disclosure of accounting policies introduces disclosure of significant, rather than merely material, accounting policies and provides guidance on when information relating to an accounting policy is material.

- Definition of accounting estimates (amendments to IAS 8): The amendment introduces a definition of an accounting estimate and other clarifications to distinguish between an accounting policy and an accounting estimate. The amendment will also clarify that the effect of a change in inputs or measurement techniques is a change in an accounting estimate unless it results in a correction of a prior period error.
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts relating to the first-time application of IFRS 17 and comparable information under IFRS 9.
- Deferred tax assets and deferred tax liabilities in a single transaction (amendments to IAS 12 Income Taxes). The amended standard clarifies whether the first-time recognition exemption applies to certain transactions that are recognised as both an asset and a liability (e.g. an asset that is recognised as an asset and a liability at the same time). The amendment introduces an additional criterion for the initial application of the exception in IAS 12.15, whereby the exception is not applied to the initial recognition of an asset or liability that gives rise to the same taxable and deductible temporary differences at the time of recognition.

Adopting these new standards, amendments to existing standards and clarifications will not have any significant impact on the company’s financial statements.

2.1.3 New Standards and Amendments to Existing Standards Issued by the IASB and Not Yet Adopted by the EU

The IFRS, as adopted by the EU, does not differ much from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following new standards and amendments to existing standards, which are to enter into effect for the reporting period beginning on 1 January 2024:

- (a) Amendments to IAS 1 Presentation of Financial Statementsa)
  Classification of liabilities as current or non-current. The amendment requires that an entity's right to defer settlement of a liability for at least 12 months after the reporting date shall have substance and shall exist at the end of the reporting period. The classification of the liability is not changed because it is probable that the entity will exercise its right to defer the liability for at least 12 months after the reporting date. The Standard has been subsequently amended again.

  (b) Non-current liabilities with commitments. If an entity's right to defer an obligation is conditional on the entity satisfying certain conditions, those conditions affect whether the right to defer existed at the end of the reporting period if the entity is required to satisfy the conditions at or before the end of the reporting period, rather than if the entity is required to satisfy the conditions after the end of the reporting period. The amendment also clarifies the term 'settlement' for the purpose of classifying liabilities as current or non-current.
- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback Transaction. The amendment requires a vendor-lessee to designate 'lease payments' or 'modified lease payments' so that the vendor-lessee would not recognise a gain or loss relating to a right-of-use right retained by the vendor-lessee.

The company expects that the introduction of these new standards and amendments to existing standards will have no major impact on the financial statements of the company in the period of initial application.

2.2 IFRS 9

n July 2014, the International Financial Reporting Interpretations Committee issued the **IFRS 9 Financial Instruments,** which replaced the IAS 39 Financial Instruments: Recognition and Measurement. The IFRS 9 introduced a new approach regarding the classification and measurement of financial instruments and a new model for expected losses, which is more forward-looking and changes the requirements for hedge accounting.

The Bank uses a simplified approach for trade receivables due from buyers and loan receivables. Lifetime expected credit losses are being assessed based on historical experiences.

In October 2017, an amendment to the IFRS 9 was issued: Prepayment Features with Negative Compensation, which becomes applicable on 1 January 2019. The amendment ensures that certain financial assets containing the possibility of early repayment for a reasonably negative compensation are measured at amortised cost or fair value through other comprehensive income if the prepayment amount represents solely the payment of an outstanding principal and interest and reasonable compensation. Reasonable compensation may be positive or negative. Prior to the amendment, financial assets with negative compensation for early repayment would not pass the criteria of solely the payment of principal and interest (SPPI test) and would have to be measured at fair value through profit or loss. The amendment did not have any impact on the financial statements of Gorenjska banka Group at the time of implementation, nor does it currently have any impact on the financial statements of Gorenjska banka Group.

2.2.1 Classification of Financial Assets Pursuant to the IFRS 9

The IFRS 9 defines three categories for classifying financial assets:

- at amortised cost,
- at fair value through other comprehensive income,
- at fair value through profit or loss.

The classification of financial assets upon initial recognition depends on the business model and contractual characteristics of cash flows. During classification, the Bank takes into account the rules described below.

At amortised cost

This category includes all loans to legal entities and individual clients, investments on the interbank market, investments in debt securities and other investments. A condition for classification in this category is a successfully passed cash flow test (as defined below).

At fair value through other comprehensive income

The Bank classifies debt securities in this category within the scope defined in the liquidity risk management policy, and equities that constitute strategic investments.

At fair value through profit or loss

This category includes financial instruments that fail the cash flow test, non-strategic investments in equities, and instruments containing one or more integrated financial derivatives that may have an important impact on the cash flows of the basic host instrument.

Financial derivatives are always classified in the category of financial instruments at fair value through profit or loss.

The Group applies no hedge accounting.

The classification of individual debt securities is proposed by the Treasury Sector based on the above rules for classification. The classification is confirmed by the Bank's Credit Board with a resolution, except for the classification of equity instruments in subsidiaries, associates and jointly controlled companies, which is confirmed by the Bank's Management Board with a resolution.

2.2.2 Business Model

The business model is determined with respect to the way the company manages a group of financial assets in order to achieve its business goals. The basis for the determination of business models is the Bank's development and investment strategy along with its risk profile.

According to the IFRS 9, the Bank has defined the following business models:

Model 1 – held for cash flows

The basic goal of the investment: to obtain cash flows (principals and interest). Sale is not part of the business model, but is possible in the following cases:

- The reason for the sale includes factors that were not expected upon the conclusion of a transaction (stress conditions in liquidity, claims by third parties, etc.);
- The investment is nearing the maturity date (2 months before contract maturity for long-term assets);
- Sale due to increased credit risk (downgraded credit rating, EWS parameters indicate increased risks).

Main risks: the principal risk to which the Bank is exposed in such investments is credit risk, which is why it uses different techniques to reduce it (collateral, etc.).

Performance criterion: the attainment of the set cash flows, the adequate mitigation of credit risks.

Model 2 – held for cash flows and sell

The basic goal of the investment: to obtain cash flows and/or sell – regardless of the frequency, amount and reason. That segment in principle includes investments that the Bank pursues in order to ensure liquidity. To achieve the goal in liquidity, the Bank uses such cash flows deriving from principals and interest, and the sale of investments. There are no limitations for the sale or fulfilment of conditions for classification in this portfolio. Furthermore, it is irrelevant whether the sale is subject to a decision made by the Bank's management or whether the sale is made at the request of a third party (regulator). The Bank also classifies strategic investments in equities in this category.

Main risks: the principal risk to which the Bank is exposed in such investments is credit risk, which is why it uses different techniques to reduce it (securities, etc.). While maintaining an investment, the Bank is also exposed to market risks (the risks of interest rate variability) and to the risk of price changes on the real estate market.

Performance criterion: the attainment of the set cash flows, the adequate mitigation of credit risks.

Model 3 – at fair value through profit or loss

Model 3 basically includes assets held for sale (trading book), non-strategic investments in equities and financial derivatives that are not intended for hedging positions. The Bank does not pursue securities trading transactions and IFI, which is why it does not apply model 3 in principle, although assets may be classified in this category, but only when investments fail to meet the conditions for classification into model 1 or 2 upon approval and are beyond the Bank's control (syndicated loans, umbrella restructuring agreements).

Based on the business model and strategic policies, business models 1 and 2 are key to the Bank's operations.

A business model is always assessed at the level of investment upon its occurrence and the basic criteria are the Bank's motives upon the approval of an investment.

2.2.3 Cash Flow Test

Pursuant to the IFRS 9, the condition for the classification of financial instruments in the categories "at amortised cost" and "at fair value through comprehensive income" is a successful cash flow test. A cash flow test is passed if date-specific cash flows that are solely payments of principal and interest on outstanding principle derive from the contractual provisions.

A cash flow test is conducted upon the occurrence of an investment. Procedures and rules for review are laid down in the Collection of instructions for approving and monitoring investments made by legal entities, sole traders and civil law entities.

Cases where investments still meet the criteria of model 1:

- variable interest rates with limits (caps and floors),
- the risk of interest rate variability is insured by derivatives;
- the client is in arrears with the payment of the agreed cash flows and the Bank has initiated recovery procedures or expects no further cash flows (assessment upon incurrence is vital),
- the possibility of early repayment if the right to repayment does not depend or is not conditional upon future events (free will or the debtor's decision),
- the Bank requests early repayment because the debtor fails to achieve certain indicators in case of indicators showing an increased credit risk (e.g. debt/EBITDA, TIE, etc.),
- in case of repayment, the Bank charges compensation.

2.2.4 Measurement and Recognition of Financial Assets

Financial assets classified at fair value through profit or loss are initially recognised at fair value, while transaction costs are recognised in the income statement. For other financial assets, costs are attributed to the initial value.

Purchases and sales of financial instruments at fair value through profit or loss, at fair value through other comprehensive income and at amortised cost are recognised as at the date of transaction. Loans and receivables due from clients are recognised when clients are provided with funds.

Financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income are measured at fair value. Gains and losses in financial assets measured at fair value through profit or loss are recognised in the income statement in the period in which they are incurred. In financial assets valued through other comprehensive income, gains and losses due to the revaluation at fair value are disclosed in other comprehensive income. Interest calculated using the effective interest rate method, foreign exchange gains and losses deriving from cash items and impairments of instruments classified in the group of financial assets valued through other comprehensive income are recognised directly in the income statement. Interest calculated according to the effective interest rate method and exchange rate differences arising from cash items are recognised directly in the income statement. Dividends arising from equities are recognised in the income statement when the Bank's right to the receipt of a disbursement is enforced. Impairments of debt securities classified through other comprehensive income are recognised in other comprehensive income.

Loans and receivables at amortised cost are measured at amortised cost using the effective interest rate method. If there are objective signs for impairment, loans and receivables are impaired. Detailed criteria and the classification of receivables and loans into categories are laid down in the "Rules on the classification of receivables and the creation of impairments".

Gains or losses upon initial recognition: the best evidence of fair value upon initial recognition is the transaction price, which represents the fair value of the given or received compensation, unless the fair value can be proven with other comparable market transactions or with a valuation technique that is based solely on market assumptions.

Reclassification of financial instruments between categories is only permitted in the event of a change of business model, but not in any other case.

Financial derivatives are initially recognised in the statement of financial position at fair value through profit or loss. Financial derivatives are forward transactions (forward purchases and sales of foreign currencies or securities), options and swap transactions (currency and interest rate swaps) and other financial derivatives. Financial derivatives are measured at fair value, which is suitably determined on the basis of the published market price or under the cash flow discounting method. Fair values are disclosed in the statement of financialposition under assets when their value is positive or under liabilities when their value is negative. Gains and losses deriving from changes in fair value are recognised in profit or loss. Nominal values of financial derivatives are recognised in off-balance-sheet records.

The Group applies no hedge accounting.

2.2.5 Impairment of Financial Instruments

Pursuant to the IFRS 9, the Bank had the concept of expected credit losses, which provides impartial and weighted credit risk loss assessments by taking into account various macroeconomic scenarios. That way, the Bank also recognises losses that are expected to be incurred in the future from its portfolio of financial instruments at the balance sheet date. Allowance for expected credit losses is recognised by the Bank for all loans and other debt financial instruments that are not measured at fair value through the income statement, which includes provisions made for contingent liabilities arising from undisbursed loans and financial guarantee contracts.

The allowance is based on expected credit losses arising from the classification of assets into a specific group, the estimated probability of default (PD) in the following 12 months and throughout the term of the instrument for those where credit risk has increased significantly since initial recognition. The Bank has criteria for a significant increase in the lifelong probability of default, defined by segment on the basis of qualitative and quantitative information and analyses made on the basis of past information, experiences and expert credit assessments and forward-looking information.

The process and rules of classification are regularly monitored. The key criteria for classification derive from the applicable regulatory requirements and the IFRS 9. Receivables are classified into individual stages; i.e. stages 1 and 2 for performing receivables and stage 3 for non-performing receivables. The classification criteria are defined in the Bank's internal acts. The same criteria are applied to the classification of all financial assets into stages. The classification takes place in several steps, whereby individual criteria are checked at every step. In step 1, it is checked whether a financial asset was bought or originally impaired. In step 2, the Bank checks whether a default has occurred in a financial asset, in which case the asset is allocated to stage 3. In step 3, three criteria for increased credit risk are checked, whereby the fulfilment of any of them implies the classification of the asset in stage 2. In step 4, it is checked whether an asset belongs to a low credit risk category and meets the conditions for classification in stage 1. In step 5, the Bank also checks the increase in the lifelong probability of default from the point of asset recognition to the reporting date, whereby an increase above the defined limit requires the classification of the asset in stage 2. The criteria of a significant increase in the lifelong probability of default from asset recognition to the reporting date have been laid down by the Bank based on available statistical analyses and differ with respect to the segment of clients.

When assessing expected credit losses, the Bank is required to take into account the longest contractual period in which it is exposed to credit risk. For transactions with specific features and without maturity, the Bank has defined principles for taking into account their maturity by observing the nature of the transaction and available information about them.

When calculating the values of credit risk parameters, the Bank includes information that derives from previous credit risk matrices and forward-looking expectations and available information, such as macroeconomic scenarios involving major credit risk factors.

By applying the Z-shift method, the Bank includes the relationship between macroeconomic conditions in the country and the shares of default in the Bank's credit portfolio in calculations of credit risk parameters. For the purpose of calculating impairments under IFRS 9, the Bank has defined different macroeconomic scenarios each with its own GDP forecast, a change from last year when these were based on the same forecast and varied using the error distribution method. This change and the adjustment of the weights of the scenarios are part of the so-called 'model adjustment' in order to make the Bank more cautious in designing impairments in the light of unpredictable future macroeconomic conditions and the consequences that could have on the Bank's portfolio.

The Bank applies the following probabilities of individual scenarios:

- realistic scenario: 60%
- optimistic scenario: 10%
- pessimistic scenario: 30%

Scenarios for future values of real GDP growth in Slovenia are used for the portfolio of companies, sole proprietors, individuals, banks, sovereigns and government institutions. The Bank also estimates the probability of default for entities belonging to the portfolio with a low default rate (banks, sovereigns, government institutions).

In calculating the loss rate, the Bank uses data on the proportion of losses from individual cases weighted by the amount of exposure of each obligor at the time of the transition to default. The recommended regulatory LGD is applied in segments for which the bank is unable to calculate a loss ratio for various reasons. For the following reason, the Bank applies the regulatory LGD in the central government and central bank and institutions segments.

Exposure at default (EAD) is modelled at the Bank to adjust the existing exposure to contractual future cash flows, where future contractual cash flows are not taken into account in the period of three months before default. In exposures with no contractual future cash flows, the cash flow is deemed to be total repayment upon maturity. If an exposure has no due date, the due date is considered to be the period of one year, where the cash flow is deemed to be total repayment upon such a new due date. EAD takes into account off-balance-sheet exposure multiplied by CCF values, as laid down in Annex 1 to Regulation 575/2013.

All risk parameters are calculated once a year, or more frequently if the economic forecasts change substantially compared to the previous forecasts; in such a case, the parameters are recalculated with respect to new forecasts.

The validation of all risk parameters is conducted once a year.

2.3 Associates and Subsidiaries

The Bank owned three subsidiaries at the end of 2022, the same as in 2021, with one subsidiary acquiring an additional 100% stake in 2022.

Subsidiaries are Group companies in which the bank holds – either directly or indirectly – more than half of the voting rights. Associated companies are Group companies in which the bank holds a dominant influence, which generally means that it either directly or indirectly holds between 20% and 50% of the voting rights. In the separate financial statements, investments in subsidiaries and associates are accounted for using the cost method, that is, at cost less impairment. In the consolidated financial statements, investments in associates are accounted for using the equity method of accounting.

Subsidiaries are included in the consolidated financial statements using the full consolidation method. The accounting policies of subsidiaries are adjusted appropriately to the Bank's policies. Cumulative changes after the acquisition of an asset are reflected in the value of the asset. Mutual transactions, balances and unrealised gains and losses in intra-Group transactions are excluded.

Equity investments in subsidiaries are presented in Note 5.9.

2.4 Foreign Currency Translation

2.4.1 Functional and Presentation Currency

Items of assets and liabilities denominated in foreign currencies are measured in individual and group financial statements in the currency of the primary economic environment in which the companies operate (functional currency). The effects of foreign currency translation are shown in the income statement as a net result of foreign currency translation.

The financial statements are presented in euros, which is the Bank's functional and presentation currency.

2.4.2 Transactions and Balances

Foreign currency transactions are converted into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, classified as financial instruments at fair value through other comprehensive income are presented in the statement of other comprehensive income under the appropriate caption.

Income and costs denominated in foreign currency are converted into euros using the exchange rate as of the date of the transaction. Gains and losses arising from the purchase and sale of foreign currency are included in the income statement of the current year, in the net gains less losses on financial assets and liabilities held for trading.

2.5 Offsetting

Financial assets and liabilities are offset in the Statement of Financial Position when a legal right for this exists, as well as a purpose for the netting or the simultaneous realisation of assets and settling of liabilities.

2.6 Interest Income and Expenses

Interest income and expenses for all interest-bearing financial instruments in the Income statement are recognised under interest income or interest expenses at the contractual interest rate with the corresponding management fee, which replaces the usage of the effective interest rate method. Interest income includes interest on investments with a fixed rate of return and interest from securities at fair value through profit or loss and other comprehensive income, as well as the accounted discounts and premiums on bonds and other "discounted" financial instruments.

The effective interest method is a method of calculating the amortised cost of an asset or liability and of allocating interest income or interest expenses over the relevant period. The effective interest rate is the discount rate that equalises all flows associated with an individual financial instrument. The effective interest rate calculation includes all contractual flows, including all fees, transaction costs, premiums and discounts, while future loan losses are not included.

Except for POCI instruments - which have the so-called CAEIR - the credit-adjusted effective interest rate is applied on initial recognition.

After an impairment of a financial asset or a group of similar financial assets, interest income is recognised by applying the interest rate that was applied for discounting future cash flows when estimating the required impairment. Interest income is no longer recognised when a financial asset meets certain conditions and repayment can no longer be expected.

2.7 Fee income and Expenses

Fees are, as a rule, recognised in the profit and loss account when the service has been rendered. Fee income mainly includes the fees received from the performance of payment transactions, card and ATM operations, customer transaction accounts and guarantees. Fees included in the effective interest rate calculation are disclosed among interest income or expenses. Fees for the undrawn part of approved loans that will probably be drawn are deferred (including direct costs), and are recognised as an adjustment of the effective interest rate on the loan.

Fees that are not an integral part of the effective interest rate of a financial instrument are accounted for in accordance with the IFRS 15, and are recognised in proceeds from credit operations.

2.8 Dividend Income

Dividends are recognised in the income statement when the Bank's right to receive payment is established.

2.9 Intangible Assets

Intangible assets mainly include software and licences for the use of the former, and are recognised in the Statement of Financial Position at cost less amortisation and impairments.

The amortisation of intangible assets is accounted using the straight-line depreciation method. The amortisation period for software is the same as its useful life, mostly five years but no longer than ten years. The amortisation of intangible assets begins when they are available for use. The amortisation period and method are verified for intangible long-term assets with a finite useful life at the end of each financial year.

2.10 Accounting for Leases

2.10.1 Where the Group is the Lessee

All leases where the Group acts as the lessee are business leases. In accordance with the IFRS 16, leases of properties and tangible fixed assets concluded for a period longer than one year and where the value of the asset surpasses EUR 5,000 must be recorded among the appropriate fixed assets as the right to use. The Group is not recording intangible fixed assets, short-term leases and leases with values less than EUR 5,000 under the IFRS 16, which are expensed as incurred.

The rights from leases are recorded as of 1 January 2019 under the discounted value of future rents, for which long-term liabilities are formed to the lessor based on the contract duration period and the interest rate amount. For contracts concluded for an indefinite period, the possibility of their termination and the business strategy of the Group are considered. Interest rates for loans from the credit calculator are used for calculations based on maturity. Interest is recorded among the financial expenses. The Group uses the purchase value model for assets that have the right to use; it measures them under the purchase value reduced by amortisation/depreciation. The Group re-assesses the lease liabilities in the event of changes if the rent or other rent conditions are changed, in accordance with the new contract or annex. Rent payments reduce the lease liabilities, whereas value-added tax increases other expenses for taxes.

Contracts on the basis of business leases that are not recognised among the fixed assets as the right to use are proportionally included in the profit or loss statement based on the contract duration period and are shown in other operational costs. When a business lease is terminated prematurely, all the payments requested by the lessor are recognised as costs in the period of contract termination.

2.10.2 Where the Group is the Lessor

Payments under operating leases are recognised as income on a straight-line basis over the period of the lease. Assets leased under operating leases are presented in the statement of financial position as investment property or as property and equipment.

When assets are leased under a finance lease, the present value of the lease payments is recognised as a receivable. Income from finance lease transactions is amortised over the lifetime of the lease using the effective interest rate method. Finance lease receivables are recognised at an amount equal to the net investment in the lease, including the unguaranteed residual value.

2.11 Property and Equipment

Property and equipment are initially recognised under their purchase value. For property, their fair value is assessed on the basis of the appraisal of an independent appraiser. If the assessed fair value is lower than the book value, then the book value of the asset is impaired to the assessed value. In the event of a lower book value than the assessed fair value, the value of the fixed assets does not change.

Items of property and equipment are recognised as an asset if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Depreciation is calculated on a straight-line basis at rates designed to write off the cost or valuation of buildings and equipment over their estimated useful lives, as follows:

Bank and Group	2022	2021
Buildings	33 years	33 years
Computers	5 years	5 years
Equipment	5 years	5 years
Motor vehicles	5 years	5 years
Investment in foreign real estate	10 years	10 years

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

Gains and losses on the disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Maintenance and repairs are charged to the income statement during the financial period in which they are incurred.

2.12 Investment Property

Investment property is an item of property or equipment that the Bank does not use directly for the performance of its activities but holds for letting and, in case of investment property acquired for the realisation of collateral from lending operations, also for the purposes of completion or sale in order to increase the value of the investment property.

Investment property comprises leased apartments and business premises that have a surface area greater than 60% of the total area and which are leased under long-term agreements.

