



ANNUAL REPORT | HRANILICA LON D.D., KRANJ

2023

**LON is a responsive,  
flexible financial  
institution with friendly  
staff that enables  
clients in the local  
environment to achieve  
their goals.**



## 01 PRESENTATION OF LON

Financial indicators and pointers  
Management Report  
Report on the work of the Supervisory Board and the audit of Annual Report for 2023  
LON's identity card  
Management bodies  
Organisation chart  
Management declaration  
Vision, mission, values

## 02 BUSINESS REPORT

Business environment  
Operations in 2023  
Strategic activities in 2023  
Sustainable development  
Human resources and employee structure  
Operating policies  
Corporate risk management  
Internal audit  
Compliance office, information security and MLTFP  
External audit  
Significant business events that occurred after the end of the financial year

## 03 MANAGEMENT RESPONSIBILITY STATEMENT

## 04 INDEPENDENT AUDITOR'S REPORT

## 05 FINANCIAL REPORT

Statement of Financial Position as at 31/12/2023 and 31/12/2022  
Income Statement for the period from 1 January to 31 December  
Statement of other comprehensive income for the period from 1 January to 31 December  
Cash Flow Statement for the period from 1 January to 31 December  
Statement of changes in equity in the financial year 2023 and 2022  
Notes to financial statements  
Concise risk statement approved by the management body  
Credit risk  
Liquidity risk  
Interest rate risk  
Operational risk  
Profitability risk  
Foreign exchange risk  
Other banking risks  
Capital

## 06 DISCLOSURES UNDER THE CRR

Capital Requirements  
Capital buffers  
Remuneration policy  
Other disclosures in accordance with the CRR

## 07 LIST OF ABBREVIATIONS

# 01

## PRESENTATION OF LON

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# 01 FINANCIAL INDICATORS AND POINTERS

IN EUR '000

STATEMENT OF FINANCIAL POSITION	31/12/2023	31/12/2022	31/12/2021
Total assets	339,834	316,631	345,457
Total volume of deposits by non-banking sector <sup>1</sup>	305,103	289,097	294,887
→ legal and other entities	156,782	105,385	106,129
→ public	148,320	183,712	188,758
Total volume of credits granted to non-banking sector	177,703	176,215	155,963
→ legal and other entities	63,395	65,271	59,935
→ public	114,308	110,944	96,028
Total LON capital	26,389	19,733	17,771
Value corrections or adjustments and provisions for credit losses	3,825	2,862	2,998
Volume of off-balance sheet operations	16,297	13,643	20,077
<b>INCOME STATEMENT</b>			
Net interest	10,945	6,625	5,150
Net non-interest income	3,534	3,281	2,776
Labour costs, general and administrative cost	9,778	8,445	7,691
Depreciation	667	612	586
Impairments and provisions	(1,036)	(97)	3
Operating profit or loss before taxes from continuing operations	2,997	946	(354)
Corporation taxes from continuing operations	(586)	(197)	(1)
<b>STATEMENT OF OTHER COMPREHENSIVE INCOME</b>			
Other comprehensive income before taxes	50	(24)	(197)
Corporate income tax from other comprehensive income	(9)	5	40
<b>IN ABSOLUTE AMOUNTS</b>			
<b>BRANCHES</b>			
Number of branches	9	9	9
<b>EMPLOYEES</b>			
Number of employees	105	100	94
<b>SHARES</b>			
Number of shareholders	170	175	190
Number of shares	224,125	167,831	151,528
Share nominal value (in EUR)	75	75	75
Share carrying amount (in EUR)	118	118	117

IN PERCENTAGE (%)

<b>CAPITAL</b>			
Common Equity Tier 1 capital ratio (%)	18.25	15.30	15.51
Tier 1 capital ratio (%)	18.25	15.30	15.51
Total capital ratio (%)	19.89	17.12	17.57
<b>QUALITY OF ASSETS AND LIABILITIES</b>			
Non-performing (on- and off-balance) exposures/assigned on- and off-balance exposures	1.83	1.03	1.2
Non-performing loans and other financial assets/assigned loans and other financial assets (excl. balances of accounts with the Central Bank and sight deposits with banks)	1.94	1.81	2.00
Non-performing loans and other financial assets/assigned loans and other financial assets (excl. balances of accounts with the Central Bank and demand deposits)	1.92	1.37	1.36
Value corrections or adjustments for loan losses/non-performing loans and other financial assets (excl. balances of accounts with the Central Bank and demand deposits)	43.89	48.00	44.31
Value corrections or adjustments for loan losses/non-performing loans and other financial assets (incl. balances of accounts with the Central Bank and demand deposits)	43.89	48.00	44.31
Collateral received/non-performing loans and other financial assets (excl. balances of accounts with the Central Bank and demand deposits)	41.34	47.50	46.63
<b>PROFITABILITY</b>			
Interest margin (%)	3.46	1.94	1.64
Financial intermediation margin (%)	4.57	2.90	2.52
Return on assets after taxes (%)	0.76	0.22	(0.11)
Return on equity before taxes (%)	13.93	4.95	(1.97)
Return on equity after taxes (%)	11.20	3.92	(1.98)
<b>OPERATING COSTS</b>			
Operational costs/average total assets	3.30	2.65	2.63
<b>LIQUIDITY</b>			
Liquidity coverage ratio	3.24	3.61	4.56
Net stable funding ratio	2.30	2.05	2.00
Leverage ratio	6.55	5.59	4.78