Investment properties are shown under their fair value on the basis of the annual assessment of an independent appraiser.

Profit and loss from valuation according to fair value are included in the Income statement.

2.13 Cash and Cash Equivalents

The following is disclosed in the cash flow statement as cash and cash equivalents: cash in hand and balances on accounts with the central bank, loans to banks and other highly liquid (readily convertible to cash) short-term investments with an original maturity of less than 90 days of the date of acquisition.

Cash and cash equivalents are impaired as required by the IFRS 9; however, the management did not recognise it as it is deemed immaterial.

2.14 Provisions for Liabilities and Costs

Provisions for liabilities and costs are recognised if the Group has a current (legal or direct) obligation as a result of a past event and it is probable that the settlement of the obligation will result in an outflow of resources embodying economic benefits, and the said amount can be reliably estimated.

2.15 Employee Benefits

Employee benefits include long-service bonuses, severance pay on retirement and other long-term benefits. Provisions for employee benefits are calculated by an independent actuary (more under note 5.19).

The Group pays contributions for pension insurance in accordance with the law (8.85% of the gross wage). The Group has no other obligations in addition to the payment of contributions. Contributions represent costs in the period they relate to and are disclosed in the Income statement under labour cost.

2.16 Financial Guarantee Contracts

Financial guarantees are contracts that require their issuer (guarantor) to pay an agreed sum to the beneficiary for the coverage of loss suffered by the beneficiary in the event of a default on the part of the debtor. Financial guarantees are issued by the Group to other banks, financial institutions and other parties as security for loans, overdraft facilities and other banking services.

Financial guarantees are recognised in the off-balance-sheet books of account upon issue as potential liabilities. Commissions received are recognised in the income statement throughout the term of a contract using the straight-line depreciation method. Issued guarantees are disclosed in the balance sheet in the amount of the estimated expenses required to settle liabilities under the contract.

An increase in liabilities associated with financial guarantees is reflected in the Income statement under operating expenses.

In accordance with the IFRS 9, the loss allowance for financial guarantee contracts is recognised as a provision.

2.17 Taxes

Income tax for the current financial year is disclosed in accordance with Slovenian legislation. Tax expenses in the Income statement are composed of current taxes and deferred taxes.

Deferred taxes are accounted for all temporary differences between the value of assets and the tax liability and their carrying amount. Deferred taxes are accounted at the tax rate applicable in the year following the end of the financial year.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

A deferred tax associated with the valuation of available-for-sale financial assets measured at fair value over other comprehensive income is disclosed directly in other comprehensive income and later transferred to profit or loss together with the gains or losses from valuation.

In 2013, the tax on financial services was introduced in Slovenia, which is a levy on compensations paid for the prescribed financial services rendered. The tax rate is 8.5% and the tax is paid monthly. The financial services tax reduces fee and commission income (Note 4.3).

2.18 Share Capital

2.18.1 Share Issue Costs

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

2.18.2 Dividends on Ordinary Shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

2.18.3 Treasury Shares

Where the Group purchases the Bank's shares, the consideration paid is deducted from the total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold, any consideration received is included in the shareholders' equity.

2.19 Received Loans, Received Deposits and Issued Debt Securities

Raised loans and deposits and issued debt securities are initially recognised at fair value, which usually equals the historical cost less transaction costs. Upon subsequent measurement, they are measured at amortised cost, while the difference between the value upon initial recognition and amortised cost is recognised in profit or loss under interest expenses using the effective interest rate.

2.20 Transactions on Behalf and for the Account of Others

Gorenjska banka, d.d., also offers asset management services to its customers. These assets are not included in the Group's Statement of Financial Position. A fee is charged to customers for the mentioned services, which is broken down by items referred to in Note 4.3.2. Details on transactions on behalf and for the account of others are presented in Note 6.9. In accordance with Slovenian legislation, Note 6.9 breaks down the data on the claims and liabilities of accounts, on which the Group keeps the customers' financial assets from brokerage operations, whereby this data relates to services for customers involving the reception and brokering of orders, the execution of orders, and the management and custody of financial instruments.

2.21 Data in the Financial Statements and Notes on the Financial Statements

Disclosures of data in the financial statements and notes on the financial statements are shown for the Bank and the Group separately. In cases when the data and information for the bank and the Group are identical, such data and information are shown only for the Group or the wording "Bank and Group" is added. Comparative information is disclosed in the manner described in Note 2.23.

3 Critical Accounting Estimates and Judgments

In accordance with the IFRS, all of the policies and estimates used are the best estimates performed in accordance with the valid standards. Estimates and assumptions are based on the going concern principle, past experience and other factors, including expectations regarding future events.

3.1 Impairments of Loans and Claims

The Bank used the concept of expected losses, which provides impartial and weighted credit risk loss assessments by taking into account various macroeconomic scenarios. These scenarios and their probabilities are determined with the statistical analysis of the economic forecasts of various external agencies. That way, the Bank recognises losses that are expected to be incurred in future.

The allowance is based on expected credit losses arising from the classification of assets into specific groups. The grouping of the assets, for the purpose of determining the probability of default, is performed on the basis of both quantitative and qualitative criteria contained in the internal rating models. For the purpose of stage allocation, the bank uses various qualitative criteria, prescribed by the regulator, and quantitative criteria based on the change of the lifetime probability of default since the initial recognition.

All internal rating models are regularly validated. All other models, expert and management judgements used in the calculation of expected losses are subject to regular backtesting.

For all significant exposures on the client level, the Bank regularly assesses whether conditions are met for each individual impairment of resources and/or the scope of the necessary provisions for off-balance-sheet assumed obligations. The impairment of a financial asset is the difference between the carrying amount and the recoverable amount. The IFRS defines the recoverable amount as the current value (discounted value) of the expected future cash flows with the use of the original effective interest rate. When calculating the impairment of a financial asset or provision for the assumed obligations under off-balance-sheet items, the expected cash flows from the realisation of collateral (appropriate collaterals with the pledge of movable or immovable property) are also taken into account, which are assessed by taking into account the time of realisation of an individual form of collateral and the expected costs of realisation.

3.2 Fair Value of Financial Instruments

The fair value of financial instruments that are traded on an active market is determined based on the quoted market price as at the reporting date, i.e. the price that represents the best bid for financial assets.

The fair value of financial assets that are traded on an active market is determined using valuation models. Valuation models for the determination of fair value are regularly reviewed by independent persons. All of the models used are verified to ensure that the results reflect market conditions. The models are based on market data as much as possible; however, estimates must nevertheless be used for the determination of market risk, volatility and correlation. Changes in the estimates of these factors can affect the reported fair value of financial instruments.

The financial instrument hierarchy in terms of the determination of fair value is disclosed in Note 7.4.3.

3.3 Impairments of Equity Investments in Subsidiaries

When assessing the impairments of equity investments in subsidiaries, the Group takes into account objective evidence and indications showing that an equity investment in a subsidiary might be impaired. If such evidence and indications exist, the Group calculates the amount of the impairment as the difference between the carrying amount of the investment and its recoverable amount. An investment's recoverable amount is the higher of the following two values: the fair value or current value of expected future cash flows discounted according to the market rate of return of similar financial assets.

If one of these amounts exceeds the carrying amount of the investment, impairment is not necessary. If expected future cash flows cannot be assessed, the Group calculates the necessary impairments as the difference between the book value of a financial asset and the book value of the capital of the company in which the Group holds an investment, i.e. in a proportionate share with respect to equity participation.

3.4 Provisions for Off-Balance Sheet Risk

Provisions for off-balance-sheet risks were made for financial guarantees, securities, bad letters of credit and transactions with similar risks that may incur a liability for the Group. The Group takes into account the financial conditions, payment discipline and eventual collateral received when setting aside provisions for off-balance sheet risk.

3.5 Provisions for Legal Cases

Provisions for legal cases are formed on the basis of an assessment of the likely negative outcome of legal proceedings.

3.6 Provisions for Long-Term Employee Benefits

Employee benefits obligations are calculated by an independent actuary. The assumptions used in the actuarial calculation and the provisions for retirement indemnity bonuses and jubilee benefits that have been formed on the basis of the actuarial calculation are disclosed in Note 5.19.

4 Notes on the Income Statement

4.1 Net Interest Income

in thousands of EUR

	Bank		Group	
	2022	**2021**	**2022**	**2021**
Interest income				
Financial assets measured at amortised cost				
Debt securities	2,784	3,339	2,784	3,339
Loans and receivables	52,592	43,701	52,543	43,649
Loans mandatorily at FVTPL	-	181	-	181
Securities measured at FVTOCI	1,362	804	1,362	804
Financial liabilities – negative interest rate	96	739	96	739
Other assets	825	1	825	1
Total	**57,659**	**48,765**	**57,610**	**48,713**
Interest expenses				
Financial liabilities measured at amortised cost				
Due	1,577	1,629	1,577	1,629
Borrowings	1,597	1,512	1,601	1,515
Other liabilities	6	7	8	9
Financial assets – negative interest rate	1,032	2,324	1,032	2,324
Total	**4,212**	**5,472**	**4,218**	**5,477**
Net interest income	**53,447**	**43,293**	**53,392**	**43,236**

In 2022, interest income on the credit-impaired assets at the Bank and in the Group totalled EUR 1,051 thousand (2021: EUR 729 thousand).

4.2 Dividend Income

in thousands of EUR

Bank and Group	**2022**	**2021**
Dividend income from financial assets measured at FVTOCI	-	61
Dividend income from financial assets mandatorily at FVTPL	311	383
Total	**311**	**444**

4.3 Net fee and commission income

4.3.1 Fee and commission income and expenses relating to activities of the Bank and the Group

in thousands of EUR

	Bank		Group	
	2022	2021	2022	2021
Fee and commission income				
Credit related fees and commissions	2,570	2,367	2,548	2,343
Guarantees related fees and commissions	806	564	806	564
Payment service related fees and commissions				
Keeping current accounts	4,928	4,682	4,928	4,682
Debit and credit payments	4,095	4,105	4,087	4,096
Cash withdrawals at ATMs	1,782	1,324	1,782	1,324
Card transactions	1,485	842	1,485	842
Other services relating to the payment	156	169	156	169
Other fees and commissions	967	723	1,106	816
Fee and commission income	**16,789**	**14,776**	**16,898**	**14,836**
Fee and commission expense				
Payment services related fees and commissions	391	340	391	340
Other fees and commissions	193	258	196	258
Total	**584**	**598**	**587**	**598**
Net fee and commission income	**16,205**	**14,178**	**16,311**	**14,238**

4.3.2 Fee and Commission Income and Expenses Relating to Fiduciary Activities

in thousands of EUR

Bank and Group	2022	2021
Fee and commission income related to fiduciary activities		
Receipt, processing and execution of orders	563	404
Total	**563**	**404**
Fee and commission expenses related to fiduciary activities		
Fee and commission related to Central Securities Clearing Corporation and similar organisations	30	22
Total	**30**	**22**
Net fee and commission income relating to fiduciary activities	**533**	**382**

4.4 Gains Less Losses on Financial Assets and Liabilities not Measured at FVTPL

in thousands of EUR

Bank and Group	2022	2021
Gains from financial assets measured at amortised cost		122
Losses from financial assets measured at amortised cost	-	(96)
Losses from financial liabilities measured at amortised cost	(3)	(1)
Gains from financial assets measured at FVTOCI	-	-
Losses from financial assets measured at FVTOCI	-	-
Total	**(3)**	**25**

In 2022, the Bank generated the bulk of its losses from customer chargebacks due to payment card misuse.

4.5 Gains Less Losses on Financial Assets and Liabilities Held for Trading

in thousands of EUR

Bank and Group	2022	2021
Net gains from dealing in foreign currencies	291	280
Net gains/(losses) from derivatives	-	350
Total	**291**	**630**

4.6 Gains Less Losses on Non-Trading Financial Assets Mandatorily at FVTPL

in thousands of EUR

Bank and Group	2022	2021
Gains less losses from the revaluation of equity securities (Note 5.2)	(717)	3,830
Gains less losses from disposals of equity securities	-	298
Gains less losses from the revaluation of loans (Note 5.2)	-	237
Total	**(717)**	**4,365**

4.7 Exchange differences

in thousands of EUR

Bank and Group	2022	2021
Gains on exchange differences	8,519	6,607
Losses on exchange differences	(8,278)	(6,566)
Total	**241**	**41**

4.8 Gains Less Losses on the Derecognition of Non-Financial Assets

in thousands of EUR

	Bank		Group	
	2022	2021	2022	2021
Gains on disposals of property and equipment	45	377	51	400
Gains on disposals of investment property	324	990	534	1,264
Losses on disposals of property and equipment	(4)	(20)	(827)	(572)
Losses on disposals of investment property	(90)	(29)	(90)	(29)
Total	**275**	**1,318**	**(332)**	**1,063**

4.9 Other Operating Gains Less Losses

in thousands of EUR

	Bank		Group	
	2022	2021	2022	2021
Rental income	3,641	4,157	6,902	4,462
Valuation of investment property to fair value	585	1,998	507	1,968
Other operating income	864	213	1,059	3,031
Other operating expense	(485)	(561)	(489)	(567)
Total	**4,605**	**5,807**	**7,978**	**8,894**

4.10 Administration Costs

in thousands of EUR

Staff costs	Bank 2022	Bank 2021	Group 2022	Group 2021
Gross salaries	16,241	15,014	18,581	17,183
Social security costs	1,000	903	1,184	1,075
State pension contribution	1,299	1,176	1,705	1,554
Other costs related to gross salaries	79	71	487	445
Other employee costs	1,715	1,655	1,955	2,022
Total	**20,334**	**18,819**	**23,912**	**22,279**

in thousands of EUR

Costs of materials and services	Bank 2022	Bank 2021	Group 2022	Group 2021
Other professional services	5,804	6,049	6,364	6,479
Advisory services and other non-audit-related services	1,418	1,448	1,537	1,538
Repairs and maintenance expenses	544	556	639	633
Tax	57	97	57	97
Contributions	222	235	230	249
Membership fees and similar costs	89	83	107	99
Other costs of services	7,011	6,379	2,960	2,405
Costs of materials	1,339	1,342	1,500	1,523
Total	**16,484**	**16,189**	**13,396**	**13,023**
Administration costs	**36,818**	**35,008**	**37,308**	**35,302**

The auditing expenditure for the audit of the consolidated annual report for 2022 is EUR 63.6 thousand (2021: EUR 43.4 thousand), and for other auditing services EUR 15.7 thousand (2021: EUR 14.5 thousand). There were no costs for tax consulting and other non-audit services.

As at 31 December 2022, there were 414 employees at the Bank (2021: 403), while the Group employed 497 employees (2021: 479). Other costs of services of the Bank include costs for business travel, marketing, licences, insurance, legal costs and fees and costs for leasing services.

The Bank and the Group consider short-term and low-value leases as costs rather than as a lease liability.

In 2022, the Bank paid a total of EUR 483 thousand for all rents (in 2021 EUR 418 thousand), and the Group paid EUR 574 thousand rents (2021: EUR 526 thousand).

in thousands of EUR

Costs relating to lease payments	Bank 2022	Bank 2021	Group 2022	Group 2021
Short term leases	1	3	19	20
Leases of low value assets	285	276	288	276
Variable lease payments	-	-	-	-
Total	**286**	**279**	**307**	**296**

4.11 Cash Contributions to Resolution Funds and Deposit Guarantee Schemes

in thousands of EUR

	Bank 2022	Bank 2021	Group 2022	Group 2021
Deposit guarantee	1,902	1,444	1,902	1,444
Resolution funds	454	345	454	345
Total	**2,356**	**1,789**	**2,356**	**1,789**

4.12 Depreciation

in thousands of EUR

	Bank 2022	Bank 2021	Group 2022	Group 2021
Depreciation for property and equipment				
Property and equipment that represent RUA (Note 5.9.1)	244	210	277	265
Property and equipment that do not represent RUA (Note 5.9.2)	1,151	1,073	3,170	2,872
Amortization for intangible assets (note 5.11)	1,305	1,315	1,386	1,397
Total	**2,700**	**2,598**	**4,833**	**4,534**

4.13 Modification Gains/(Losses)

in thousands of EUR

Bank and Group	2022	2021
Gains from financial assets measured at amortised cost	(23)	-
Losses from financial assets measured at amortised cost (note 7.1.4.4.)	14	-
Total	**(9)**	**-**

4.14 Provisions

in thousands of EUR

Bank and Group	Bank 2022	Bank 2021	Group 2022	Group 2021
Provisions for guarantees and commitments (Note 5.17)	465	(1,302)	457	(1,297)
Provisions for retirement indemnity bonuses and jubilee benefits (Note 5.19)	21	58	41	84
Provisions for reorganisation (Note 5.17)	500	1,060	500	1,060
Provisions for legal issues (Note 5.17)	-	(18)	-	(18)
Total	**986**	**(202)**	**998**	**(171)**

4.15 Impairment

in thousands of EUR

	Bank 2022	Bank 2021	Group 2022	Group 2021
Impairment/(reversal of impairment):				
Cash, balances at CB and other demand deposits at banks (Note 5.1.2)	7	(32)	7	(32)
Debt securities measured at FVTOCI (Note 5.3.3)	18	(707)	18	(707)
Debt securities measured at amortised cost (Note 5.4.3)	(31)	(480)	(31)	(480)
Loans and receivables to banks measured at amortised cost (Note 5.5.2)	228	(8)	228	(8)
Loans and receivables to customers measured at amortised cost (Note 5.6.3)	757	937	709	922
Other financial assets measured at amortised cost (Note 5.7.2)	(22)	50	3	50
Property and equipment (Note 5.9)	-	171	-	171
Other assets (Note 5.12)	7	2	7	2
Total	**964**	**(67)**	**941**	**(82)**

4.16 Tax

in thousands of EUR

	Bank		Group	
	2022	**2021**	**2022**	**2021**
Current tax	2,759	2,601	2.770	2,671
Deferred tax (Note 5.18.6)	155	539	148	541
Total	**2,914**	**3,140**	**2,918**	**3,212**

Income tax differs from the amount of tax determined applying the Slovenian statutory tax rate as follows:

in thousands of EUR

	Bank		Group	
	2022	**2021**	**2022**	**2021**
Profit before tax	30,823	30,975	31,027	31,563
Tax calculated at prescribed rate 19% (2021: 19%)	5,856	5,885	5,895	5,997
Tax for non-tax deductible expenses	123	117	128	120
Tax for exempt income - dividends	(56)	(80)	(56)	(80)
Tax for temporary differences – impairment of bonds	51	143	51	143
Tax for temporarily differences – reversal of bond impairments	(58)	(235)	(58)	(235)
Tax for temporary differences – increase/reversal of provisions	(5)	62	2	62
Tax loss coverage	(2,798)	(3,127)	(2,819)	(3,168)
Other tax effects	-	655	(11)	659
Tax relief	(200)	(281)	(215)	(286)
Total	**2,914**	**3,140**	**2,918**	**3,212**
Effective tax rate, in %	**9.5**	**10.1**	**9.4**	**10.2**

The Bank has not recognised deferred tax in full for impairments of securities not recognised for tax purposes, for tax losses from previous years and for other provisions. They are only recognised up to the amount that can be recovered in the future with respect to the planned taxable profits in the following years. The difference to the total amount of deferred tax that may be taken into account by the Bank in the following years amounts to EUR 23,472 thousand (2021: EUR 25,899 thousand).

The tax liability from the profit or loss in 2022 amounts to EUR 2,759 thousand for The bank (2021: EUR 2,601 thousand), and EUR 2,770 thousand for the Group (2021: EUR 2,671 thousand).

The effective tax rate in 2022 was 9.5% for the Bank and 9.4% for the Group (2021 Bank 10.1% and Group: 10.2%).

The deferred tax liability in 2022 amounts to EUR 155 thousand (2021: deferred tax assets EUR 539 thousand), and EUR 148 thousand for the Group (2021: deferred tax assets EUR 541 thousand).

5 Notes on the Statement of Financial Position

The movement of value adjustments by stage for all items in the statement of financial position is disclosed in Note 7.1.4.3.

5.1 Cash, Balances at Central Banks and Other Demand Deposits at Banks

5.1.1 Breakdown by Type of Financial Instruments

in thousands of EUR

	Bank		Group	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Cash in hand	23,106	23,982	23,106	23,982
Balances at central banks	258,336	395,170	258,336	395,170
Demand deposits at banks	32,351	29,762	32,435	29,855
Cash and cash equivalents (Note 6.2)	**313,793**	**448,914**	**313,877**	**449,007**
Impairment	(60)	(53)	(60)	(53)
Total	**313,733**	**448,861**	**313,817**	**448,954**

5.1.2 Movements in Provisions for the Impairment of Balances at Central Banks and Other Demand Deposits at Banks

in thousands of EUR

Bank and Group	**2022**	**2021**
Balance at 1 January	53	85
Impairment of balances at central banks (Note 4.15)	7	(32)
Balance at 31 December	**60**	**53**

5.2 Non-Trading Financial Assets Mandatorily at Fair Value Through Profit or Loss

in thousands of EUR

Bank and Group	31/12/2022	31/12/2021
Equity instruments	9,457	10,016
Loans and receivables	-	-
Total	**9,457**	**10,016**

Assumptions used in the measurement of loans, mandatorily at FVTPL are disclosed in Note 7.4.3.1.

Movements of non-trading financial assets mandatorily at fair value through profit or loss

in thousands of EUR

Bank and Group	2022	2021
Balance at 1 January	10,016	36,703
Revaluation of equity instruments (Note 4.6)	(717)	4,128
Revaluation of loans and receivables (Note 4.6)	-	237
Additions of equity instruments	703	986
Disposals of equity instruments	(545)	(17,354)
Repayment of loans and receivables	-	(14,684)
Balance at 31 December	**9,457**	**10,016**

5.3 Financial Assets Measured at FVTOCI

5.3.1 Breakdown by Type of Financial Instruments Measured at FVTOCI

in thousands of EUR

Bank and Group	31/12/2022	31/12/2021
Equity instruments		
Bank Resolution Fund	6,438	6,738
SWIFT, La Hulpe, Belgium	12	12
Debt instruments		
Bonds issued by the government	21,684	23,152
Bonds issued by other issuers	4,922	5,423
Gross amount	**33,056**	**35,325**
Impairment	(129)	(111)
Total	**32,927**	**35,214**

5.3.2 Movements of Financial Assets Measured at FVTOCI

in thousands of EUR

Bank and Group	2022	2021
Balance at 1 January	35,214	27,408
Additions	13,126	11,075
Disposals	(12,507)	(5,900)
Interest accrual	(90)	(114)
Losses from changes in fair value	(2,797)	2,038
Impairment (Note 4.15)	(18)	707
Balance at 31 December	**32,928**	**35,214**

5.3.3 Movements in Provisions for the Impairment of Financial Assets Measured at FVTOCI

in thousands of EUR

Bank and Group	2022	2021
Balance at 1 January	111	818
Impairment of debt securities (Note 4.15)	18	(707)
Balance at 31 December	**129**	**111**

5.3.4 Accumulated Other Comprehensive Income Related to Financial Assets Measured at FVTOCI

in thousands of EUR

Bank and Group	2022	2021
Balance at 1 January	806	1,736
Losses due to changes in fair value (debt instruments)	(3,518)	(1,089)
Losses due to changes in fair value (equity instruments)	(299)	(59)
Deferred tax	725	218
Balance at 31 December	**2,286**	**806**

5.4 Debt Securities Measured at Amortised Cost

5.4.1 Breakdown by Type of Debt Securities Measured at Amortised Cost

in thousands of EUR

Bank and Group	31/12/2022	31/12/2021
Bonds issued by the government	290,496	270,654
Bonds issued by banks	23,080	23,236
Bonds issued by other issuers	17,768	18,377
Treasury bills	14,211	-
Gross amount	**345,555**	**312,267**
Impairment	(212)	(244)
Total	**345,343**	**312,023**

5.4.2 Movements of Debt Securities Measured at Amortised Cost

in thousands of EUR

Bank and Group	2022	2021
Balance at 1 January	312,023	290,098
Additions	57,420	80,894
Disposals	(21,404)	(56,550)
Interest accrual	(694)	(1,080)
Exchange differences	-	-
Transfer of the discount to profit or loss	(2,033)	(1,819)
Impairment (Note 4.15)	31	480
Balance at 31 December	**345,343**	**312,023**

5.4.3 Movements in the Provisions for the Impairment of Debt Securities Measured at Amortised Cost

in thousands of EUR

Bank and Group	2022	2021
Balance at 1 January	244	724
Impairment of debt securities measured at amortised cost (Note 4.15)	(31)	(480)
Balance at 1 January	**213**	**244**

5.5 Loans and Receivables to Banks Measured at Amortised Cost

5.5.1 Breakdown by Type of Loans and Receivables to Banks

in thousands of EUR

Bank and Group	31/12/2022	31/12/2021
Time deposits	44,377	105,588
Purchased receivables	2,107	231
Gross amount	**46,484**	**105,819**
Impairment	(307)	(79)
Total	**46,178**	**105,740**

In the years 2022 and 2021, the Bank did not pledge any deposits. At the end of 2022, loans to banks included EUR 2,117 thousand (2021: EUR 105,522 thousand) cash equivalents, i.e. loans with an original maturity of less than 90 days of the acquisition date.

5.5.2 Movements in the Provisions for the Impairment of Loans and Receivables to Banks Measured at Amortised Cost

in thousands of EUR

Bank and Group	2022	2021
Balance at 1 January	79	87
Impairment of loans and receivables to banks (Note 4.15)	228	(8)
Balance at 31 December	**307**	**79**

5.6 Loans and Receivables to Customers Measured at Amortised Cost

5.6.1 Breakdown by Type of Loans and Receivables to Customers and by Types of Borrowers

in thousands of EUR

	Bank		Group	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Individual clients:				
• Overdrafts	15,152	14,775	15,152	14,775
• Housing loans	217,244	157,933	217,244	157,933
• Consumer and other loans	299,058	259,857	299,058	259,857
Corporates and sole proprietors:				
• Corporates	232,875	217,022	232,875	217,022
• Small and medium enterprises	735,899	634,906	729,780	627,588
• Government	5,672	12,400	5,672	12,400
Gross loans and receivables	**1,505,900**	**1,296,893**	**1,499,781**	**1,289,575**
Impairment	(20,292)	(20,838)	(20,220)	(20,814)
Total	**1,485,608**	**1,276,055**	**1,479,561**	**1,268,761**

5.6.2 Breakdown by Type of Loans and Receivables to Customers

in thousands of EUR

	Bank		Group	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Purchased receivables	119,843	92,646	119,843	92,646
Finance lease receivables	371,073	316,573	371,073	316,573
Loans	1,014,979	887,662	1,008,860	880,344
Called guarantees	5	12	5	12
Gross loans and receivables	**1,505,900**	**1,296,893**	**1,499,781**	**1,289,575**
Impairment	(20,292)	(20,838)	(20,220)	(20,814)
Total	**1,485,608**	**1,276,055**	**1,479,561**	**1,268,761**

5.6.3 Movements in the Provisions for the Impairment of Loans and Receivables to Customers Measured at Amortised Cost

in thousands of EUR

	Bank		Group	
	2022	2021	2022	2021
Balance at 1 January	20,838	17,574	20,814	17,542
Impairment (Note 4.15)	757	937	709	922
Write-off	(2,936)	(1,785)	(2,936)	(1,785)
Other	1,633	4,112	1,633	4,135
Balance at 31 December	**20,292**	**20,838**	**20,220**	**20,814**

5.7 Other Financial Assets Measured at Amortised Cost

5.7.1 Breakdown by Type of Other Financial Assets Measured at Amortised Cost

in thousands of EUR

	Bank		Group	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Items in the course of collection	142	255	142	255
Commissions	387	482	387	482
Receivables	866	840	1,433	2,267
Receivables for received payments deriving from portfolio management	145	25	145	25
Other assets	2,952	1,658	2,964	1,718
Gross other financial assets	**4,492**	**3,260**	**5,071**	**4,747**
Impairment	(75)	(97)	(315)	(313)
Total	**4,417**	**3,163**	**4,756**	**4,434**

5.7.2 Movements in the Provisions for the Impairment of Other Financial Assets Measured at Amortised Cost

in thousands of EUR

	Bank		Group	
	2022	2021	2022	2021
Balance at 31 December	97	47	313	325
Reversal of impairment (Note 4.15)	(22)	50	2	50
Other	-	-	-	(62)
Balance at 31 December	**75**	**97**	**315**	**313**

5.8 Investments in Subsidiaries

5.8.1 Key Data of Investments in Subsidiaries

	Assets	Liabilities	Equity	Loss/Profit	Revenue	interest held, %
2022						
Imobilia-GBK, d.o.o., Kranj	4,355	327	4,028	140	741	100
GB Leasing, d.o.o., Ljubljana	13,987	10,022	3,965	2	7,679	100
Hypo Alpe-Adria-Leasing, d.o.o., Ljubljana	162	70	92	(1)	79	100
2021						
Imobilia-GBK, d.o.o., Kranj	7,715	3,827	3,888	386	1,064	100
GB Leasing, d.o.o., Ljubljana	11,097	7,130	3,967	144	7,021	100
Hypo Alpe-Adria-Leasing, d.o.o., Ljubljana	96	2	94	-	-	100

5.8.2 Investments in Subsidiaries

As at the end of 2022, assets in the statement of financial position disclose EUR 6,405.6 thousand in investments in the equity of the subsidiaries, whereby the equity investment in Imobilia-GBK d.o.o., Kranj, was recorded at the value of EUR 2,521.3 thousand, the equity investment in GB Leasing d.o.o., Ljubljana, at the value of EUR 3,800 thousand and the equity investment in Hypo Alpe-Adria-Leasing d.o.o., Ljubljana, at the value of EUR 84.3 thousand (2021: EUR 6,405.6 thousand, of which EUR 2,521.3 thousand for Imobilia-GBK d.o.o., Kranj, EUR 3,800 thousand for GB Leasing d.o.o., Ljubljana, and EUR 84.3 thousand for Hypo Alpe-Adria-Leasing d.o.o., Ljubljana).

In 2021 and 2022, there were no movements of investments in subsidiaries.

5.9 Property and Equipment

in thousands of EUR

	Bank		Group	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Property and equipment that represent RUA	689	610	597	766
Property and equipment that do not represent RUA	8,476	8,433	21,213	18,390
Total property and equipment	**9,165**	**9,043**	**21,810**	**19,156**

5.9.1 Property and Equipment that Represent Right-of-Use Assets (RUA)

in thousands of EUR

Bank	RUA - buildings	RUA - vehicles	Total
1 January 2021			
Cost	1,039	158	1,197
Accumulated depreciation	(249)	(76)	(325)
Net book amount	**790**	**82**	**872**
Year ended December 2021			
Opening net book value	790	82	872
Additions	1	29	30
Disposals	(81)	-	(81)
Depreciation charge	(161)	(49)	(210)
31 December 2021	**548**	**62**	**610**
31 December 2021			
Cost	901	161	1,062
Accumulated depreciation	(353)	(99)	(452)
Net book amount	**548**	**62**	**610**

in thousands of EUR

Bank	RUA - buildings	RUA - vehicles	Total
Year ended December 2022			
Opening net book value	548	62	610
Additions	108	214	322
Disposals	-	-	-
Depreciation charge	(174)	(70)	(244)
31 December 2022	**483**	**206**	**689**
31 December 2022			
Cost	980	295	1,275
Accumulated depreciation	(496)	(89)	(586)
Net book amount	**483**	**206**	**689**

5.9.1 Property and Equipment that Represent Right-of-Use Assets (RUA)

in thousands of EUR

Group	RUA - buildings	RUA - vehicles	Total
1 January 2021			
Cost	1,490	52	1,542
Accumulated depreciation	(414)	(17)	(431)
Net book amount	**1,076**	**35**	**1,111**
Year ended December 2021			
Opening net book value	1,076	35	1,111
Write off/Disposals	(80)	-	(80)
Depreciation charge	(252)	(13)	(265)
31 December 2021	**744**	**22**	**766**
31 December 2021			
Cost	1,353	52	1,405
Accumulated depreciation	(609)	(30)	(639)
Net book amount	**744**	**22**	**766**

in thousands of EUR

Group	RUA - buildings	RUA - vehicles	Total
Year ended December 2022			
Opening net book value	744	22	766
Additions	108	-	108
Disposals	-	-	-
Depreciation charge	(264)	(13)	(277)
31 December 2022	**588**	**9**	**597**
31 December 2022			
Cost	1,432	52	1,483
Accumulated depreciation	(843)	(43)	(886)
Net book amount	**588**	**9**	**597**

5.9.2 Property and Equipment that Do Not Represent Right-of-Use Assets (RUA)

in thousands of EUR

Bank	Land & buildings	Computers	Motor vehicles and other equipment	Assets under construction	Total
1 January 2021					
Cost	18,814	6,799	5,390	322	31,325
Accumulated depreciation	(13,081)	(5,350)	(4,598)	-	(23,029)
Net book amount	**5,733**	**1,449**	**792**	**322**	**8,296**
Year ended December 2021					
Opening net book value	5,733	1,449	792	322	8,296
Additions	-	-	-	1,562	1,562
Transfer to/from assets under construction	1,038	698	148	(1,884)	-
Disposals	(151)	-	(9)	-	(160)
Impairment (Note 4.16)	(171)	-	-	-	(171)
Disposals	(8)	(7)	(6)	-	(21)
Depreciation charge	(319)	(503)	(251)	-	(1,073)
31 December 2021	**6,122**	**1,637**	**674**	**-**	**8,433**
31 December 2021					
Cost	19,002	6,758	5,097	-	30,857
Accumulated depreciation	(12,880)	(5,121)	(4,423)	-	(22,424)
Net book amount	**6,122**	**1,637**	**674**	**-**	**8,433**
Year ended December 2022					
Opening net book value	6,122	1,637	674	-	8,433
Additions	-	-	-	1,260	1,260
Transfer between equipment types		1	(1)	-	-
Transfer to/from assets under construction	218	196	176	(590)	-
Disposals	(35)	(1)	(21)	-	(57)
Impairment	-	-	-	-	-
Disposals	(3)	(3)	(3)	-	(8)
Depreciation charge	(325)	(583)	(244)	-	(1,151)
31 December 2022	**5,977**	**1,247**	**582**	**670**	**8,476**
31 December 2022					
Cost	19,173	6,809	5,009	670	31,660
Accumulated depreciation	(13,196)	(5,561)	(4,427)	-	(23,185)
Net book amount	**5,977**	**1,247**	**582**	**670**	**8,476**

None of the property and equipment has been pledged as at 31 December 2021 and as at 31 December 2022. The Bank finances purchases of property and equipment with its own funds. A contract is being signed for the implementation of the AEC Group's single data centre, which will be operational in 2023, as reflected in the funds under acquisition line.

5.9.2 Property and Equipment that Do Not Represent Right-of-Use Assets (RUA)

in thousands of EUR

Group	Land & buildings	Computers	Motor vehicles and other equipment	Assets under construction	Total
1 January 2021					
Cost	18,815	6,942	16,884	322	42,963
Accumulated depreciation	(13,081)	(5,450)	(7,669)	-	(26,200)
Net book amount	**5,734**	**1,492**	**9,215**	**322**	**16,763**
Year ended December 2021					
Opening net book value	5,734	1,492	9,215	322	16,763
Additions	-	49	5,456	1,562	7,067
Transfer to/from assets under construction	1,037	699	147	(1,884)	-
Disposals	(151)	-	(9)	-	(160)
Impairment (Note 4.16)	(171)	-	-	-	(171)
Disposals	(8)	(9)	(2,219)	-	(2,236)
Depreciation charge	(319)	(533)	(2,020)	-	(2,872)
31 December 2021	**6,122**	**1,698**	**10,570**	**-**	**18,390**
31 December 2021					
Cost	19,002	6,949	18,336	-	44,287
Accumulated depreciation	(12,880)	(5,251)	(7,766)	-	(25,897)
Net book amount	**6,122**	**1,698**	**10,570**	**-**	**18,390**
Year ended December 2022					
Opening net book value	6,122	1,698	10,570	-	18,390
Additions	-	8	7,533	1,260	8,801
Transfer between equipment types	-	1	(1)	-	
Transfer to/from assets under construction	218	196	176	(590)	-
Disposals	(35)	(1)	(107)	-	(143)
Impairment	-	-	-	-	-
Disposals	(3)	(3)	(2,659)	-	(2,665)
Depreciation charge	(325)	(608)	(2,237)	-	(3,170)
31 December 2022	**5,977**	**1,291**	**13,275**	**670**	**21,213**
31 December 2022					
Cost	19,173	7,008	21,337	670	48,188
Accumulated depreciation	(13,196)	(5,717)	(8,062)	-	(26,975)
Net book amount	**5,977**	**1,291**	**13,275**	**670**	**21,213**

5.10 Investment Property

in thousands of EUR

Bank	Apartments	Buildings	Land	Assets under construction	Total
Year ended December 2021					
Opening value	84	42,787	5,215	8,533	56,619
Purchases	-	-	-	217	217
Transfer from/to property and equipment	-	168	16	(184)	-
Transfer to/from assets under construction (Note 5.13)	-	(8,696)	-	-	(8,696)
Revaluation to fair value (Note 4.9)	5	1,760	313	(80)	1,998
Disposals	-	(4,996)	(558)	-	(5,554)
31 December 2021	**89**	**31,023**	**4,986**	**8,486**	**44,584**
Year ended December 2022					
Opening value	89	31,023	4,986	8,486	44,584
Purchases	-	-	-	434	434
Transfer from/to property and equipment	-	8,919	-	(8,919)	-
Transfer to/from assets under construction (Note 5.13)	-	2,028	-	-	2,028
Revaluation to fair value (Note 4.9)	31	470	84	-	585
Disposals	-	(2,564)	(685)	-	(3,248)
31 December 2022	**120**	**39,877**	**4,385**	**0**	**44,383**

Investment properties are valuated under fair value, which is determined on the basis of appraisal reports prepared by independent appraisers who perform the appraisals in accordance with the International Valuation Standards (level 2) and the assessments of the management (level 3).

in thousands of EUR

	Level 1	Level 2	Level 3	Total
31 December 2022	-	44,383	-	**44,383**
31 December 2021	-	44,583	-	**44,583**

In 2022, rental income of EUR 3,515 thousand was generated (2021: EUR 4,051 thousand). In 2022, investment property maintenance and management costs amounted to EUR 941 thousand (2021: EUR 1,040 thousand).

At the beginning of 2022, the Bank owned 35 investment properties, of which 13 land plots and 22 buildings. At the end of 2022, it owned 28 investment properties, of which 9 land plots and 19 buildings.

5.10 Investment Property

in thousands of EUR

Group	Apartments	Buildings	Land	Assets under construction	Total
Year ended December 2021					
Opening net book value	84	48,719	5,948	8,533	63,284
Purchases	-	-	-	217	217
Transfer from/to property and equipment	-	169	16	(185)	-
Transfer to/from assets under construction	-	(8,696)	-	-	(8,696)
Revaluation to fair value (Note 4.9)	5	1,730	313	(79)	1,969
Disposals	-	(5,872)	(558)	-	(6,430)
31 December 2021	**89**	**36,049**	**5,719**	**8,486**	**50,343**
Year ended December 2022					
Opening net book value	89	36,049	5,719	8,486	50,343
Purchases	-	-	-	434	434
Transfer from/to property and equipment	-	8,919	-	(8,919)	-
Transfer to/from assets under construction	-	2,028	-	-	2,028
Revaluation to fair value (Note 4.9)	31	392	84	-	507
Disposals	-	(5,405)	(685)	-	(6,089)
31 December 2022	**120**	**41,984**	**5,118**	**-**	**47,223**

5.11 Intangible Assets

In 2021 and 2022, the Bank finances purchases of intangible assets with its own funds and does not finance them with loans.them with loans

in thousands of EUR

Bank	Software licences	Property rights	Assets under construction	Total
1 January 2021				
Cost	10,870	337	241	11,448
Accumulated amortization	(7,574)	-	-	(7,574)
Net book amount	**3,296**	**337**	**241**	**3,874**
Year ended December 2021				
Opening net book value	3,296	337	241	3,874
Additions	-	-	1,697	1,697
Transfer	1,381	-	(1,381)	-
Disposals	(1)	(218)	-	(219)
Amortization charge	(1,315)	-	-	(1,315)
31 December 2021	**3,360**	**120**	**557**	**4,036**
31 December 2021				
Cost	11,937	120	557	12,613
Accumulated amortization	(8,577)		-	(8,577)
Net book amount	**3,360**	**120**	**557**	**4,036**
Year ended December 2022				
Opening net book value	3,360	120	557	4,036
Additions	-	-	583	583
Transfer	1,140	-	(1,140)	-
Disposals	(7)	(120)	-	(127)
Amortization charge	(1,305)	-	-	(1,305)
31 December 2022	**3,360**	**-**	**-**	**3,188**
31 December 2022				
Cost	12,713	-	-	12,713
Accumulated amortization	(9,526)	-	-	(9,526)
Net book amount	**3,188**	**-**	**-**	**3,188**

in thousands of EUR

Group	Software licences	Property rights	Assets under construction	Total
1 January 2021				
Cost	11,398	337	241	11,976
Accumulated amortization	(7,955)	-	-	(7,955)
Net book amount	**3,443**	**337**	**241**	**4,021**
Year ended December 2021				
Opening net book value	3,443	337	241	4,021
Additions	70	-	1,697	1,767
Transfer	1,381	-	(1,381)	-
Disposals	(7)	(218)	-	(225)
Amortization charge	(1,397)	-	-	(1,397)
31 December 2021	**3,489**	**120**	**557**	**4,165**
31 December 2021				
Cost	12,529	120	557	13,205
Accumulated amortization	(9,040)	-	-	(9,040)
Net book amount	**3,489**	**120**	**557**	**4,165**
Year ended December 2022				
Opening net book value	3,489	120	557	4,165
Additions	34	-	583	617
Transfer	1,140	-	(1,140)	-
Disposals	(7)	(120)	-	(127)
Amortization charge	(1,386)	-	-	(1,386)
31 December 2022	**3,270**	**-**	**-**	**3,270**
31 December 2022				
Cost	13,340	-	-	13,340
Accumulated amortization	(10,070)	-	-	(10,070)
Net book amount	**3,270**	**-**	**-**	**3,270**

5.12 Other Assets

in thousands of EUR

	Bank		Group	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Prepaid and deferred expenses or costs	584	1,048	676	1,118
Stock	203	769	235	832
Prepayments	4,074	141	4,074	142
Claim for taxes	295	283	418	346
Gross other assets	**5,157**	**2,241**	**5,403**	**2,438**
Impairment	(10)	(4)	(10)	(4)
Total	**5,147**	**2,237**	**5,393**	**2,434**

Movements in provisions for impairment

in thousands of EUR

Bank and Group	2022	2021
Balance at 1 January	4	2
Impairment (Note 4.15)	6	2
Balance at 31 December	**10**	**4**

5.13 Non-current assets held for sale

in thousands of EUR

	Bank		Group	
	2022	2021	2022	2021
Balance at 1 January	8,693	-	8,973	525
Transfer from property and equipment (Note 5.10)	-	8,696	-	8,696
Transfer to property and equipment	(2,028)	-	(2,028)	-
Additions	-	-	182	440
Disposals	(6,554)	(3)	(6,554)	(688)
Balance at 31 December	**111**	**8,693**	**293**	**8,973**

Non-current assets held for sale are valued at fair value and therefore no material additional gains or losses are expected on these transactions.