<sup>[1]</sup> Division into sub-categories is based on the methodology prescribed by Banka Slovenije – the Bank of Slovenia – (the Instructions for compiling the statement of financial position, income statement and statement of comprehensive income, and calculating the performance indicators of banks and savings banks). For the needs of the accounting, LON applies its own methodology based on the SKIS mark. For this reason, there are differences in the division into sub-categories.

**10,945**  
NET INTEREST  
31/12/2023

**6,625**  
NET INTEREST  
31/12/2022

**5,150**  
NET INTEREST  
31/12/2021



## TOTAL ASSETS

**339,834**  
31/12/2023

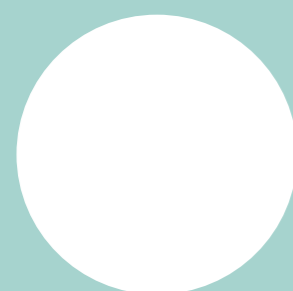
## TOTAL LON CAPITAL

in EUR '000

**26,389**  
CAPITAL  
31/12/2023

## TOTAL VOLUME OF DEPOSITS BY NON-BANKING SECTOR <sup>1</sup>

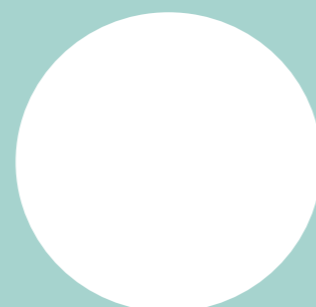
in EUR '000



**294,887**  
31/12/2021



**289,097**  
31/12/2022

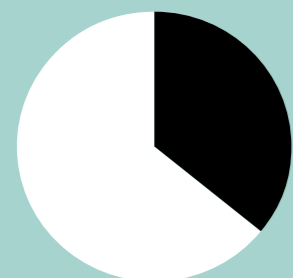


**305,103**  
31/12/2023

**106,129**  
LEGAL AND  
OTHER ENTITIES

**105,385**  
LEGAL AND  
OTHER ENTITIES

**156,782**  
LEGAL AND  
OTHER ENTITIES



**188,758**  
PUBLIC



**183,712**  
PUBLIC



**148,320**  
PUBLIC

**19,733**  
CAPITAL  
31/12/2022

**17,771**  
CAPITAL  
31/12/2021

<sup>1)</sup> Division into sub-categories is based on the methodology prescribed by Banka Slovenije – the Bank of Slovenia – (the Instructions for compiling the statement of financial position, income statement and statement of comprehensive income, and calculating the performance indicators of banks and savings banks). For the needs of the accounting, LON applies its own methodology based on the SKIS mark. For this reason, there are differences in the division into sub-categories.

# “2023 was the best year in the LON’s thirty-year history”

*2023 was marked by a series of successfully completed development projects, record-breaking operating and financial results, which made the year the best since LON started its business in 1992. Currently, LON experiences the best financial health in its history which provides strong foundations for implementing its very ambitious future strategy.*

Although macroeconomic circumstances and uncertainties in the international political arena presented many a challenge, LON managed to triple its profit and achieve good profitability of capital. Despite the main force behind income growth being interest income, LON enjoyed double-digit growth of income from commissions, while the entire Slovenian banking sector recorded decrease in non-interest income. Operational efficiency increased as well, which is indicated in significant improvement of cost-to-income ratio. Although the credit growth slowed down markedly due to temporary capital restrictions and general lower demand for credits, the trust of clients on the other hand was clearly evident in continued increase of their assets. By closely monitoring increasing uncertainty, LON mostly focused on maintaining security and reliability of its operations, which was also reflected in excellent liquidity indicators that in general exceeded also those in the

Slovenian banking sector which sits at the top among banking sectors in eurozone in terms of liquidity. The capital adequacy by the end of the year also reached a very high level as a result of successfully effected capital increase in December. In recognising a better financial situation and risk assessment, the Bank of Slovenia also reduced the level of two regulatory capital requirements by 50 basis points for LON in 2024, the first time in many years.

2023 was also the final year of a three-year strategic period of upturn and fundamental transformation of LON after painful restructuring and reorganisation in 2020 that had been additionally hindered by the COVID-19 pandemic. The success of transformation is not reflected only in steep ascending curves of credit and deposit volume, enhanced payment transactions, exceeding annual income growth and profit of the Slovenian banking sectors, fresh capital of EUR 8 million, exceptional liquidity and capital adequacy,

but also in more than 30 development projects completed that led to far-reaching progress in digital transformation, leaner processes and significantly broader product range, including the third-party insurance and investment fund products, and, most importantly, better customer experience. LON is now highly positioned due to a wealth of its digital solutions, and will continue to maintain its visibility among financial institutions with the most beneficial and customer-friendly offer of services. This has been also confirmed by customer surveys that reflected general high level of customer satisfaction.