5.14 Due to Customers

in thousands of EUR

	Bank		Group	
	31/12/2022	**31/12/2021**	**31/12/2022**	**31/12/2021**
Corporates and other entities				
• Current/settlement accounts	441,299	440,024	439,805	439,338
• Term deposits	108,252	158,013	108,252	158,013
Individual clients				
• Current/demand accounts	1,193,503	1,022,431	1,193,503	1,022,431
• Term deposits	176,889	275,730	176,889	275,730
Total	**1,919,943**	**1,896,198**	**1,918,449**	**1,895,512**

5.15 Borrowings from Banks and Central Banks

in thousands of EUR

Bank and Group	**31/12/2022**	**31/12/2021**
Due to banks	1,966	40,007
Borrowings from banks	96,149	69,277
Borrowings from central banks	-	-
Total	**98,115**	**109,284**

5.16 Other Financial Liabilities

in thousands of EUR

	Bank		Group	
	31/12/2022	**31/12/2021**	**31/12/2022**	**31/12/2021**
Due to suppliers	3,824	2,261	5,347	2,376
Obligations under card operations	4,699	3,333	4,699	3,333
Accrued expenses	1,188	1,272	1,296	1,446
Unexecuted obligations for payment	957	308	957	330
Lease liabilities				
Current lease liabilities	278	194	298	262
Non-current lease liabilities	422	434	313	527
Other financial liabilities	475	1,298	1,194	2,148
Total	**11,843**	**9,100**	**14,103**	**10,422**

The table below shows the maturity of undiscounted contractual lease payments.

in thousands of EUR

	Bank		Group	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Less than one year	278	217	295	266
One to five years	658	728	313	695
More than five years	-	-	-	-
Total	**963**	**945**	**608**	**961**

5.17 Provisions

in thousands of EUR

	Bank		Group	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Provisions for retirement indemnity bonuses	1,059	1,081	1,186	1,181
Provisions for jubilee benefits	123	156	140	173
Provisions for guarantees and commitments (Note 6.1.1)	1,884	1,419	1,862	1,405
Provisions for deferred variable remuneration	500	350	500	350
Provisions for reorganisation	936	964	936	964
Provisions for legal issues	-	-	-	-
Total	**4,502**	**3,970**	**4,624**	**4,074**

At the time of retirement, a retiring employee who has fulfilled certain conditions is entitled to a lump sum. After every ten-year period that an employee has worked for the Bank, the employee is entitled to an award. Provisions for severance and jubilee benefits were established on the basis of an actuarial calculation using the following assumptions:

- nominal long-term interest rate of 3.65% (2021: 0.65%);
- expected long-term growth in the amount of jubilee benefits and non-taxable amounts in the calculation is estimated at 1.0% (2021: 1.0%);
- the expected mortality of employees according to the 2007 Slovenian mortality tables has been considered;
- provisions are calculated only for full-time employees;
- it is assumed that the employees will exercise the right to retirement when reaching retirement age;
- it is assumed that the Bank will continue its operations in the foreseeable future.

Sensitivity analysis in euros:

Parameters	Provisions for retirement indemnity bonuses	Provisions for jubilee benefits
Decrease of the discount interest rate by 0,5%	€57,811.99	€4,160.43
Increase of the discount interest rate by 0,5%	(€52,945.06)	(€3,910.61)
Increase wage growth by 0.5 % yearly	€57,738.51	€0.00
Decrease wage growth by 0.5 % yearly	(€53,056.75)	€0.00

Movement in the provision for jubilee and retirement benefits

in thousands of EUR

	Provisions for retirement gratuities	Provisions for jubilee gratuities	Total
Balance 31/12/2021	**1,081**	**156**	**1,237**
Interest expense (P&L)	7	1	8
Past service cost (P&L)	(81)	-	(81)
Current service cost (P&L)	116	14	130
Benefit payments (-)	(19)	(12)	(30)
Actuarial profits/losses (P&L)	-	(36)	(36)
Actuarial profits/losses	(45)	-	(45)
Balance 31/12/2022	**1,059**	**123**	**1,182**

Movement of provisions:

in thousands of EUR

Bank	Provisions for retirement indemnity bonuses and jubilee benefits	Provisions for guarantees and commitments	Provisions for deferred variable remuneration	Provisions for reorganisation	Provisions for legal issues	Total
Balance at 1 January 2021	1,256	2,721	577	290	18	4,862
Utilised during the year (payments)	(33)	-	(1,054)	(386)	-	(1,473)
Decrease in provision through OCI	(44)	-	-	-	-	(44)
Additional provisions - staff costs	-	-	827	-	-	827
Additional provisions (Note 4.14)	59	4,378	-	1,060	-	5,497
Provisions realised (Note 4.14)	(1)	(5,680)	-	-	(18)	(5,699)
Balance at 31 December 2021	**1,237**	**1,419**	**350**	**964**	**-**	**3,970**
Balance at 1 January 2022	1,237	1,419	350	964	-	3,970
Utilised during the year (payments)	(30)	-	(504)	(528)	-	(1,062)
Decrease in provision through OCI	(45)	-	-	-	-	(45)
Additional provisions - staff costs	-	-	654	-	-	654
Additional provisions (Note 4.14)	42	4,401	-	500	-	4,943
Provisions realised (Note 4.14)	(22)	(3,936)	-	-	-	(3,958)
Balance at 31 December 2022	**1,182**	**1,884**	**500**	**936**	**-**	**4,502**

in thousands of EUR

Group	Provisions for retirement indemnity bonuses and jubilee benefits	Provisions for guarantees and commitments	Provisions for deferred variable remuneration	Provisions for reorganisation	Provisions for legal issues	Total
Balance at 31 December 2021	1,349	2,702	577	290	18	4,936
Utilised during year (payments)	(33)	-	(1,054)	(386)	-	(1,473)
Decrease in provision through OCI	(45)	-	-	-	-	(45)
Additional provisions - staff costs	-	-	827	-	-	827
Additional provisions (Note 4.14)	85	4,324	-	1,060	-	5,469
Provisions realised (Note 4.14)	(1)	(5,621)	-	-	(18)	(5,640)
Balance at 31 December 2021	**1,355**	**1,405**	**350**	**964**	**-**	**4,074**
Balance at 1 January 2022	1,355	1,405	350	964	-	4,074
Utilised during year (payments)	(30)	-	(504)	(528)	-	(1,062)
Decrease in provision through OCI	(40)	-	-	-	-	(40)
Additional provisions - staff costs	-	-	654	-	-	654
Additional provisions (Note 4.14)	63	4,360	-	500	-	4,923
Provisions realised (Note 4.14)	(22)	(3,903)	-	-	-	(3,925)
Balance at 31 December 2022	**1,326**	**1,862**	**500**	**936**	**-**	**4,624**

5.18 Income taxes

5.18.1 Current Income Tax Assets

in thousands of EUR

	Bank		Group	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Current income tax assets	78	-	132	9
Total	**78**	**-**	**132**	**9**

5.18.2 Current Income Tax Liabilities

in thousands of EUR

	Bank		Group	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Current income tax liabilities	-	784	-	840
Total	**-**	**784**	**-**	**840**

5.18.3 Deferred Income Taxes

Deferred income taxes are calculated on all temporary differences arising between the tax bases of assets and liabilities and their carrying values using the tax rate that has been enacted.

The Bank has an uncovered tax loss from previous years in the amount of EUR 142,589 thousand (2021: EUR 158,150 thousand). No deferred tax assets were formed in the amount of EUR 120,816 thousand. Deferred tax for a tax loss and for unrecognised impairments on equity investments are not recognised in full, but only in the estimated amount with respect to the possibility of coverage by planned profits in future years. The Bank will enforce a tax base reduction in the coming years for the total amount of tax loss and unrecognised impairments, but only up to half of the annual tax base in each year.

5.18.4 Movement in Deferred Income Taxes

in thousands of EUR

	Bank		Group	
	2022	2021	2022	2021
Balance at 1 January	4,304	4,625	4,321	4,644
Financial assets measured at FVTOCI	729	(310)	729	(310)
Employee benefit provisions	(9)	2	(7)	4
Unrecognized impairment of assets measured at amortized cost	-	-	5	(4)
Tax loss	(150)	(13)	(150)	(13)
Balance at 31 December	**4,874**	**4,304**	**4,898**	**4,321**

5.18.5 Analysis by Type of Deferred Income Taxes

in thousands of EUR

	Bank		Group	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Deferred income tax liabilities				
Financial assets measured at FVTOCI	-	(196)	-	(196)
Coverage of losses of subsidiaries	-	-	-	-
Total	**-**	**(196)**	**-**	**(196)**
Deferred income tax assets				
Employee benefit provisions	112	121	126	132
Financial assets measured at FVTOCI	561	28	561	28
Unrecognised impairment of assets measured at FVTPL	64	64	64	64
Unrecognised impairment of assets measured at amortised cost	-	-	10	6
Tax loss	4,137	4,287	4,137	4,287
Total	**4,874**	**4,500**	**4,898**	**4,517**
Net deferred income tax assets	**4,874**	**4,304**	**4,898**	**4,321**

In 2022, the Bank started to net deferred taxes and, as a result, the Bank no longer recognises a liability for deferred taxes.

5.18.6 Deferred Tax Assets/Liabilities Included in the Income Statement (Note 4.16.)

in thousands of EUR

	Bank		Group	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Employee benefit provisions	9	(2)	7	(4)
Financial assets measured at FVTOCI	(4)	528	(4)	528
Unrecognized impairment of assets measured at amortized cost	-	-	(5)	4
Tax loss	150	13	150	13
Total	**155**	**539**	**148**	**541**

5.19 Other Liabilities

in thousands of EUR

	Bank		Group	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Prepaid and deferred income	778	713	1,724	750
Liabilities for taxes, contributions and other benefits	624	617	834	793
Salaries and other due to employee	1,906	1,247	2,124	1,516
Liabilities for advances	1,505	1,525	1,505	2,829
Total	**4,813**	**4,102**	**6,188**	**5,888**

5.20 Equity

5.20.1 Paid-Up Capital, Share Premium and Treasury Shares

in thousands of EUR

Bank and Group	31/12/2022	31/12/2021
Paid-up capital	16,188	16,188
Share premium	20,023	20,023
Treasury shares	(26,007)	(26,007)
Total	**10,204**	**10,204**

All shares are of the same class (ordinary) and have no restrictions in management.

On 31 December 2022, 387,938 non-par shares have been authorised (2021: 387,938 shares).

In 2021 and 2022, the number of own shares did not change. On 31 December 2022, the Bank had 32,215 treasury shares (2021: 32,215 treasury shares). The acquisition of treasury shares is consistent with Article 247 of the Companies Act. The total number of treasury shares held by the Bank shall not exceed 10% of the share capital.

The nominal share value or an amount belonging to a non-par share in registered capital amounted to EUR 41.73.

5.20.2 Reserves and Retained Earnings

in thousands of EUR

	Bank		Group	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Statutory reserves	86,061	86,061	86,061	86,061
Reserves for treasury shares	26,007	26,007	26,007	26,007
Legal reserves	64,872	64,872	64,880	64,880
Other reserves	481	481	481	481
Retained earnings (including income from the current year)	86,345	58,422	88,117	59,994
Total	**263,765**	**235,842**	**265,546**	**237,423**

Legal reserves can be used only under circumstances and only for purposes stated in the Company Act.

Statutory reserves can be used for reserves for treasury shares, for covering loss, for an increase of the share capital, for legal reserves and for covering other risks.

Other reserves can be used for reserves for treasury shares, for covering of loss, for an increase of the share capital, for earnings payout to shareholders, employees, management board and/or supervisory board, as insurance of other risks, for legal and/or statutory reserves and for other purposes in line with the policy of the Bank.

5.20.2 Reserves and Retained Earnings

in thousands of EUR

	Bank		Group	
Movements in reserves (Bank and Group):	**31/12/2022**	**31/12/2021**	**31/12/2022**	**31/12/2021**
Statutory reserves				
Balance at 1 January	86,061	86,061	86,061	86,061
Allocation of net profit	-	-	-	-
Balance at 31 December	**86,061**	**86,061**	**86,061**	**86,061**
Legal reserves				
Balance at 1 January	64,872	64,872	64,880	64,873
Allocation of net profit	-	-	-	7
Balance at 31 December	**64,872**	**64,872**	**64,880**	**64,880**
Other reserves				
Balance at 1 January	481	481	481	481
Balance at 31 December	**481**	**481**	**481**	**481**
Retained earnings (including income from the current year)				
Balance at 1 January	58,422	28,094	59,994	29,157
Net profit for the year	27,909	27,835	28,109	28,351
Transfer to legal reserves	-	-	-	(7)
Profit from sale of investments in equity instruments measured at FVTOCI	-	2,488	-	2,488
Transfer of actuarial losses to retained earnings	14	6	14	6
Appropriation of dividends	-	-	-	-
Balance at 31 December	**86,345**	**58,422**	**88,117**	**59,994**

5.20.3 Accumulated Other Comprehensive Income

The accumulated other comprehensive income, which is an integral part of the capital, amounted to EUR -2,171 thousand as at 31 December 2022 (2021: EUR 890 thousand). Within its accumulated other comprehensive income, the Bank discloses the revaluation of financial assets measured at FVTOCI and actuarial gains from severance pay.

Changes in the balance of accumulated other comprehensive income is evident from the Statement of Comprehensive Income.

6 Other Notes on the Financial Statements

6.1 Off-Balance Sheet Business

6.1.1 Contingent Liabilities and Commitments

The following table indicates the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers.

in thousands of EUR

	Bank		Group	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Guarantees	139,515	97,092	139,515	97,092
Commitments to extend credit	309,938	275,299	308,060	271,708
Spot transactions	2,900	2,600	2,900	2,600
Letters of credit and other transactions	2,272	2,584	2,272	2,584
Total	**454,625**	**377,575**	**452,747**	**373,984**
Provisions for guarantees and commitments (Note 5.17)	(1,884)	(1,419)	(1,862)	(1,405)
Total	**452,741**	**376,156**	**450,885**	**372,579**

6.1.2 Court Proceedings

In 2021 and 2022, the Bank was involved in some legal proceedings in which it did not expect to lose money, and therefore did not make any provision for pending legal proceedings.

Among the legal proceedings in which the Bank was involved as a defendant in 2021 and 2022, it is worth noting, in view of the substance and value of the litigation, a collective action brought against several Slovenian banks by the Kolektiv 99 Institute on behalf of consumers who had concluded a variable-rate consumer or housing loan agreement with the Bank, seeking reimbursement of the alleged disadvantage suffered by the borrowers as a result of the Bank's failure to take account of the negative value of the Euribor in the calculation of the interest rate. By the present action, the applicant seeks a declaration that the so-called Floor practice (disregard of negative Euribor values without any basis in the loan agreement) and the so-called Floor clause (invalidity of the provision in the loan agreement according to which, in the event of a negative Euribor value, the Euribor value is deemed to be zero, or the invalidity of a comparable provision to the same effect) are null and void. The Bank did not carry out the Floor practice. As regards the alleged nullity of the Floor clause, the Bank will argue and prove in the litigation that such a clause is not null and void as it does not constitute an unfair contractual term, but rather a valid agreement between the parties on the price of the money lent. The Bank's position is supported by the legal opinion of leading civil law experts.

The Bank received the complaint in May 2022 and replied to it within the prescribed time limit. The collective action procedure is a two-stage procedure. First, the court decides on the admissibility of the action and the representativeness of the claimant (eligibility to represent consumers), and if the action is admissible, then on the merits of the claim. At the time of writing the Annual Report, the hearing on the admissibility of the action had not yet been convened.

In view of all the arguments put forward, the Bank does not expect any negative financial effects.

During 2022, the Bank set up an automated way to calculate and reimburse a pro rata share of the origination costs in the case of early repayments of retail loans under the EOM method. The Bank did not make provisions for potential claims for reimbursement of the pro rata share of the approval costs for early repayments in previous years as it considers that the total potential amount is not material. The amount of reimbursements of the pro rata share of the approval costs for 2022 is EUR 4,076.68.

The Bank did not make any provision for pending legal proceedings in 2022. In 2021, the provisions were fully released.

6.2 Cash and Cash Equivalents

in thousands of EUR

	Bank		Group	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Cash and balances a central banks (Note 5.1)	281,441	419,152	281,441	419,152
Demand deposits at banks (Note 5.1)	32,352	29,762	32,436	29,855
Loans and receivables to banks (Note 5.5)	2,117	105,522	2,117	105,522
Total	**315,910**	**554,436**	**315,994**	**554,529**

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than 90 days maturity. The amount of the obligatory reserves is daily available for the Bank's liquidity needs, and is therefore considered a cash equivalent.

6.3 Related Party Transactions

Related parties are parties that are associated by way of one party being involved in the management, supervision or equity of the other party.

The related persons of the Group include the key management personnel (Management Board, members of the Supervisory Board, members of the management boards of subsidiaries, close family members of the above, employees under individual contracts, specific companies where all these have a strong influence, members of the management bodies in the Group related to the parent company), companies with a significant influence over the Bank (shareholders with a more than 20 percent share in the Bank and their related companies), as well as subsidiaries.

The Bank has three subsidiaries and a subsidiary owned by one of the subsidiaries. The contracts are concluded on the same terms as for unrelated parties.

The Bank changed its parent company as of 30/12/2022, the former parent company became another related company. The Bank has no loan or deposit agreements with the parent company.

In 2022, the Bank entered into interbank transactions with the parent company, which amounted to EUR 40,007 thousand as at 31 December 2022 (2021: EUR 100,000 thousand). The Bank received a subordinated loan from the parent company in the amount of EUR 20,000 thousand in 2020 and an additional subordinated loan in the amount of EUR 30,000 thousand in 2022. All transactions were concluded in accordance with market conditions, applicable exposure limits and subject to the approvals of the Bank's authorities.

The Parent Company and its related parties have no outstanding amounts due to the Bank.

The members of the Management Board and the Supervisory Board and their close family members have only deposit agreements in accordance with the prevailing market conditions at the time of conclusion. In 2022, a deposit agreement was concluded with an interest rate of 1.4%.

Employees under individual contracts have loan and deposit agreements in line with the prevailing market conditions at the time of conclusion. In 2022, new long-term deposits were concluded at an interest rate of 0.001% (no new deposit agreements were concluded in 2021). In 2022, the Bank granted long-term loans to employees under individual contracts at interest rates ranging from 1.45% to 3.5% (in 2021, interest rates ranged from 1.2% to 3.6%).

None of the transactions involve special conditions. Guarantees issued in respect of other related parties amount to EUR 1,536 thousand in 2022 (EUR 2,356 thousand in 2022). Obligations are usually settled by transfers from transaction or personal accounts.

in thousands of EUR

	Key management personnel		Parent company		Other related companies		Subsidiaries	
	2022	2021	2022	2021	2022	2021	2022	2021
Loans and deposits given								
Balance at 1 January	916	859	99,990	90,000	28,029	43,559	7,318	9,378
Loans/deposits issued	746	282	40,007	100,000	-	4,891	6,119	-
Changes in the membership	8	(99)	(40,007)	-	40,105	1	-	-
Loan repayments	(325)	(125)	(99,990)	(90,010)	(1,839)	(20,422)	(7,318)	(2,060)
Balance at 31 December	**1,345**	**916**	**-**	**99,990**	**66,295**	**28,029**	**6,119**	**7,318**
Impairment	-	-	-	78	304	739	72	24
Interest income earned	18	15	-	(10)	1,466	1,297	62	52
Deposits and loans received								
Balance at 1 January	2,170	1,219	60,010	32,437	10,851	1,229	685	338
Deposits received	1,189	1,017	-	27,573	3,690	865	734	347
Changes in the membership	318	(66)	(51,985)	-	52,028	8,756	75	-
Deposits repaid	-	-	(8,025)	-	-	-	-	-
Balance at 31 December	**3,677**	**2,170**	**-**	**60,010**	**66,569**	**10,851**	**1,494**	**685**
Interest expense on deposits	9	7	-	1,003	1,131	-	1	-
Other revenue – fee income	**2**	**2**	**-**	**3**	**85**	**166**	**25**	**2**
Other operating income	**-**	**-**	**484**	**-**	**95**	**87**	**137**	**137**
Other operating loss	**-**	**-**	**-**	**-**	**-**	**-**	**5**	**19**
Costs of services	**-**	**-**	**-**	**-**	**503**	**572**	**4,498**	**4,347**

6.4 Management's, Supervisors', Committees' and Key Management Personnel's Gross Remuneration

in thousands of EUR

In the year ending on 31 December 2022	Fixed income	Variable income	Cost reimbursements	Insurance premiums	Other benefits	Total
Management:						
Mario Henjak	277,3	45,3	1,8	3,1	41,1	368,6
Marko Filipčič	193,8	41,0	1,4	9,4	6,5	252,1
Mojca Osolnik Videmšek	156,2	1,0	1,1	2,4	5,4	166,2
Supervisors and Committees members:						
Jelena Galić	28,3	-	-	-	-	28,3
Jurij Bajec	22,6	-	-	-	-	22,6
Tim Umberger	22,6	-	-	-	-	22,6
Vladimir Sekulić	22,0	-	-	-	-	22,0
Peter Grašek	12,1	-	0,5	-	-	12,6
Aleksandra Babić	22,6	-	-	-	-	22,6
Ana Živanović	22,6	-	-	-	-	22,6
Aleksander Milostnik	10,0	-	0,2	-	-	10,2
Key management personnel (28 beneficiaries)	2,628,2	437,6	117,0	69,6	127,4	3,379,7
Total	**3,418,4**	**524,9**	**122,0**	**84,5**	**180,4**	**4,330,2**

in thousands of EUR

In the year ending on 31 December 2022	Fixed income	Variable income	Cost reimbursements	Insurance premiums	Other benefits	Total
Management:						
Mario Henjak	273,8	78,2	1,3	3,1	29,1	385,5
Marko Filipčič	194,5	57,3	1,4	6,5	7,6	267,3
Supervisors and Committees members:						
Jelena Galić	27,6	-	0,6	-	-	28,2
Jurij Bajec	22,0	-	-	-	-	22,0
Tim Umberger	22,0	-	1,4	-	-	23,4
Vladimir Sekulić	22,0	-	-	-	-	22,0
Peter Grašek	21,7	-	0,5	-	-	22,2
Aleksandra Babić	22,0	-	-	-	-	22,0
Ana Živanović	4,7	-	-	-	-	4,7
Key management personnel (30 beneficiaries)	2,413,9	497,3	139,5	60,9	86,6	3,198,2
Total	**3,024,2**	**632,8**	**144,7**	**70,5**	**123,3**	**3,995,5**

Key management personnel are employees whose professional activities significantly influence the risk profile of the Bank and involve executive directors and directors of sectors and departments.

Variable remuneration refers to variable remuneration paid in 2022 related to the Bank's performance in 2021.

In addition, variable remuneration includes severance pay and compensation under the termination agreement.

The gross remuneration of the Bank's Management Board members and employees employed under individual contracts is included in labour costs (note 4.10).

6.5 Significant Events After the Date of the Statement of Financial Position

There were no significant events after the balance sheet date.

6.6 Changes in Equity

Changes in items of equity in 2022 are a consequence of:

a) profit for the current year in the amount of EUR 27,909 thousand;

b) profit from sale of investments in equity instruments measured at FVTOCI in the amount of EUR 3,092 thousand;

c) increase of the revaluation reserve for actuarial gains in the amount of EUR 45 thousand

Changes in the items of consolidated equity, in addition to the above changes, include EUR 200 thousand of profit in the current year due to the consolidation, and the fair value reserves from actuarial profits decreased by EUR 3 thousand.

6.7 Profit/Loss for Appropriation

According to the Companies Act, profit or loss for appropriation is the sum of profit or loss brought forward and net profit decreased by further reserves from profit or net loss.

	in thousands of EUR
a) Retained earnings	58,422
b) Profit for the year 2022	27,909
c) Transfer of actuarial losses to retained earnings	14
d) Profit for appropriation for the year 2022 (a + b + c)	**86,345**

The Bank's profit for appropriation for 2022 amounts to EUR 86,345 thousand. This includes EUR 27,909 thousand of net profit for the year and EUR 58,422 thousand of retained earnings.

6.8 The Classification of Securities According to the Listing

in thousands of EUR

As at 31 December 2022; Bank and Group	Listed		Unlisted	Total
	Ljubljana Stock Exchange	Other stock exchange		
Equity securities measured mandatorily at FVTPL	205	4,363	4,890	9,457
Equity securities measured at FVTOCI	-	-	6,450	6,450
Debt securities measured at FVTOCI	-	26,477	-	26,477
Debt securities measured amortised cost	12,365	315,746	17,232	345,343
Total	**12,569**	**346,586**	**28,572**	**387,727**

in thousands of EUR

As at 31 December 2021; Bank and Group	Listed		Unlisted	Total
	Ljubljana Stock Exchange	Other stock exchange		
Equity securities measured mandatorily at FVTPL	218	5,486	4,312	10,016
Equity securities measured at FVTOCI	-	-	6,750	6,750
Debt securities measured at FVTOCI	-	28,464	-	28,464
Debt securities measured amortised cost	5,986	280,557	25,480	312,023
Total	**6,204**	**314,507**	**36,542**	**357,253**

The SID26 bond was accounted for as unlisted in the previous year. On re-examination, it was found that Bloomberg is also creating a quotation for this bond, and consequently, this year we are reporting this bond under Unlisted, Other Exchanges. A correction to the presentation is also made for 2021.

6.9 Funds Managed on Behalf of Third Parties

In 2021 and 2022, the Bank did not operate on behalf of or for the account of some other entity.

7 Risk Management

In risk management, the Bank's goal is to establish a balance in managing the relationship between risk and profitability, with the aim of ensuring long-term sustainable growth and achieving an adequate return on capital. The purpose of risk management is to assume only risks that arise in the context of business strategy, which are therefore identified at an early stage and properly managed. The Bank achieves this by integrating the risk management function in daily business activities and strategic planning, and by consistently implementing its business strategy within a defined risk appetite.

Disclosures regarding risk management are prepared in detail at the level of the Bank, since the difference between the assets of the Bank and the Group is mostly found in the investment property of subsidiaries, the financing sources for which are fully provided by the Bank, making the difference in risks at the level of the Bank and consolidated level insignificant.

In its operations, the Bank assumes various risks, the amount of which on the one hand depends on its strategic definitions regarding the willingness to assume risk and, on the other hand, on the limits presented by the available capital within the scope of which the Bank is able to assume risks. According to the business model of a universal commercial bank, the risks to which the Bank is exposed are primarily traditional bank risks. The Bank is in line with the Group's Risk Management Strategy, the Group's Risk Appetite Statement (RAS) as well as the annual strategic planning process to ensure that the objectives of risk management, capital, liquidity and profitability are properly aligned. Risk management sets long-term goals and the Bank's attitude towards the risks to which it is exposed or may be exposed by taking into account the risks from the macroeconomic environment in which the Bank operates and by regularly reporting on risk management. In order to ensure the proper harmonisation of objectives in terms of risk, capital, liquidity and profitability, the Bank has the following business vision in the process of annual strategic planning:

Business vision

Business Strategy

- To set **strategic objectives** in line with the expectations of the owner.
- Definition of the **business model** in accordance with the bank's ability to achieve these objectives, taking into account regulatory requirements, financial objectives and capital adequacy.
- Identify **the necessary changes** in the business model in the future.
- Identify the necessary **strategic** initiatives and organizational changes.

Risk management Strategy

- Define the principles of risk management and limits for the implementation of Business strategy.
- Identify **risk appetite (RAS)** as a key element in setting limits.
- A forward-looking view of **risk-taking capacity**.
- Define the current and target **risk profile** by types of risks and business segments (if necessary in more detail).
- Ensure a balanced aspect between **risk and profitability**.
- Provide appropriate **stress tests** and their impact on capital, liquidity and other relevant limits.

The Business Strategy and the Risk Management Strategy must be consistent.

In the Risk Management Strategy and the Statement of Risk Appetite, the Bank defined the types of significant risks and tolerance to individual types of risks that the Bank is willing and able to take to achieve the set goals and represent incentives and limitations in the business decision.

The most important is credit risk, followed by liquidity risk, while the other types of risk are lower.

A key part of the business activities is therefore reflected in the Bank's loan portfolio. The Bank manages credit risk both at the level of the individual customer or individual transaction and at the level of the portfolio as a whole, as effective and comprehensive credit risk management is a key element of a comprehensive approach to managing banking risks and ensuring the long-term success of the Bank's business. In a low interest rate environment, the Bank continued to pay particular attention to monitoring and controlling interest rate risk in 2022, preparing interest rate shock scenarios to measure the impact of stress scenarios on net interest income and the impact of stress scenarios on the economic value of capital. Foreign exchange risk is kept at a low level and any exposure deriving from regular operations is promptly managed by the Bank.

The Bank supports its focus on active and prudent risk management with an appropriate organisational structure that ensures a safe and impartial approach to risk management. The Bank is organised in such a way that the process of performing its business functions ensures the efficient use of all types of assets and resources, and the provision of reliable, timely, complete and up-to-date information to support the Bank's decision-making, execution and information functions, and consequently, risk-taking. The organisation of the Bank also provides the basis for the establishment of a system of internal controls, which the Bank's Management Board continuously monitors and upgrades, and adapts to changes in the Bank's business, so as to ensure that risks are adequately managed. The basis for the organisation of risk management is the delineation of responsibilities, which minimises errors, misappropriations and irregularities and eliminates conflicts of interest. In all its activities, the Bank shall ensure the separation of the commercial function, or the units that transact business and take risks (front office), from the back office, which monitors and manages business (back office), and the monitoring and risk management function.

7.1 Credit Risk

The strategy, business model and current risk profile arising from mostly traditional banking operations shows that the most important risk for the Bank is the credit risk, which is why it is at the focus of the Bank. Credit risk is the risk or probability that the client will not settle its obligations in full and within the agreed period for any reason.

The Bank is exposed to credit risk deriving from the Bank's credit portfolio and including balance sheet receivables (loans, investments in securities, capital investments, etc.) and off-balance sheet liabilities (guarantees, letters of credit, framework loans, etc.) to companies, banks, public sector, sole proprietors, citizens and other clients.

The Bank manages credit risk at the level of individual clients or a group of related parties, at the level of individual transactions and at the level of the entire portfolio, since effective and comprehensive credit risk management is the key element for a comprehensive approach to the management of banking risks and the provision of the long-term performance of the Bank. For the purposes of credit risk management, the Bank has established a system corresponding to its size and internal organisation, as well as to the nature, volume and complexity of the business model, activities and portfolios of the Bank. In order to ensure the timely identification of increased credit risk, the Bank takes into account forward-looking information, including macroeconomic factors.

To achieve the strategic goals defined in the Bank's Business Strategy and umbrella documents concerning risk management, the Risk Management Strategy and the Risk Appetite Statement, the Bank also defines the objectives and limits regarding the quality of investments and the structure of the credit portfolio in the Credit Risk Management Policy. Limits regulate the concentration and structure of the credit portfolio and the quality of investments.

The Bank has established a credit process that includes processes for credit approval, monitoring, the early detection of increased credit risk, the classification of debtors and/or exposures, and a process to assess the losses incurred through credit risks.

The Bank has provided a clear delineation of competencies and tasks between divisions in the key account, SME and retail segments, the Factoring Division, the Financial Leasing Division, International and Project Finance Division and the Treasury Division on the one side and the Financial Controlling and Accounting Division, the Credit Risk Management Division, the Division for Strategic Risk Management, the Division for the Resolution of Problematic Investments and the Division for Support for Banking Transactions on the other side, whereby the commercial function has been separated from the transaction monitoring and risk management function.

The Bank manages credit risk at the level of an individual client or group of related parties, at the level of an individual transaction and at the level of the entire portfolio. In credit risk management, the Bank takes into account several aspects, such as:

- the quality of investments (client's credit rating, classification of receivables, impairments);
- concentration (large exposure to a particular client and groups of related parties, to an industry sector, region, the state);
- currency (foreign exchange risks, portfolio classification by currency and monitoring compliance with sources);
- method of remuneration (type and period for resetting interest rates);
- maturity date (portfolio classification by maturity and monitoring compliance with sources);
- security (ensuring, evaluating and monitoring the adequacy of the collateral amount and quality);
- type of product (framework loans, short-term loans, long-term loans, factoring, financial lease, project financing).

The existing and potential credit risk is monitored throughout the period of the business relationship with the client, which is from the receipt of an application and other documentation for loan approval to approval and final loan repayment.

The Bank has organised its credit function into marketing units within the corporate and retail segments, including factoring and leasing products, while it is also exposed to credit risk in certain transactions that fall within the competence of the Treasury Division. The Bank has also organised the Division for the Resolution of Problematic Investments; its competencies include the recovery and restructuring of distressed investments. Such organisational units are responsible and competent for concluding transactions based on the preparation of credit proposals pursuant to the authorisations and internal acts detailing the relevant area.

The Financial Controlling and Accounting Division and the Back Office Support Division are responsible for managing transactions, accounting and other tasks that fall within the competence of the support function. The Credit Risk Management Division performs credit risk assessments and credit ratings of clients and individual investments, while the Division for Strategic Risk Management monitors the Bank's exposure to credit risk at the portfolio level, proposes credit risk appetite criteria and restrictions in the form of the limit system, and defines the risk parameters for the calculation of the necessary impairments in case of consolidated exposure assessment. The Division for Strategic Risk Management provides various reviews and reports on credit risk exposure and management to the Bank's management and authorised persons.

7.1.1 Credit Risk Measurement System

The Bank has established a credit approval system within the scope of which it assesses and analyses all the relevant factors affecting the risk assessment of the debtor or a group of related parties and/or exposure prior to the approval of a loan. The Bank has defined criteria for credit approval separately for loans to legal entities and sole proprietors, and separately for retail loans and the approval of financial leasing transactions. Furthermore, the Bank assumes credit risk in investments in debt securities.

For credit risk assessment, the Bank has established a classification system for debtors and/or exposures to credit grades and classification categories.

The process of classification into credit grades is based on quantitative and qualitative criteria, and takes into account the essential characteristics of a particular debtor and/or exposure.

The criteria for classifying companies, cooperatives and associations provides a clear classification of the risks into suitable credit grades and/or groups, based on the operations and financial stability of a client and the resulting probability of default. A client's credit score comprises the financial and non-financial credit score.

The financial indicators used by the Bank in a credit rating assessment with regard to a client classified as a company, cooperative or association are:

- investment indicators,
- financing structure indicators (capital strength, indebtedness),
- liquidity and solvency indicators,
- asset management and economy efficiency indicators,
- other indicators.

To determine the clients' credit rating, an important part of the total score includes financial indicators and non-financial factors (product quality, a company's power and market share, dependency on suppliers and customers, the future of the industry, risks related to the environment and technological development, the long-term strategy of a company, the organisation and quality of management, and the company's relations with the Bank), which are important particularly in the assessment of the company's development capacity and its future performance.

In the segment of companies, cooperatives and associations, the Bank uses 11 grades, 9 of which are performing and 2 are non-performing, as shown below.

A1	Very low risk	Low risk
A2	Very low risk	
A3	Low risk	
B1	Acceptable risk	Medium risk
B2	Manageable risk	
B3	Increased risk	
C1	Increased risk	High risk
C2	Very high risk	
C3	Very high risk	
D	Unacceptable risk	
E	Unacceptable risk	

The criteria for classifying sole proprietors provide a clear classification of the risks into suitable credit grades and/or groups, based on the operations and financial stability of a client and the resulting probability of default. The client rating consists of a financial rating; however, if the value of the calculated financial credit points is within two percent of the value of the individual grade margin, non-financial credit points should also be calculated. The non-financial rating of a sole proprietor is calculated in the same way as for companies, co-operatives and associations. The rating scale for sole proprietors is the same as for companies, cooperatives and associations.

To identify the credit rating of banks and savings banks at home and abroad, the Bank primarily uses the credit ratings of ECAIs (external credit assessment institutions for the Eurosystem): Fitch, Moody's and S&P. For the purposes of credit rating, the second-best credit rating is used if the ECAI credit ratings differ. Through a translation matrix, the Bank translates the second-best external credit rating into the internal credit rating of the Bank. When the external credit rating is not available, the Bank takes into account the financial and non-financial operational parameters of the respective bank/savings bank within the framework of the Internal Credit Rating Model. The Bank has developed no statistical credit rating model for receivables due from public law entities, private law entities, insurance companies and other public law bodies, which is why experts make credit assessments for such clients.

When determining the rating for clients from other countries, the risk posed by the client's country is also taken into account. This risk is assessed according to the difference between the rating of Slovenia and the country of the client, and is considered when determining the final rating of the client.

Receivables due from citizens are classified with respect to operations and other significant criteria that show credit quality.

The indicators used by the Bank in the assessment of an investment's credit rating are:

- indebtedness indicators,
- payment discipline indicators,
- income indicators,
- demographic characteristics,
- other indicators.

In the segment of individual clients, the Bank uses 11 credit grades, 9 of which are performing and 2 are non-performing, as shown below.

A1	Very low risk	**Low risk**
A2	Very low risk	
A3	Low risk	
B1	Acceptable risk	**Medium risk**
B2	Manageable risk	
B3	Increased risk	
C1	High risk	**High risk**
C2	Very high risk	
C3	Very high risk	
D	Unacceptable risk	
E	Unacceptable risk	

The process and rules of classification are regularly monitored. The key criteria for classification derive from the applicable regulatory requirements and the IFRS 9. Receivables are classified into individual stages; i.e. stages 1 and 2 for performing receivables and stage 3 for non-performing receivables. The classification criteria are defined in the Bank's internal acts. The same criteria are applied to the classification of all financial assets into stages. The classification takes place in several steps, whereby individual criteria are checked at every step. In step 1, it is checked whether a financial asset was bought or originally impaired. In step 2, the Bank checks whether a default has occurred in a financial asset, in which case the asset is allocated to stage 3. In step 3, three criteria for increased credit risk are checked, whereby the fulfilment of any of them implies the classification of the asset as stage 2. In step 4, it is checked whether an asset belongs to a low credit risk category and meets the conditions for classification as stage 1. In step 5, the Bank also checks the increase in the lifelong probability of default from the point of asset recognition to the reporting date, whereby an increase above the defined limit requires classification of the asset as stage 2. The criteria of a significant increase in the lifelong probability of default from asset recognition to the reporting date have been laid down by the Bank based on available statistical analyses and differ with respect to the segment of clients. The criteria include an absolute threshold of between 2.5 and 7.5 percentage points per segment. In addition to the absolute threshold, a relative threshold of 200% is also taken into account, but only if the minimum absolute threshold of between 1 and 1.5 percentage points per segment is exceeded.

When assessing group impairments, the Bank also uses the available forward-looking information. By applying the Z-shift method, the Bank includes the relationship between the macroeconomic conditions in the country and the shares of default in the Bank's credit portfolio in calculations of credit risk parameters. For the purposes of calculating impairments as per the IFRS 9, the Bank has defined various macroeconomic scenarios (future values of selected macroeconomic indicators) and their probability of realisation by applying the error distribution method.

The Bank applies the following probabilities of individual scenarios:

- realistic scenario: 60%
- optimistic scenario: 10%
- pessimistic scenario: 30%

Scenarios for future values of real GDP growth in Slovenia, created according to the Bank of Slovenia autumn forecast for 2022, are used for the portfolio of companies, banks, countries and government institutions, as well as for the portfolio of sole proprietors and the portfolio of individual clients. The values provided in the year > 2027 apply to all subsequent years:

GDP	2022	2023	2024	2025	2026	> 2027
Realistic scenario	1.21	1.57	1.55	1.55	1.55	1.55
Optimistic scenario	1.91	1.67	1.55	1.55	1.55	1.55
Pessimistic scenario	-6.59	-0.33	1.55	1.55	1.55	1.55

In scenarios for the years that are more than three years and less than six years away (i.e. 2025 and 2026), an average between the 15-year average (2007-2021) and the previous year's forecast is considered for the GDP forecast. For 2027 and all subsequent years, the average forecast for the last 15 years (2007-2021) is considered.

The Bank also assesses the probability of default for entities that fall within the low default share portfolio (banks, countries, government institutions).

In general, the LGD shows what share (percentage) of exposure in default (EAD) will be lost, whereas the recovery rate shows what share (percentage) will be from the recovered exposure. For assessment purposes, the recovery rate may be defined as the ratio between the (discounted) cash flows received after the date of default based on the exposure at default (EAD), whereas a loss (LGD) is simply the difference between 1 and the recovery rate. The calculation is made on an individual, cohort and portfolio level.

The uninsured LGD parameter is only calculated from the recovery rate curve for investments with the default status and represents the share (percentage) of loss based on the uninsured EAD.

An individual LGD depends on the date of default, and especially on the time period of the recovery following the default. Thus, the division of the portfolio into groups is used on the basis of the date of default and the number of months after the occurrence of the default. It is further presumed that loans that defaulted in a certain time period could be treated similarly due to the similar reason/conditions, and therefore belong in the same group (the so-called cohort; a group of loans/investments that were transferred to default in the same month). The uninsured LGD is then calculated for each cohort separately.

The calculation of a balanced LGD on cohorts in a certain portfolio is calculated as a portfolio LGD. With the balanced LGD, the approximation with the function of logistical growth is performed in each period separately for each cohort. The entire uninsured LGD curve is calculated as an uninsured EAD, which is a balanced average of the cohort LGD curves.

In order to consider information directed at the future in determining future cash flows from insurance, the Bank is using the link between the value of the insurance and the macroeconomic indicators. Due to the specific properties of certain insurance types, the Bank has restricted the analysis to the link between macroeconomic indicators and the value of residential properties. Based on past data and using linear regression, the Bank determines which macroeconomic variables are most related to the real estate price index.

Exposure at default (EAD) is modelled at the Bank to adjust the existing exposure to contractual future cash flows, where future contractual cash flows are not taken into account in the period of three months before default. In calculating the expected cash flows, the Bank is also considering certain types of insurance, which it weighs, discounts and adequately allocates to individual transactions, and the discount factor is determined on the basis of the annual average interest rate of non-performing exposures weighted with the EAD share. In exposures with no contractual future cash flows, the cash flow is deemed to be total repayment upon maturity. If an exposure has no due date, the due date is considered to be after the period of one year, where cash flow is deemed to be total repayment upon this new due date.

The EAD takes into account off-balance-sheet exposure multiplied by CCF values. The Bank is calculating the actual conversion factor if it has a sufficient number of drawdowns under the off-balance-sheet exposures and representative data for individual types of off-balance-sheet items. Based on the sufficiently large sample in limits of individual clients, the Bank started using its own CCF for the transaction accounts of individual clients and the payment cards of individual clients, whereas it is still using the CCF in accordance with Annex 1 of Regulation 575/2013 for the remaining transactions due to the sample being too small.

Within the scope of the early warning system for increased credit risk, the Bank draws up a report, the so-called "watch list". The early warning system for increased credit risk is the central part of the monitoring process at the Bank that is intended for the efficient detection of increased credit risk indicators, and consequently, early action and the prevention of the transfer of performing clients to the segment of non-performing clients. The entire early warning system is supported by IT and implemented on a monthly basis through steps covering the preparation of a "watch list", the acquisition of additional information, an analysis of proposals and measures, the preparation of reports and decision-making by the Committee for Investment Monitoring.

The adequacy of the operations of implemented classification and early warning systems is regularly checked by the Bank in cooperation with external associates or own resources, and the findings and recommendations upon system upgrades are taken into account in system upgrades.

Pursuant to the classification rules for receivables and impairments, the entire credit portfolio is checked on a monthly basis using logical controls or validations, and any necessary changes in impairments and/or provisions are put forth.

The protection of loans and guarantees is checked throughout the repayment period or validity of the guarantee, and the Bank also upgraded the technological support for monitoring all types of collaterals in 2019. The Bank regularly checks the quality of collateral and assesses whether it is adequate. In case of inadequate collateral, measures to arrange additional collateral and/or eliminate deficiencies related to the fulfilment of adequacy conditions are put forth.

The Division for Strategic Risk Management, in cooperation with the Credit Risk Management Division and market units, monitors the credit portfolio as a whole and performs analyses of the credit portfolio. Furthermore, it regularly checks the concentration of the credit portfolio. For the appropriate management and monitoring of concentration risks, the Bank actively manages the credit portfolio of the Bank, primarily by changing and adapting the credit policy and defining internal limits deriving from the Risk Appetite Statement and laid down in the Credit Risk Management Policy.

The Bank applies different methods and policies to reduce credit risks. The most common is the use of collaterals. The Bank has developed a policy on collateral acceptance, under which the most common collaterals include:

- the pledge of residential and commercial real estate;
- the pledge of business assets, such as equipment, inventories and receivables;
- collateral at an insurance company;
- sureties and guarantees.

Collateral assessments are based on available data and adequate bases for valuation, i.e. independent appraisals for real estate and other adequate bases for other types of collateral pursuant to the Resolution on credit risk management at banks and savings banks. The Bank monitors the market values of collateral and liquidation values for the purposes of risk management. The latter are applied primarily in the assessment of non-performing loan restructuring and management. Changes in economic conditions, specific conditions of individual clients and collaterals may have an impact on the future values of collateral.

The Bank requests additional collateral from borrowers in the event of their deteriorated financial position. The type of collateral depends on the type of business and activities of the borrower. The Bank as a rule receives no collateral for transactions other than loans and guarantees. Such transactions include bonds, treasury bills and similar.

Pursuant to the collateral collection and recovery policy, the Bank immediately accedes to restructuring in case of default (if necessary) or to the recovery and collection of collateral, whereby it takes into account several scenarios for the possibility of repayment in its decisions.

7.1.2 Maximum Exposure to Credit Risk

The table below shows the maximum exposure to credit risk with the observed revaluation and without account being taken of eventual collateralisation with the property held by the Bank or of other improvements of credit quality.

in thousands of EUR

	31/12/2022	31/12/2021
Credit risk exposures relating to on-balance sheet assets:		
Cash, balances at CB and other demand deposits at banks	290,627	424,879
Financial assets mandatorily at FVTPL	-	-
Financial assets measured at FVTOCI	26,477	28,464
Debt securities measured at amortised cost	345,343	312,023
Loans and receivables to banks measured at amortised cost	46,178	105,740
Loans and receivables to customers measured at amortised cost		
Loans and receivables to corporates and sole proprietors measured at amortised cost		
Corporates	225,565	209,109
Small and medium enterprises (SME)	580,558	504,874
Government	4,085	6,951
Loans to individual clients measured at amortised cost		
Overdrafts	15,070	14,694
Housing loans	217,115	157,867
Consumer and other loans	77,461	70,489
Receivables of leasing	365,754	312,071
Other financial assets measured at amortised cost	4,417	3,163
	2,198,651	**2,150,324**
Credit risk exposures relating to off-balance sheet items are as follows:		
Guarantees	139,046	96,824
Commitments to extend credit	308,536	274,174
Letters of credit	2,887	2,573
	450,469	**373,571**
Total exposure	**2,649,120**	**2,523,895**

in thousands of EUR

	31/12/2022
Lease receivables are allocated based on expected cash flows	
Leasing receivables:	
Receivables in arrears	7,561
Expected flows in 2023	107,555
Expected flows in 2024	81,044
Expected flows in 2025	64,282
Expected flows in 2026	46,817
Expected flows in 2027	30,423
Expected flows in 2028	28,073
Total	**365,754**

As evident from the table above, 56.2% of the exposure of risk-bearing assets as at 31 December 2021 derived from loans to non-bank clients (31 December 2021: 50.7%), 13.0% derived from debt securities measured at amortised cost (31 December 2021: 12.4%) and 1.0% derived from financial assets measured at fair value through other comprehensive income (31 December 2021: 1.1%).

The classification of companies by size takes into account the definition laid down in the Companies Act. Small and medium enterprises include sole proprietors.

Through the active management of non-performing receivables and the responsible implementation of investment policy and successful credit risk management in 2021, the Bank achieved the following:

- the share of loan impairments for non-bank clients amounted to 1.4% with respect to the volume of loans in 2022 (31 December 2021: 1.6%);
- 1.2% of loans to non-bank clients have as a result been impaired (31 December 2021: 1.5%);
- the share of overdue loans in loans to non-bank clients has decreased to 4.4% (31 December 2021: 3.2%).

7.1.3 Fair Value of the Collateral Received

The types of collateral accepted by the Bank upon fulfilled adequacy conditions as adequate for credit risk management are:

- immovable property that is valued at market or some other value estimated by an independent appraiser pursuant to the International Valuation Standards;
- movable property that is valued at market or some other value estimated by an independent appraiser pursuant to the International Valuation Standards or at cost if there is a demonstrably active market for such movable property;
- collateral at insurance companies with an adequate credit rating amounting to the nominal value of the insured sum;
- bank deposits and financial assets;
- securities valued at market value pursuant to the published market values or suitable market value assessment;
- assignment of receivables amounting to the nominal value of assigned receivables;
- sureties, bank guarantees and accretion to the obligation of an adequate credit rating of the guarantor or acquirer.

In the credit process and for the purposes of risk management, the Bank uses weighted values pursuant to the internal methodology of the Bank.

The table below shows the fair value of received collateral. It takes into account appropriate forms of collateral that the Bank uses to manage credit risks. It includes the collateral received for balance sheet receivables and assumed liabilities. Inadequate collateral and securities investment collateral are not included.

in thousands of EUR

	31/12/2022	31/12/2021
Real estate	1,370,248	1,200,349
Movable property	413,503	347,273
Deposits	39,169	31,139
Securities and business share	-	1,534
Insurance companies	146,605	88,365
Assigned receivables	58,412	48,181
Sovereign guarantees	50,396	44,426
Other collateral	15,014	138,929
Total	**2,093,347**	**1,900,195**

The amount of received collateral for the credit portfolio compared to the gross value of loans is shown in the table below. Other financial assets and assumed liabilities are not included.

in thousands of EUR

	Fully/over collateralised loans		Under-collateralised loans	
As at 31 December 2022	Gross value of loans	Fair value of the collateral	Gross value of loans	Fair value of the collateral
Loans to corporates	64,156	282,137	167,796	57,219
Loans to small and medium enterprises	346,123	776,601	242,023	104,350
Loans to government	-	50	4,102	-
Loans to individuals				
Overdrafts	1,683	-	13,469	-
Housing loans	194,870	367,645	22,375	11,676
Consumer loans	38,010	39,378	40,220	594
Leasing	219,591	316,294	151,483	120,460
Total	**864,433**	**1,782,105**	**641,467**	**294,299**

in thousands of EUR

As at 31 December 2021	Fully/over collateralised loans		Under-collateralised loans	
	Gross value of loans	Fair value of the collateral	Gross value of loans	Fair value of the collateral
Loans to corporates	71,560	265,408	143,914	45,884
Loans to small and medium enterprises	328,209	704,163	186,003	77,614
Loans to government	-	-	6,973	-
Loans to individuals				
Overdrafts	-	-	14,775	-
Housing loans	149,787	358,372	8,146	3,860
Consumer loans	41,141	55,351	29,812	871
Leasing	182,532	269,480	134,041	102,247
Total	**773,229**	**1,652,775**	**523,665**	**230,476**

The table below shows the relationship between loans and collateral value for the credit portfolio, broken down into the gross value of loans and assumed liabilities.

in thousands of EUR

LTV – loans	31/12/2022		31/12/2021	
	Gross carrying amoun	Impairment	Gross carrying amoun	Impairment
<50%	336,049	(5,237)	278,344	(1,914)
51-70%	173,242	(783)	199,487	(799)
71-100%	341,577	(2,876)	283,520	(3,219)
101-150%	286,852	(4,087)	250,277	(5,000)
>150%	107,984	(2,537)	57,687	(2,683)
Other	565,944	(5,126)	397,657	(7,352)
Total	**1,811,648**	**(20,646)**	**1,466,971**	**(20,966)**

in thousands of EUR

LTV – commitments	31/12/2022		31/12/2021	
	Nominal amount	Provisions	Nominal amount	Provisions
<50%	10,734	(4)	11,915	(12)
51-70%	4,371	(133)	5,289	(39)
71-100%	17,652	(229)	6,202	(60)
101-150%	28,625	(55)	32,069	(39)
>150%	48,178	(539)	66,207	(519)
Other	342,793	(925)	253,308	(750)
Total	**452,353**	**(1,884)**	**374,990**	**(1,419)**

Fair value of collateral equals:

- The market or assessed value (the model) of financial assets held as collateral;
- The value of outstanding loans for accretion to obligations held as collateral (only if the criteria are met);
- 100% of the value of the insurance company guarantees, bank guarantees, state and municipal guarantees;
- the values of residential property and the values of commercial estates equal market values based on:
    - the value obtained based on an assessment made by an independent external appraiser conducting the appraisal under IVS;
    - the value obtained based on an assessment made by an independent internal appraiser who performs the appraisal under IVS,
    - the contract value of the sale and purchase contract;
    - the evaluation made by the Surveying and Mapping Authority of the Republic of Slovenia based on a generalised market value;
    - the value obtained on the basis of an assessment made by an independent external appraiser;
    - the value based on the table of internal prices of Gorenjska banka, which are indexed either on the basis of growth indices or up to EUR 500 thousand in residential property based on deductions by cadastral municipality as calculated by an independent external appraiser holding a licence by the Slovenian Institute of Auditors based on the sales effected.

From the total of EUR 47,437 thousand (2021: EUR 46,472 thousand) of collateral for retail receivables, the Bank drew EUR 379 thousand from Zavarovalnica Triglav d.d., Ljubljana, in 2022 (2021: EUR 263 thousand).

In 2022, the Bank drew EUR 4,430 thousand of collateral (2021: EUR 2,039 thousand) for outstanding loans to non-bank clients, Collateral involving the pledge of real estate was drawn in the amount of EUR 3,833 thousand (2021: EUR 1,638 thousand), the assignment of claims in the amount of EUR 33 thousand (2021: EUR 17 thousand), guarantees and subrogation in the amount of EUR 287 thousand (2021: EUR 25 thousand), movable property EUR 0.3 thousand (2021: EUR 27 thousand), Zavarovalnica Triglav in the amount of EUR 74 thousand (2021: EUR 262 thousand) and other collateral in the amount of EUR 203 thousand (2021: EUR 70 thousand).

7.1.4 Loans

In notes 7.1.4.1, 7.1.4.2 and 7.1.4.3, individual sets of exposures and allowances are classified in individual stages:

- stage 1 – financial assets without an increased credit risk since initial recognition; impairments are calculated by taking into account possible losses that are expected in the period of 12 months;
- stage 2 – financial assets with an increased credit risk since initial recognition, but no downgraded credit quality; impairments are calculated by taking into account all possible losses that are expected throughout the life span of a financial asset;
- stage 3 – financial assets with downgraded credit quality; impairments are calculated by taking into account all possible losses that are expected throughout the life span of a financial asset.

In 2021 and 2022, the Bank had no purchased or originated credit-impaired financial assets (POCI).

7.1.4.1 Credit Rating Structure

The table below shows the credit rating structure of the Bank, grouped by stages, as at 31 December 2022.

in thousands of EUR

	Stage 1	Stage 2	Stage 3	Total 31/12/2022
Debt securities measured as FVTOCI				
Group A	21,684	-	-	21,684
Group B	-	4,922	-	4,922
Group C	-	-	-	-
Group D	-	-	-	-
Group E	-	-	-	-
Gross amount	**21,684**	**4,922**	**-**	**26,606**
Impairment	(11)	(118)	-	(129)
Total	**21,673**	**4,804**	**-**	**26,477**
Debt securities measured as amortised cost				
Group A	340,352	-	-	340,352
Group B	5,203	-	-	5,203
Group C	-	-	-	-
Group D	-	-	-	-
Group E	-	-	-	-
Gross amount	**345,555**	**-**	**-**	**345,555**
Impairment	(212)	-	-	(212)
Total	**345,343**	**-**	**-**	**345,343**
Loans to banks measured as amortised cost				
Group A	4,628	-	-	4,628
Group B	41,856	-	-	41,856
Group C	-	-	-	-
Group D	-	-	-	-
Group E	-	-	-	-
Gross amount	**46,484**	**-**	**-**	**46,484**
Impairment	(307)	-	-	(307)
Total	**46,178**	**-**	**-**	**46,178**

in thousands of EUR

	Stage 1	Stage 2	Stage 3	Total 31/12/2022
Loans to customers and other financial assets measured at amortised cost				
Group A	424,606	11,003	-	435,609
Group B	582,999	50,555	-	633,554
Group C	262,784	147,247	-	410,032
Group D	-	-	29,036	29,036
Group E	-	-	2,162	2,162
Gross amount	**1,270,388**	**208,806**	**31,198**	**1,510,393**
Impairment	(5,806)	(4,316)	(10,245)	(20,368)
Total	**1,264,582**	**204,489**	**20,953**	**1,490,025**
Credit risk exposures relating to off-balance sheet items				
Group A	216,812	2,255	-	219,067
Group B	211,598	4,740	-	216,338
Group C	10,170	6,144	-	16,314
Group D	-	-	633	633
Group E	-	-	2	2
Nominal amount	**438,580**	**13,139**	**635**	**452,353**
Provisions	(1,401)	(100)	(383)	(1,884)
Total	**437,178**	**13,039**	**252**	**450,469**

7.1.4.1 Credit Rating Structure

The table below shows the credit rating structure of the bank, grouped by stages, as at 31 December 2021.

in thousands of EUR

	Stage 1	Stage 2	Stage 3	Total 31/12/2021
Debt securities measured as FVTOCI				
Group A	23,152	-	-	23,152
Group B	5,423	-	-	5,423
Group C	-	-	-	-
Group D	-	-	-	-
Group E	-	-	-	-
Gross amount	**28,575**	**-**	**-**	**28,575**
Impairment	(111)	-	-	(111)
Total	**28,464**	**-**	**-**	**28,464**

in thousands of EUR

	Stage 1	Stage 2	Stage 3	Total 31/12/2021
Debt securities measured as amortised cost				
Group A	312,266	-	-	312,266
Group B	-	-	-	-
Group C	-	-	-	-
Group D	-	-	-	-
Group E	-	-	-	-
Gross amount	**312,266**	**-**	**-**	**312,266**
Impairment	(244)	-	-	(244)
Total	**312,023**	**-**	**-**	**312,023**
Loans to banks measured as amortised cost				
Group A	5,825	-	-	5,825
Group B	99,994	-	-	99,994
Group C	-	-	-	-
Group D	-	-	-	-
Group E	-	-	-	-
Gross amount	**105,819**	**-**	**-**	**105,819**
Impairment	(79)	-	-	(79)
Total	**105,740**	**-**	**-**	**105,740**
Loans to customers and other financial assets measured at amortised cost				
Group A	354,944	2,160	-	357,104
Group B	478,761	51,596	-	530,357
Group C	228,709	154,763	-	383,472
Group D	-	-	26,731	26,731
Group E	-	-	2,489	2,489
Gross amount	**1,062,414**	**208,519**	**29,220**	**1,300,154**
Impairment	(5,220)	(6,393)	(9,322)	(20,935)
Total	**1,057,194**	**202,126**	**19,898**	**1,279,218**
Credit risk exposures relating to off-balance sheet items				
Group A	179,406	91	-	179,497
Group B	180,978	18	-	180,996
Group C	7,762	6,165	-	13,927
Group D	-	-	569	569
Group E	-	-	1	1
Nominal amount	**368,146**	**6,274**	**570**	**374,990**
Provisions	(1,154)	(152)	(113)	(1,419)
Total	**366,992**	**6,122**	**457**	**373,571**

7.1.4.2 Movement of the Gross Carrying Amount

The table below shows the movement of the gross carrying amount of the bank in the year 2022

in thousands of EUR

	Stage 1	Stage 2	Stage 3	Total
Debt securities measured as FVTOCI				
Gross carrying amount as at 31/12/2021	28,575	-	-	28,575
Changes in the gross carrying amount				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	(5,423)	5,423	-	-
Transfer to stage 3	-	-	-	-
Change due to modification	-	-	-	-
New financial assets	12,720	-	-	12,720
Financial assets that have been derecognised	(14,188)	(501)	-	(14,689)
Gross carrying amount as at 31/12/2022	21,684	4,922	-	26,606
Loss allowance as at 31/12/2022	**11**	**118**	**-**	**129**
Debt securities measured as amortised cost				
Gross carrying amount as at 31/12/2021	312,266	-	-	312,266
Changes in the gross carrying amount				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Change due to modification	-	-	-	-
New financial assets	57,273	-	-	57,273
Financial assets that have been derecognised	(23,984)	-	-	(23,984)
Gross carrying amount as at 31/12/2022	345,555	-	-	345,555
Loss allowance as at 31/12/2022	**212**	**-**	**-**	**212**
Loans to banks measured as amortised cost				
Gross carrying amount as at 31/12/2021	105,819	-	-	105,819
Changes in the gross carrying amount				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Change due to modification	-	-	-	-
New financial assets	46,219	-	-	46,219
Financial assets that have been derecognised	(105,554)	-	-	(105,554)
Gross carrying amount as at 31/12/2022	46,484	-	-	46,484
Loss allowance as at 31/12/2022	**307**	**-**	**-**	**307**

in thousands of EUR

	Stage 1	Stage 2	Stage 3	Total
Loans to customers and other financial assets measured at amortised cost				
Gross carrying amount as at 31/12/2021	1,062,415	208,519	29,220	1,300,153
Changes in the gross carrying amount				
Transfer to stage 1	35,826	(35,274)	(551)	-
Transfer to stage 2	(71,266)	72,616	(1,349)	-
Transfer to stage 3	(3,968)	(13,047)	17,015	-
Change due to modification	-	-	-	-
New financial assets	618,344	40,421	2,432	661,197
Financial assets that have been derecognised	(370,556)	(64,403)	(13,238)	(448,197)
Write-offs	(404)	(26)	(2,331)	(2,761)
Rounding	(1)	1	(1)	(1)
Gross carrying amount as at 31/12/2022	1,270,390	208,807	31,197	1,510,393
Loss allowance as at 31/12/2022	**5,806**	**4,316**	**10,245**	**20,368**

Credit risk exposures relating to off-balance sheet items				
Nominal amount as at 31/12/2021	368,146	6,274	570	374,990
Changes in the nominal amount				
Transfer to stage 1	444	(442)	(1)	-
Transfer to stage 2	(11,057)	11,058	(1)	-
Transfer to stage 3	(117)	-	117	-
Change due to modification	-	-	-	-
New off-balance sheet items	257,316	10,226	115	267,657
Reduction of off-balance sheet items	(176,153)	(13,976)	(165)	(190,294)
Rounding	-	-	-	-
Nominal amount as at 31/12/2022	438,580	13,139	635	452,354
Provisions as at 31/12/2022	**1,401**	**100**	**383**	**1,884**

7.1.4.2 Movement of the Gross Carrying Amount

The table below shows the movement of the gross carrying amount of the bank in the year 2021

in thousands of EUR

	Stage 1	Stage 2	Stage 3	Total
Debt securities measured as FVTOCI				
Gross carrying amount as at 31/12/2020	15,073	6,194	-	21,267
Changes in the gross carrying amount				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	6,194	(6,194)	-	-
Transfer to stage 3	-	-	-	-
Change due to modification	-	-	-	-
New financial assets	11,251	-	-	11,251
Financial assets that have been derecognised	(3,943)	-	-	(3,943)
Gross carrying amount as at 31/12/2021	28,575	-	-	28,575
Loss allowance as at 31/12/2021	**111**	**-**	**-**	**111**
Debt securities measured as amortised cost				
Gross carrying amount as at 31/12/2020	290,821	-	-	290,821
Changes in the gross carrying amount				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Change due to modification	-	-	-	-
New financial assets	80,884	-	-	80,884
Financial assets that have been derecognised	(59,439)	-	-	(59,439)
Gross carrying amount as at 31/12/2021	312,266	-	-	312,266
Loss allowance as at 31/12/2021	**244**	**-**	**-**	**244**
Loans to banks measured as amortised cost				
Gross carrying amount as at 31/12/2020	99,091	-	-	99,091
Changes in the gross carrying amount				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Change due to modification	-	-	-	-
New financial assets	105,555	-	-	105,555
Financial assets that have been derecognised	(98,827)	-	-	(98,827)
Gross carrying amount as at 31/12/2021	105,819	-	-	105,819
Loss allowance as at 31/12/2021	**79**	**-**	**-**	**79**

in thousands of EUR

	Stage 1	Stage 2	Stage 3	Total
Loans to customers and other financial assets measured at amortised cost				
Gross carrying amount as at 31/12/2020	940,703	226,214	23,429	1,190,345
Changes in the gross carrying amount				
Transfer to stage 1	53,161	(52,132)	(1,029)	-
Transfer to stage 2	(95,723)	97,147	(1,424)	-
Transfer to stage 3	(3,698)	(12,629)	16,327	-
Change due to modification	-	-	-	-
New financial assets	514,780	43,129	1,777	559,686
Financial assets that have been derecognised	(346,715)	(93,193)	(8,183)	(448,091)
Write-offs	(91)	(18)	(1,676)	(1,785)
Rounding	(3)	(1)	(1)	(1)
Gross carrying amount as at 31/12/2021	1,062,414	208,519	29,220	1,300,154
Loss allowance as at 31/12/2021	**5,220**	**6,393**	**9,322**	**20,935**
Credit risk exposures relating to off-balance sheet items				
Nominal amount as at 31/12/2020	357,209	9,562	805	367,576
Changes in the nominal amount				
Transfer to stage 1	3,346	(3,336)	(10)	-
Transfer to stage 2	(2,439)	2,439	-	-
Transfer to stage 3	(20)	-	20	-
Change due to modification	-	-	-	-
New off-balance sheet items	219,043	1,392	54	220,489
Reduction of off-balance sheet items	(208,993)	(3,783)	(300)	(213,076)
Rounding	-	-	1	-
Nominal amount as at 31/12/2021	368,146	6,274	570	374,990
Provisions as at 31/12/2021	**1,154**	**152**	**113**	**1,419**

7.1.4.3 Movement of Loss Allowance

The table below shows the movement of the loss allowance for the Bank in the year 2022.

in thousands of EUR

	Stage 1	Stage 2	Stage 3	Total
Debt securities measured as FVTOCI				
Loss allowance as at 31/12/2021	111	-	-	111
Changes in the loss allowance				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	(98)	98	-	-
Transfer to stage 3	-	-	-	-
Decrease due to change in credit risk	(3)	-	-	(3)
Change in methodology	1	-	-	1
New financial assets	5	20	-	25
Financial assets that have been derecognised	(4)	-	-	(4)
Loss allowance as at 31/12/2022	**11**	**118**	**-**	**129**
Debt securities measured as amortised cost				
Loss allowance as at 31/12/2021	244	-	-	244
Changes in the loss allowance				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Increase due to change in credit risk	16	-	-	16
Decrease due to change in credit risk	(109)	-	-	(109)
Change in methodology	12	-	-	12
New financial assets	53	-	-	53
Financial assets that have been derecognised	(4)	-	-	(4)
Loss allowance as at 31/12/2022	**211**	**-**	**-**	**211**
Loans to banks measured as amortised cost				
Loss allowance as at 31/12/2021	79	-	-	79
Changes in the loss allowance				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Decrease due to change in credit risk	-	-	-	-
Change in methodology	19	-	-	19
New financial assets	287	-	-	287
Financial assets that have been derecognised	(79)	-	-	(79)
Loss allowance as at 31/12/2022	**306**	**-**	**-**	**306**

in thousands of EUR

	Stage 1	Stage 2	Stage 3	Total
Loans to customers and other financial assets measured at amortised cost				
Loss allowance as at 31/12/2021	5,220	6,393	9,322	20,935
Changes in the loss allowance				
Transfer to stage 1	901	(814)	(87)	-
Transfer to stage 2	(445)	688	(234)	-
Transfer to stage 3	(38)	(152)	189	(1)
Increase due to change in credit risk	1,142	639	5,517	7,298
Decrease due to change in credit risk	(3,069)	(3,061)	(416)	(6,546)
Write-offs	(404)	(26)	(2,331)	(2,761)
Change in methodology	612	371	41	1,024
New financial assets	2,956	684	716	4,356
Financial assets that have been derecognised	(1,070)	(406)	(2,463)	(3,939)
Rounding	-	-	(1)	(1)
Loss allowance as at 31/12/2022	**5,805**	**4,316**	**10,244**	**20,365**

Credit risk exposures relating to off-balance sheet items				
Provisions as at 31/12/2021	1,154	152	114	1,419
Changes in the provisions				
Transfer to stage 1	3	(3)	-	-
Transfer to stage 2	(24)	24	-	-
Transfer to stage 3	-	-	-	-
Increase due to change in credit risk	82	12	261	355
Decrease due to change in credit risk	(635)	(89)	-	(724)
Change in methodology	95	12	-	107
New off-balance sheet items	1,004	6	9	1,019
Reduction of off-balance sheet items	(277)	(13)	-	(290)
Rounding	-	-	-	-
Provisions as at 31/12/2022	**1,401**	**100**	**384**	**1,885**

7.1.4.3 Movement of Loss Allowance

The table below shows the movement of the loss allowance for the bank in the year 2021..

in thousands of EUR

	Stage 1	Stage 2	Stage 3	Total
Debt securities measured as FVTOCI				
Loss allowance as at 31/12/2020	3	815	-	818
Changes in the loss allowance				
Transfer to stage 1	154	(154)	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Decrease due to change in credit risk	(59)	-	-	(59)
Change in methodology	(18)	(661)	-	(679)
New financial assets	34	-	-	34
Financial assets that have been derecognised	(3)	-	-	(3)
Loss allowance as at 31/12/2021	**111**	**-**	**-**	**111**
Debt securities measured as amortised cost				
Loss allowance as at 31/12/2020	723	-	-	723
Changes in the loss allowance				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Increase due to change in credit risk	1	-	-	1
Decrease due to change in credit risk	(38)	-	-	(38)
Change in methodology	(495)	-	-	(495)
New financial assets	136	-	-	136
Financial assets that have been derecognised	(83)	-	-	(83)
Loss allowance as at 31/12/2021	**244**	**-**	**-**	**244**
Loans to banks measured as amortised cost				
Loss allowance as at 31/12/2020	87	-	-	87
Changes in the loss allowance				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Decrease due to change in credit risk	(1)	-	-	(1)
Change in methodology	(3)	-	-	(3)
New financial assets	82	-	-	82
Financial assets that have been derecognised	(86)	-	-	(86)
Loss allowance as at 31/12/2021	**79**	**-**	**-**	**79**

in thousands of EUR

	Stage 1	Stage 2	Stage 3	Total
Loans to customers and other financial assets measured at amortised cost				
Loss allowance as at 31/12/2020	3,778	7,015	6,828	17,621
Changes in the loss allowance				
Transfer to stage 1	1,487	(1,293)	(194)	-
Transfer to stage 2	(381)	566	(185)	-
Transfer to stage 3	(18)	(414)	432	-
Increase due to change in credit risk	832	3,061	4,414	8,307
Decrease due to change in credit risk	(3,095)	(2,303)	(389)	(5,787)
Write-offs	(91)	(18)	(1,676)	(1,785)
Change in methodology	985	(1,085)	-	(100)
New financial assets	2,667	1,398	589	4,654
Financial assets that have been derecognised	(944)	(534)	(496)	(1,974)
Rounding	-	-	(1)	(1)
Loss allowance as at 31/12/2021	**5,220**	**6,393**	**9,322**	**20,935**

Credit risk exposures relating to off-balance sheet items				
Provisions as at 31/12/2020	2,436	244	40	2,720
Changes in the provisions				
Transfer to stage 1	41	(41)	-	-
Transfer to stage 2	(7)	7	-	-
Transfer to stage 3	-	-	-	-
Increase due to change in credit risk	669	121	87	877
Decrease due to change in credit risk	(1,406)	(155)	-	(1,561)
Change in methodology	(617)	(46)	-	(663)
New off-balance sheet items	864	33	1	898
Reduction of off-balance sheet items	(827)	(11)	(14)	(852)
Rounding	1	-	-	-
Provisions as at 31/12/2021	**1,154**	**152**	**114**	**1,419**

7.1.4.4 Modification of Contractual Cash Flows from Financial Assets that did Not Result in Derecognition

Financial assets (with loss allowance based on the lifetime expected credit losses) modified during the year

in thousands of EUR

	2022	2021
Gross carrying amount before modification	3,202	-
Loss allowance before modification	(1,209)	-
Net amortised cost before modification	**1,993**	-
Net modification loss (Note 4.13)	(23)	-
Net amortised cost after modification	**1,970**	-

In 2022, losses of EUR 23 thousand were recognised for the change in contractual cash flows (modification).

Modification loss was recognised in cases of changed cash flows due in case of the insolvency of customers.

The effect is not material and is not disclosed.

7.1.4.5 Financial Assets Measured at Amortised Cost According to Delay and Due Amounts

The table below shows exposures deriving from loans to non-bank clients and other financial assets measured at amortised cost according to individual delay buckets.

in thousands of EUR

	Carrying amount			Impairment		
As at 31 December 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
0-29 days	1,270,387	199,435	22,081	(5,806)	(4,089)	(7,249)
30-59 days	2	7,127	915	-	(116)	(316)
60-89 days	-	2,184	562	-	(107)	(133)
90-180 days	-	58	4,130	-	(4)	(823)
More than 181 days	-	2	3,510	-	-	(1,725)
Total	**1,270,388**	**208,806**	**31,198**	**(5,806)**	**(4,316)**	**(10,245)**

in thousands of EUR

	Carrying amount			Impairment		
As at 31 December 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
0-29 days	1,062,402	203,992	22,780	(5,220)	(6,290)	(7,301)
30-59 days	12	3,595	975	-	(73)	(273)
60-89 days	-	932	345	-	(30)	(87)
90-180 days	-	-	2,024	-	-	(435)
More than 181 days	-	-	3,096	-	-	(1,225)
Total	**1,062,414**	**208,519**	**29,220**	**(5,220)**	**(6,393)**	**(9,322)**

The table below shows past-due loans to non-bank clients and other financial assets measured at amortised cost, according to individual delay buckets..

in thousands of EUR

	31/12/2022		31/12/2021	
	Carrying amount	Impairment	Carrying amount	Impairment
0-29 days	47,782	(1,720)	30,285	(937)
30-59 days	8,044	(432)	4,582	(347)
60-89 days	2,746	(240)	1,277	(117)
90-180 days	4,188	(827)	2,024	(435)
More than 181 days	3,511	(1,725)	3,096	(1,225)
Total	**66,272**	**(4,943)**	**41,264**	**(3,061)**

The amount of due receivables reached EUR 66,272 thousand as at 31 December 2022 (31 December 2021: EUR 41,264 thousand). Among the due amounts, the gross amount of everything that is overdue for a significant period of time is taken into account.

7.1.4.6 Loans and Receivables Individually Impaired

in thousands of EUR

As at 31 December 2022	Loans to corporates and sole proprietors		Other financial assets	Total
	Loans to corporates	Loans to SME		
Gross	12,041	6,184	8	18,232
Less: allowance for impairment	(4,635)	(1,924)	(5)	(6,564)
Net	7,406	4,260	2	11,668
Fair value of the collateral	16,954	81,274	-	98,228

in thousands of EUR

As at 31 December 2021	Loans to corporates and sole proprietors		Other financial assets	Total
	Loans to corporates	Loans to SME		
Gross	9,802	10,321	10	20,133
Less: allowance for impairment	(4,246)	(2,671)	(7)	(6,924)
Net	5,556	7,649	3	13,208
Fair value of the collateral	17,369	33,649	-	51,018

On 31 December 2022, the share of individually impaired loans to non-bank clients amounted to 1.2% (31 December 2021: 1.5%), the coverage thereof with corrections amounted to 36.0% (31 December 2021: 34.4%). All individually impaired loans are in stage 3.

7.1.5 Concentration of Risks of Financial Assets with Credit Risk Exposure

7.1.5.1 Geographical Structure

The following table breaks down the credit exposure, as categorised by geographical region, For this table, the Bank has allocated exposures to regions based on the country of domicile of our counterparties.

in thousands of EUR

	Slovenia	Other EU countries	Other countries	Total
Financial assets measured at FVTOCI	4,804	21,673	-	26,477
Financial assets measured at amortised cost				
Debt securities	231,601	105,810	7,931	345,343
Loans and receivables to banks	10	261	45,907	46,178
Loans and receivables to corporates and sole proprietors				
Corporates	161,601	51,047	12,917	225,565
Small and medium enterprises (SME)	386,891	106,122	87,545	580,558
Government	4,085	-	-	4,085
Loans and receivables to individual clients				
Overdrafts	14,705	31	334	15,070
Housing loans	216,129	835	152	217,115
Consumer and other loans	77,410	43	9	77,461
Leasing	356,730	905	8,119	365,754
Other financial assets	2,406	113	1,899	4,417
As at 31 December 2022	**1,456,371**	**286,840**	**164,812**	**1,908,023**
As at 31 December 2021	**1,281,725**	**240,550**	**203,171**	**1,725,446**

The Bank conducts most of its business with clients in the area of the Republic of Slovenia. Transactions with clients from other countries come predominantly from investments in securities and deposits with banks.

7.1.5.2 Industry Sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by the industry sectors of our counterparties.

in thousands of EUR

	Public administration, defence, social security	Financial inter-mediation	Manufacturing	Real estate, renting	Wholesale, retail	Other sectors	Individuals	Total
Financial assets measured at FVTOCI	21,673	-	-	-	-	4,804	-	26,477
Financial assets measured at amortised cost								
Debt securities	304,562	23,051	2,666	-	-	15,063	-	345,343
Loans and receivables to banks	-	46,178	-	-	-	-	-	46,178
Loans and receivables to corporates and sole proprietors								
Corporates	-	-	149,013	774	21,339	54,439	-	225,565
Small and medium enterprises (SME)	318	22,044	99,438	171,823	64,803	222,133	-	580,558
Government	3,971	-	-	,	-	113	-	4,085
Loans and receivables to individual clients								
Overdrafts	-	-	-	-	-	-	15,070	15,070
Housing loans	-	-	-	-	-	-	217,115	217,115
Consumer and other loans	-	-	-	-	-	-	77,461	77,461
Leasing	200	650	20,925	1,316	30,344	94,259	218,060	365,754
Other financial assets	259	2,402	375	15	127	480	758	4,417
As at 31 December 2022	**330,984**	**94,324**	**272,417**	**173,928**	**116,613**	**391,292**	**528,464**	**1,908,023**
As at 31 December 2021	**301,508**	**153,782**	**204,618**	**171,588**	**121,093**	**342,407**	**430,448**	**1,725,445**

7.1.6 Debt Securities

The table below presents an analysis of debt securities by rating agency rating, based on Fitch Ratings, Standard & Poor's and Moody's Investor Service. In the case of two or three credit ratings, the second-best rating is selected.

in thousands of EUR

As at 31 December 2022	Financial assets measured at FVTOCI	Financial assets measured at amortised cost	Total
AAA to AA+	12,716	16,001	28,717
AA to AA-	-	243,885	243,885
A+ to A-	4,566	44,413	48,979
Lower than A-	4,391	35,874	40,265
Unrated	4,804	5,170	9,974
Total	**26,477**	**345,343**	**371,820**

in thousands of EUR

As at 31 December 2021	Financial assets measured at FVTOCI	Financial assets measured at amortised cost	Total
AAA to AA+	-	17,495	17,495
AA to AA-	12,225	230,402	242,627
A+ to A-	5,794	25,442	31,236
Lower than A-	5,120	32,903	38,023
Unrated	5,325	5,781	11,106
Total	**28,464**	**312,023**	**340,487**

7.2 Market Risk

In its operations, the Bank takes on market risks, which are the risks of changes in the fair value of financial instruments due to market price variability. Market risks are the result of open positions of interest rate, currency and equity instruments that are fully exposed to general and specific market changes, such as changes in interest rates, exchange rates and the prices of financial instruments. The Bank has formed a methodology for assessing the exposure to market risks and expected potential losses based on the various assumptions and scenarios.

The Bank monitors its exposure to foreign exchange risk on a daily basis. In 2022, the exposure to foreign currencies was small and in line with the limits set. The Bank manages foreign currency risk in accordance with the Market Risk Management Policy. The Bank does not identify exposure to position risk in debt and equity securities on the basis of the value of positions in the trading book, which are normally monitored on a daily basis (changes in their current market prices - or -to-market or in accordance with appropriate mark-to-model valuation models). The Bank is not exposed to market risk stemming from the trading book because it had no trade positions in 2022.

The Bank manages interest rate risk in accordance with the Interest Rate Risk Management Policy, the IRRBB Data Structures Module and the Behavioural Options Module, which are based on the Basel standards for the management of interest rate risk in the banking book (IRRBB) and the EBA guidelines on the management of interest rate risk arising from non-trading activities. The Bank's business focuses on hedging net interest income and the impact on the economic value of capital. From September 2022 onwards, the Bank also takes into account behavioural options in its interest rate risk management by monitoring or measuring the possibility of early repayment of loans and possible early termination of customers' time deposits.

The Treasury Division is responsible for the operational management of market risks in the Bank, and the Division for Strategic Risk Management is responsible for the preparation of reports and analyses discussed by the Balance Sheet Management Committee.

7.2.1 Currency Risk

The table below summarises the Bank's exposure to currency risk at 31 December. Included in the table are the Bank's financial instruments at carrying value, categorised by currency.

in thousands of EUR

	USD	Other	EUR	Total
31 December 2022				
Assets				
Cash, balances at central banks and other demand deposits at banks	11,438	16,948	285,347	313,733
Financial assets mandatorily at FVTPL	-	60	9,397	9,457
Financial assets measured at FVTOCI	-	-	32,928	32,928
Debt securities measured at amortised cost	-	-	345,343	345,343
Loans and receivables to banks	44	-	46,134	46,178
Loans and receivables to customers	-	-	1,485,608	1,485,608
Other financial assets	1	-	4,416	4,417
Other assets	-	-	5,146	5,146
Total assets	**11,483**	**17,008**	**2,214,319**	**2,242,810**
Liabilities				
Due to banks	-	-	1,966	1,966
Due to customers	11,744	16,319	1,891,880	1,919,943
Borrowings from banks	-	-	96,149	96,149
Other financial liabilities	2	466	11,375	11,843
Other liabilities	-	-	4,813	4,813
Total liabilities	**11,746**	**16,785**	**2,006,183**	**2,034,714**
Net on-balance sheet financial position	**(263)**	**223**	**208,136**	**208,096**
Credit commitments	**985**	**4,620**	**444,864**	**450,469**
31 December 2021				
Total assets	14,427	15,292	2,163,591	2,193,310
Total liabilities	14,564	14,684	1,989,436	2,018,684
Net on-balance sheet financial position	**(137)**	**608**	**174,155**	**174,626**
Credit commitments	**246**	**2,449**	**370,876**	**373,571**

The financial position and cash flows of the Bank are exposed to the impact of exchange rate volatility. The Bank's foreign exchange risk is monitored and managed on a daily basis. The Bank pursues a conservative foreign exchange risk management policy, as it minimises foreign exchange risk by closing the open currency position on a daily basis. The limits of allowable exposure by currency are monitored daily.

The Bank has set an absolute limit for exposure to foreign exchange risk with a limit for the common foreign currency position, where the absolute values of open positions are added together in individual currencies. Long or short positions include balance sheet items in gross amounts decreased by impairments that are expected to be a loss for the Bank, and off-balance sheet items of potential liabilities that will need to be paid by the Bank, including items from financial derivatives (mostly futures contracts).

Regarding foreign currency exposures, the Bank is only exposed for EUR, other currencies are materially insignificant since the open foreign exchange position amounts to only 0.14% of capital (as at 31 December 2021: 0.33%); consequently, the bank does not calculate the capital requirement for currency risk.

7.2.2 Interest Rate Risk

Interest rate risk is shown at the Bank as the risk of interest rate variability affecting the Bank's net interest income and as the risk of interest rate variability affecting the fair value of financial instruments. Changes in interest rates also affect the economic value of the Bank's capital, since the present value of future cash flows from Bank's assets, liabilities and off-balance sheet positions changes.

Interest rate risk arises from interest rate sensitive assets with different maturities and dynamics of changes in variable interest rates as liabilities. The Bank monitors and manages exposure to interest rate risks based on the methodology of interest rate spreads and extreme situation tests for various scenarios involving interest rate movements.

The Bank has established a system for monitoring interest rate risks to ensure an adequate level of net interest income and an adequate level of the Bank's capital in changing interest rate conditions. The Bank's policy is to regularly monitor and control the Bank's exposure to interest rate risk, develop scenarios for interest rate development and prepare measures for cases of interest rate changes that could have a serious negative impact on the Bank's net interest income and capital. The goal of interest rate risk management is to minimise fluctuations in net interest income and values of the Bank's capital due to interest rate volatility on the market.

The Bank monitors and analyses interest rate sensitivity by time pockets that include interest-rate-sensitive balance sheet and off-balance sheet items by individual type of interest rates and time zones with respect to their maturity or date of resetting the interest rates.

To test the effects of shock scenarios in interest rates on the net interest income, the Bank uses the criterion of the impact of interest rate curve changes by 100 basis points, while taking into account the least favourable curve shift (steep curve) from 9 stress scenarios, when assessing the effect on the Bank's capital.

The effects of different scenarios are shown in the table below.

in thousands of EUR

	31/12/2022		31/12/2021	
	Impact on net interest income	Impact on the economic value of capital	Impact on net interest income	Impact on the economic value of capital
+200 basis points	7,742	(3,893)	10,742	(1,790)
-200 basis points	(7,742)	1,486	(10,742)	1,790
+100 basis points	3,871	(1,976)	2,911	(900)
-100 basis points	(3,871)	728	(5,371)	900
shock with a steeper curve	(3,869)	12,360	(5,371)	13,820

The Assets and Liabilities Committee (hereinafter "ALCO") is responsible for monitoring the realisation of the interest rate risk management policies. In addition to decision-making, the tasks of ALCO related to interest rate risk are:

- to consider reports and approve interest rate risk measures,
- to consider the balances and forecasts of interest rate movements,
- to consider interest rate risk at the Bank (the risk of interest rate variability),
- to propose guidelines for setting interest rate limits,
- to develop guidelines for preparing proposals for measures to reduce the exposure to risks,
- to develop proposals for interest rate and market policies.

The Assets and Liabilities Committee (ALCO) and the Risk Committee (RECO) are responsible for monitoring decisions and dealing with interest rate risk management. In addition to decision-making, the tasks of RECO are:

- decision-making with regard to risk profile,
- regulatory framework consideration,
- consideration of internal acts with regard to risk management at the level of the parent bank/group,
- consideration of the Bank internal framework in risk management,
- discussion and adoption of key strategic documents in risk management.

The management of interest rate risks is based on a limit system for exposure to interest rate risk. The Bank has already determined the limit of exposure to interest rate risks at the highest level in its Risk Appetite Statement, where it set the impact of interest rate variability on the Bank's capital as one of the key indicators, setting the limit value of the indicator showing the impact of a parallel increase/decrease in market interest rate levels by 200 basis points to 10% of the capital.

The Treasury Division is responsible for the operative implementation of measures for managing interest rate risk in the scope of the set limits as proposed by the Division for Strategic Risk Management, and the realisation of ALCO decisions based on the Interest Rate Risk Management Policy.

The Division for Strategic Risk Management prepares a monthly report on exposure to interest rate risk and submits it to the ALCO for consideration (quarterly to Risk Committee - RECO).

The table below shows the Bank's exposure to interest rate risk. Financial instruments have been included taking into account their book values and have been classified into time zones according to the date of the next change in the interest rate or maturity.

The actual maturity dates do not differ from the contractual dates, other than in the event of the maturity of a liability of up to one month, some two-thirds of which are demand deposits amounting to EUR 1,436,290 thousand (2021: EUR 1,303,575 thousand) and are considered by the Bank as stable deposits.

in thousands of EUR

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
31 December 2022							
Assets							
Cash, balances at central banks and other demand deposits at banks	275,211	-	-	-	-	38,522	313,733
Financial assets mandatorily at FVTPL	-	-	-	-	-	9,457	9,457
Financial assets measured at FVTOCI	-	-	4	21,926	4,571	6,426	32,927
Debt securities measured at amortised cost	-	26,597	26,307	126,616	163,394	2,429	345,343
Loans and receivables to banks	316	1,843	-	40,000	-	4,019	46,178
Loans and receivables to customers	354,129	246,509	628,955	144,600	122,136	(10,721)	1,485,608
Other financial assets	-	-	-	-	-	4,417	4,417
Other assets	-	-	-	-	-	5,147	5,147
Total assets	**629,656**	**274,949**	**655,266**	**333,142**	**290,101**	**59,696**	**2,242,810**
Liabilities							
Due to banks	1,966	-	-	-	-	-	1,966
Due to customers	623,702	87,130	265,893	941,793	989	436	1,919,943
Borrowings from banks and central banks	-	-	14,379	9,878	71,677	215	96,149
Other financial liabilities	-	-	-	417	-	11,426	11,843
Other liabilities	-	-	-	-	-	4,813	4,813
Total liabilities	**625,668**	**87,130**	**280,272**	**952,088**	**72,666**	**16,890**	**2,034,714**
Interest sensitivity gap	**3,988**	**187,819**	**374,994**	**(618,946)**	**217,435**		
31 December 2021							
Total assets	910,064	409,666	334,130	226,792	275,422	37,236	2,193,310
Total liabilities	602,732	128,647	376,414	857,232	40,156	13,503	2,018,684
Interest sensitivity gap	**307,332**	**281,019**	**(42,284)**	**(630,440)**	**235,266**		

The Bank allocates sight deposits in line with the applicable methodology and the IRRBB Guidelines. The sight deposit allocation methodology separates stable from non-stable deposits, and core from non-core deposits. The Bank also adjusted its system for monitoring and measuring interest risk. In monitoring interest rate risk in the final quarter of 2022, the Bank included off-balance sheet items in the measurement - in addition to on-balance sheet items - according to the model for loans and unforeseen events (limits, revolving loans, etc.), which is set in the Interest Rate Risk Policy itself and the IRRBB Data Structure Module.

After the inclusion of the off-balance sheet items, the horizontal curve shift by 100 basis points, by time pockets at the end of 2022, amounted to EUR 3.9 million on net interest income for the one-year period (2021: EUR 2.9 million). Moreover, the Bank assesses the impact of interest rate variability on the economic value of capital upon including off-balance sheet items. The economic value of the capital after the most unfavourable curve shift at the end of 2022 amounted to EUR 12.4 million, which represents 5.74% of the Bank's capital (2021: EUR 13,8 million, or 6.6% of the capital). The impact on net interest income and the economic capital value is within limits.

7.2.3 Market Risk from Trading Equity Instruments

Risk deriving from trading in the equities of the trading portfolio is shown at the Bank as the risk of changes in the market rates of equities in the trading portfolio affecting the Bank's operating results. In 2021 and 2022, the Bank was not exposed to risk deriving from trading in the equity securities of the trading portfolio.

7.3 Liquidity Risk

Within the scope of liquidity risk management, the Bank is primarily concerned with the consistency of cash flows arising from the operations of the Bank and its customers, an adequate volume, structure and stability of financing sources, and an adequate volume and quality of liquidity reserves. Sound management with assets, and their sources, is the basis of the Bank's prudence; therefore, the Bank pursues the objectives of meeting its due obligations, minimising liquidity maintenance costs, foreseeing liquidity emergencies, and the timely implementation of measures to re-establish the appropriate liquidity position of the Bank.

The ability of the Bank to regularly settle its current obligations in due time has been ensured. The Bank also has no problems reconciling any mismatches between inflows and outflows by using liquidity reserves and Central Bank instruments.

The Bank measures and monitors liquidity risk using numerous regulatory and internally defined indicators of structural and operative liquidity, and restricts the assumption of liquidity risk with limits arising from the Risk Appetite Statement and Liquidity Risk Management Policy.

The Covid-19 pandemic had a significant impact on the economic and financial environment in 2021 and 2022, which in combination with strict health and protective measures, meant a major negative shock for the economy in Slovenia, in other European countries, and on a global level. To contain the deadly consequences, countries all around the world have adopted drastic measures; the halting of aviation transport for commercial flights, halting public traffic, the closure of public institutions, the closure of various factories and non-food stores, and the closure of hotels, restaurants, bars, etc. The consequences of the crisis have been vast, almost all industries have been affected, and the forecasts and dimensions of the consequences are unpredictable, because the economic activity will depend heavily on the general epidemiological situation at home and abroad. In order to mitigate the negative impacts of the pandemic, significant packages of measures aimed at mitigating the shortfalls in revenue of the economy and the population, ensuring liquidity, and assistance in the recovery of economic activity, were adopted at the national level, ECB level and European Commission level.

In view of managing risk, and in order to manage the Covid-19 crisis, the Bank immediately began implementing activities including the assessment of the impacts of the Covid-19 pandemic, such as the identification of the most vulnerable industries in the credit portfolio that will probably be affected the most by the Covid-19 crisis, it increased its internal reporting frequency, it carefully monitored the liquidity position of the Bank, it accurately planned its liquidity inflows and outflows on a daily and monthly basis, it ensured and maintained appropriate liquidity index levels, it monitored the balance sheet item trends, and it carried out liquidity stress scenarios. In this sense, it adjusted its liquidity stress scenario, the assumptions of which included the impact of Covid-19 on the Slovenian economy and bank operations.

The short-term maturity mismatch of the Bank's assets and liabilities is within the acceptable limits; moreover, the growth in deposits made by the non-bank sector continued in 2022. The Bank carefully monitored the changes in the structure of the balance sheet and regularly performed liquidity stress testing, which includes scenarios under five severity classes or the escalation of situations. In respect of the stress scenarios, it is foreseen that all types of stress affect the volume of the cash flows in outflows and inflows and at the same time a decrease in liquidity reserves. The methodology also contains criteria for the assessment of the minimum or optimum volume of the liquidity reserves, under which the Bank is required to have at least a volume of liquidity reserves that covers stress level 3 for a period of 1 month and optimally stress level 3 for a period of 3 months.

The Bank defines its liquidity risk profile in accordance with the ICAAP Management Framework and the ILAAP Management Framework.

Liquidity management and the programme of liquidity management are integrated into the annual plan of the Bank's operations. The annual plan of operations includes fundamental guidelines for the management of the Bank's liquidity, which are integrated into the Bank's activities as laid down in the monthly liquidity plan, and in daily operations concerning the Bank's liquidity. The plan also shows the technique and procedures to monitor and supervise the Bank's liquidity. All major changes to the planned inflows and outflows of assets and to investments are updated by the Bank in the new version of the Bank's liquidity plan for the current month and the remaining months of the year.

Pursuant to internal rules, the Treasury Sector monitors cash flows on a daily basis and these are subject to consideration by the Liquidity Committee, which makes decisions on the proposed projection and prepares possible scenarios in relation to the probability of foreseen events.

To ensure the necessary liquidity, the Bank monitors in detail and on a regular basis:

- the time schedule of current and nearing cash flows in assets and liabilities;
- the coverage of potential cash outflows by cash inflows in a certain period involving due or highly liquid assets;
- the volume of potential cash outflows that can be covered by borrowing on the interbank market;
- access to other asset sources based on secondary liquidity reserve;
- the scope and maintenance of the necessary liquidity as laid down by regulations.

The operations of the Liquidity Committee are defined in a special internal regulation.

The Bank included many indicators of liquidity risk in its Risk Appetite Statement, namely the LCR and NSFR as key and LTD as supportive metrics. The KL1 ratio was removed from the set of support metrics from July 2022, as the Bank of Slovenia adopted a decision that liquidity ratio reporting is no longer required from 1 April 2020, but the Bank of Slovenia by letter to the banks and savings banks informing them that due to the situation regarding the outbreak of the new coronavirus, it is extending the requirement to report the ratio. In 2021, the Bank of Slovenia finally adopted a decision that the liquidity ratio KL1 should not be calculated or reported to the Bank of Slovenia from 1 July 2021. Based on the Risk Appetite Statement, the Strategic Risk Management Division proposes additional restrictions and internal limits on structural and operational liquidity, monitors their compliance and prepares analyses of the Bank's liquidity position and guidelines in the field of liquidity risk management as a basis for decision-making. On a monthly basis, the Bank performs stress testing in accordance with the methodology that enables the calculation of the minimum and optimal volume of the Bank's liquidity reserves, taking into account the five levels of stress scenarios and their effects on the Bank's cash flows and the value of liquidity reserves.

The Bank provides and regulates its liquidity:

- by hiring the missing liquidity reserves on the interbank money market – the interbank money market in the Republic of Slovenia and from foreign banks in the Eurosystem – in the form of unsecured interbank loans;
- with credit lines at other banks;
- by hiring the missing funds from the ECB through the Eurosystem monetary policy operations (TLTRO, long-term and short-term tenders);
- by drawing a credit line and a marginal lending facility at the Bank of Slovenia;
- by accelerating the collection of fixed-term deposits made by legal entities under more favourable terms for the client,
- by selling the debt securities available to the Bank in its portfolio.

The Bank has a fund of eligible financial assets (maximum lien on securities that are on the single list of eligible financial assets of ECB at the Central Securities Clearing Corporation and foreign national central banks registered to the benefit of the Bank of Slovenia) as the basis for using ECB instruments (drawing ECB funds under ECB monetary policy operations and using the credit line and marginal lending facility). The Bank additionally has a sufficient volume of securities, which are also fit for using ECB instruments and can be additionally included in the eligible assets fund, thus increasing the possibilities for access to liquid assets in the event of severe liquidity conditions. With the permission of the Bank of Slovenia, the Bank may also include appropriate bank loans in the fund of eligible assets.

7.3.1 Non-Derivative Financial Liabilities and Assets Held for Managing Liquidity Risk

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity risk by the remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flows. The amounts disclosed differ from the amount included in the statement of financial position because they are based on discounted cash flows.

in thousands of EUR

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
31 December 2022						
Liabilities						
Due to banks	1,966	-	-	-	-	1,966
Due to customers	581,755	88,612	272,531	978,953	1,018	1,922,869
Borrowings from banks and central banks	164	161	6,928	34,707	91,057	133,017
Lease liabilities	23	47	208	422	-	700
Other liabilities	10,125	39	979	-	-	11,143
Total liabilities (expected maturity dates)	**594,033**	**88,859**	**280,646**	**1,014,082**	**92,075**	**2,069,695**
Assets held for managing liquidity risk (expected maturity dates)	**411,872**	**121,505**	**334,792**	**951,937**	**605,690**	**2,425,796**
Liquidity gap	**182,161**	**(32,646)**	**(54,146)**	**62,145**	**(513,615)**	
31 December 2021						
Liabilities						
Due to banks	40,007	-	-	-	-	40,007
Due to customers	562,009	128,848	353,659	851,553	721	1,896,790
Borrowings from banks and central banks	959	-	10,706	15,821	51,582	79,068
Lease liabilities	16	32	145	435	-	628
Other liabilities	8,095	300	77	-	-	8,472
Total liabilities (expected maturity dates)	**611,086**	**129,180**	**364,587**	**867,809**	**52,303**	**2,024,965**
Assets held for managing liquidity risk (expected maturity dates)	**640,898**	**84,911**	**261,025**	**795,527**	**536,773**	**2,319,134**
Liquidity gap	**(29,812)**	**(44,269)**	**103,562**	**72,282**	**(484,470)**	

The Bank has a diversified portfolio of quality highly-rated and liquid securities eligible for providing assets to settle liabilities and contingent liabilities. The Bank's liquidity reserves intended for liquidity risk management include cash and account balances with the Central Bank, government bonds and other securities suitable for repurchase contracts with the Central Bank and other secondary liquidity sources in the form of highly liquid securities in the Bank's portfolio.

In liquidity risk management, the Bank also takes into account other financial assets that are expected to generate cash flows in order to settle the foreseen cash outflows for financial liabilities.

7.3.2 Commitments and Contingencies

The bank manages the liquidity risk associated with loan commitments and financial guarantees on the basis of expected cash outflows. These outflows, disclosed in the time bands when the Bank expect the loan commitments to be drawn, are summarised in the table below. Guarantees and commercial letters of credit are also included in the table below, based on the earliest contractual maturity date.

in thousands of EUR

	Up to 1 month	1-3 months	3-12 months	1-5 years	Up to 5 years	Total
31 December 2022						
Commitments to extend credit	118,902	15,045	157,808	16,781	-	308,536
Guarantees	141,933	-	-	-	-	141,933
Total off-balance sheet items	**260,835**	**15,045**	**157,808**	**16,781**	**-**	**450,469**
31 December 2021						
Commitments to extend credit	124,809	21,556	101,248	26,561	-	274,174
Guarantees	99,397	-	-	-	-	99,397
Total off-balance sheet items	**224,206**	**21,556**	**101,248**	**26,561**	**-**	**373,571**

7.4 Estimated Fair Value of Financial Assets and Liabilities

7.4.1 Financial Instruments Not Measured at Fair Value

The following table summarises the carrying amounts and the fair values of the financial assets and liabilities not presented in the Bank's statement of financial position at their fair value:

in thousands of EUR

	Carrying value		Fair value	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Financial assets				
Cash, balances at central banks and other demand deposits at banks	313,733	448,861	313,733	448,861
Financial assets measured at amortised cost				
Debt securities measured at amortised cost	345,343	312,023	308,516	319,959
Loans and receivables to banks	46,178	105,740	45,839	105,978
Loans and receivables to customers	1,485,608	1,276,055	1,494,953	1,282,086
Other financial assets	4,417	3,163	4,417	3,163
Total financial assets	**2,195,278**	**2,145,842**	**2,167,459**	**2,160,047**
Financial liabilities				
Due to banks	1,966	40,007	1,955	40,007
Due to customers	1,919,943	1,896,198	1,921,139	1,896,682
Borrowings from banks and from other customers	96,149	69,277	88,787	69,028
Other financial liabilities	11,843	9,100	11,843	9,100
Total financial liabilities	**2,029,901**	**2,014,582**	**2,023,724**	**2,014,818**

The following table summarises the fair value hierarchy:

in thousands of EUR

	Level 1	Level 2	Level 3	Total
31 December 2022				
Financial assets				
Cash, balances at central banks and other demand deposits at banks	313,733	-	-	313,733
Financial assets measured at amortised cost				
Debt securities	16,407	277,459	14,650	308,516
Loans and receivables to banks	-	45,839	-	45,839
Loans and receivables to customers	-	-	1,494,953	1,494,953
Other financial assets	-	4,417	-	4,417
Total financial assets	**330,140**	**327,715**	**1,509,604**	**2,167,459**
Financial liabilities				
Due to banks	-	1,955	-	1,955
Due to customers	-	1,921,139	-	1,921,139
Borrowings from banks and from other customers	-	88,787	-	88,787
Other financial liabilities	-	11,843	-	11,843
Total financial liabilities	**-**	**2,023,724**	**-**	**2,023,724**
31 December 2021				
Total financial assets	**465,268**	**403,854**	**1,290,925**	**2,160,047**
Total financial liabilities	**-**	**2,014,818**	**-**	**2,014,818**

Level 1 comprises financial assets, for which the fair value was measured by the direct observation of the price on the markets for the same financial assets; level 2 comprises financial assets and financial liabilities, for which the fair value was measured by the direct observation of prices on markets for similar financial assets; level 3 comprises financial assets, for which the fair value was measured using non-observational input data that included assumptions and forecasts.

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

7.4.1.1 Loans and Advances

The fair value of loans and advances is calculated based on discounted expected future principal and interest cash flows. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when the interest rates were at levels similar to the current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans are estimated on a portfolio basis. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed-rate loans. As the Bank has a very limited portfolio of loans and advances with a fixed rate, the fair value of loans and advances is not significantly different from their carrying value.

7.4.1.2 Bank and Customer Deposits

For demand deposits and deposits with no defined maturities, the fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of other deposits is based on discounted cash flows using interest rates for new deposits with similar remaining maturity. The value of long-term relationships with depositors is not taken into account in estimating fair values. As most of the Bank's deposits are either short-term with rates being almost equal to market rate or have a variable rate, being the market rate, there is no significant difference between the fair value of these deposits and their carrying value.

7.4.1.3 Borrowings

Most of the Bank's long-term debt has no quoted market prices, and the fair value is estimated as the present value of future cash flows, discounted at interest rates available on the reporting date to the Bank for new debts of a similar type and remaining maturity. Again, as the majority of the Bank's long-term debt is with variable interest rates, there is no significant difference between their carrying and fair value.

7.4.2 Financial Instruments Measured at Fair Value

Financial instruments held for trading, financial instruments measured at fair value through profit or loss and financial instruments measured at fair value through other comprehensive income are measured at fair value. Their measurement and recognition is disclosed in note 2.2.4.

7.4.3 Fair Value Hierarchy

The IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs include market data obtained from independent sources; unobservable inputs include the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchange-traded derivatives like futures.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, traded loans, issued structured debt and equity investments. The sources of input parameters like the LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters. Fair value is also determined on the basis of information obtained on the last available transaction.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments, debt instruments and loans, the value of which can be determined using theoretical inputs.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

7.4.3.1 Assets and Liabilities Measured at Fair Value

in thousands of EUR

	Level 1	Level 2	Level 3	Total
31 December 2022				
Financial assets measured at FVTOCI				
• bonds	-	26,477	-	26,477
• equity	-		6,450	6,450
Financial assets mandatorily at FVTPL				
• equity	265	4,302	4,890	9,457
Total	**265**	**30,780**	**11,340**	**42,385**
Financial liabilities designated at FVTPL	-	-	-	-
Total liabilities	-	-	-	-

in thousands of EUR

	Level 1	Level 2	Level 3	Total
31 December 2021				
Financial assets measured at FVTOCI				
• bonds	-	28,464	-	28,464
• equity	-	-	6,750	6,750
Financial assets mandatorily at FVTPL				
• equity	279	5,424	4,312	10,016
Total	**279**	**33,889**	**11,062**	**45,230**
Financial liabilities designated at FVTPL	-	-	-	-
Total liabilities	-	-	-	-

At the end of 2021 and 2022, the Bank owned a 2.73% share of the company's equity capital. The company is a closed company and is not listed on a stock market. The market value of the company's equity capital was determined for 2022 using the method of the current value of expected discounted cash flows (DCF).

To measure the fair value of the share in Sava Turizem d.d.'s equity capital, the Bank used the price of EUR 2.14 per share as at 31 December 2022 (2021: EUR 2.12), which falls in the range of EUR 1.99 to EUR 2.31 per share (2021: EUR 1.93 to EUR 2.35). The book value of the investment amounted to EUR 3,297 thousand at the price of EUR 2.14 per share (2021: EUR 3,266 thousand at the price of EUR 2.12 per share).

The basis for the method of the current value of discounted cash flows for 2022:

- The assessed value for the equity share in Sava Turizem d.d. has been prepared by a minority owner.
- The method of the current value of expected discounted cash flows is based on the assumption of an active company, i.e. a company that is focused on maximising value, and which will continue to operate in the foreseeable future.
- The company value has been assessed based on a value assessment focused on yield.
- The discounted rate has been defined as WACC (Weighted Average Costs of Capital), and has been assessed in the period of 2022-2027 in the amount of 10.5% (2021: 8.7%), and the long-term WACC in the amount of 10.3% (2021: 10.3%).

There were no transfers between levels in the aforementioned assets during the year.

Movements in financial assets at FV, level 3

in thousands of EUR

	Equity measured at FVTOCI	Equity mandatorily at FVTPL	Loans mandatorily at FVTPL	Total
Balance at 1 January 2022	6,750	4,312	-	11,062
Gains, recognized in the income statement	-	29	-	29
Gains, recognized in OCI	(300)	-	-	(300)
Additions	-	549	-	549
Disposals	0	0	-	0
Balance at 31 December 2022	**6,450**	**4,890**	**-**	**11,340**

7.5 Capital Management

Capital management is a continuous process involving the determination and maintenance of a sufficient scope and quality of capital. As part of the capital management policy, the Bank must ensure that it always has at its disposal adequate capital with respect to the volume and type of services that it performs, as well as the risk it is exposed to when performing such services (capital adequacy).

The Bank must operate in such a way that the risk it is exposed to in respect of individual or all types of transactions it performs never exceeds the restrictions.

The table below summarises the capital components, capital requirements and capital ratios.

in thousands of EUR

	31/12/2022	31/12/2021
Paid up capital instruments	16,188	16,188
Share premium	20,023	20,023
Own CET1 instruments	(26,007)	(26,007)
Previous years retained earnings	38,108	28,094
Accumulated other comprehensive income	(2,286)	806
Other reserves	177,421	177,421
Adjustments to CET1 due to prudential filters	(42)	(45)
Intangible assets	(3,188)	(4,036)
Deferred tax assets	(4,137)	(4,287)
Other CET1 capital deductions	790	-
Other adaptations	(252)	-
Common equity Tier 1 capital	**216,618**	**208,157**
Tier 1 capital	**216,618**	**208,157**
Tier 2 capital	**50,000**	**20,000**
Total capital (own funds)	**266,618**	**228,157**
Capital requirement for credit risk and counterparty credit risk	110,963	98,123
Of which capital requirements by exposure classes		
• Central governments or central banks	819	120
• Regional governments or local authorities	84	115
• Public sector entities	96	223
• Institutions	3,863	2,180
• Corporates	35,574	29,975
• Retail	32,923	27,783
• Secured by mortgages on immovable property	8,315	8,125
• Exposures in default	1,811	1,829
• Items associated with a particularly high risk	20,140	19,271
• Collective investments undertakings (CIU)	375	381
• Equity	2,607	2,710
• Other items	4,356	5,411
Capital requirement for market risk	-	-
Capital requirement for operational risk	9,848	8,688
Total capital requirement	**120,812**	**106,811**
CET 1 capital ratio	14.34%	15.59%
T1 capital ratio	14.34%	15.59%
Total capital ratio	17.66%	17.09%

The Bank has no unsettled transactions in the trading and non-trading book, and therefore does not calculate the capital requirement for the risk of settlement. It has no goods in its portfolio, and therefore does not calculate the capital requirement for commodities risk. Since the total net position in foreign currency does not exceed 2% of the Bank's capital, the Bank is not required to calculate the capital requirement for currency risk. Furthermore, the Bank has no capital requirements for large exposures exceeding the limitations laid down in Articles 395 to 401 of the CRR Regulation.

The capital figures on 31 December 2021 have been restated following the approval of the Annual Report based on a resolution of the General Meeting.

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