The results achieved lay a solid foundation for future development. LON will continue to cultivate its strengths and carry on its best traditions through the next strategic period. Business activities will continue to be primarily oriented in retail banking, upgrading the offer of integral banking solutions for individuals and families, sole proprietors and micro and small enterprises. Key business objectives are aimed at further digitalisation of business processes, sustainable financing, excellence in quality of services to improve user experience, transformation of trademark, and highly motivating working environment. The main financial objectives comprise maintaining net capital profitability around 10%, providing solid capital adequacy, and maintaining high liquidity. Dynamic, yet balanced growth will be supported by capital from internal sources, with the inclusion of

annual profit, and will be complemented with the increase in capital, if necessary, for which the Management Board and the Supervisory Board hold an authorisation of the General Meeting in the amount of EUT 7 million. One of the key strategic goals is to provide adequate ownership structure, thus meeting one of the basic conditions for sustainable and ambitious development.

Our results speak for themselves. However, we must not forget to mention all whose hard work and strong support made all of this possible. First, the team, communities of LON employees, veterans and newcomers that are giving LON their best and are committed to common success. We also have to thank our clients for their loyalty and mutually beneficial business relationships we have managed to develop together. Lastly, our thanks also go to the Supervisory Board for careful guidance, and to our shareholders for their unwavering trust that has been also demonstrated by their votes to increase capital.

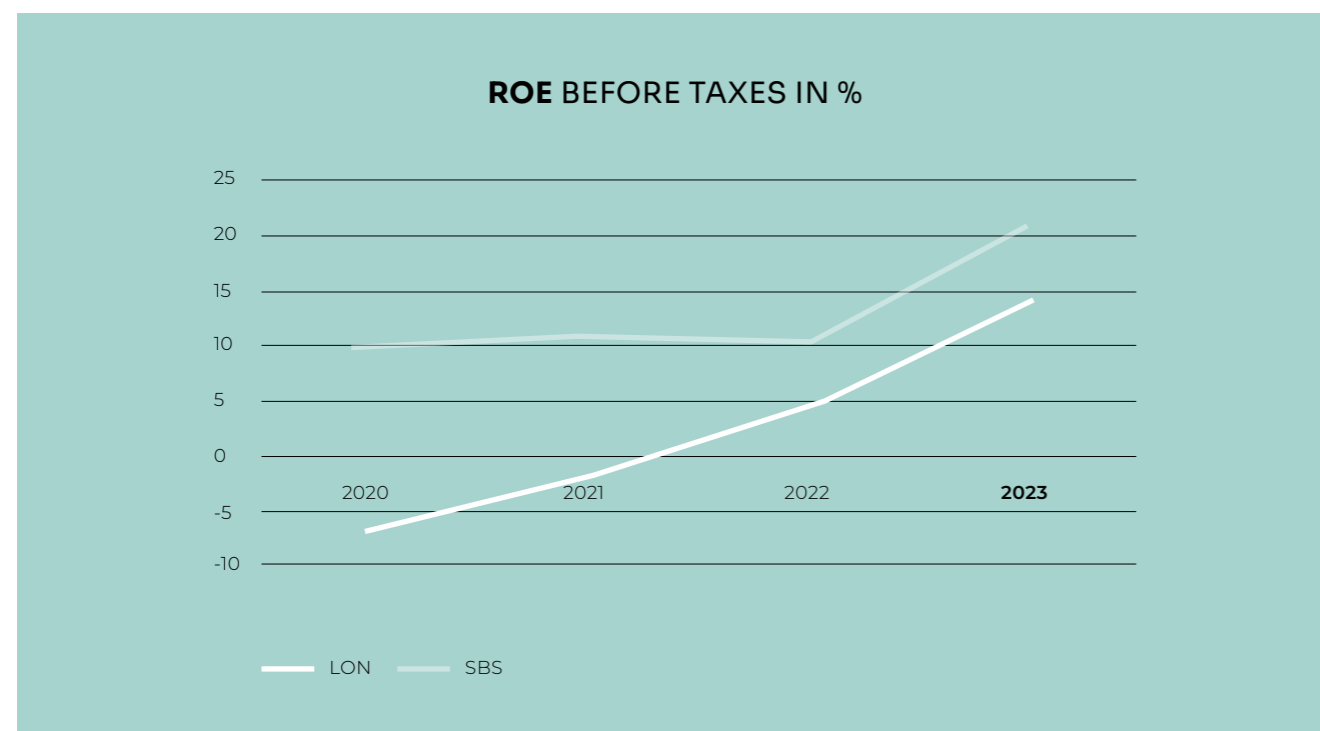
dr. Imre Balogh  
President of the  
Management Board



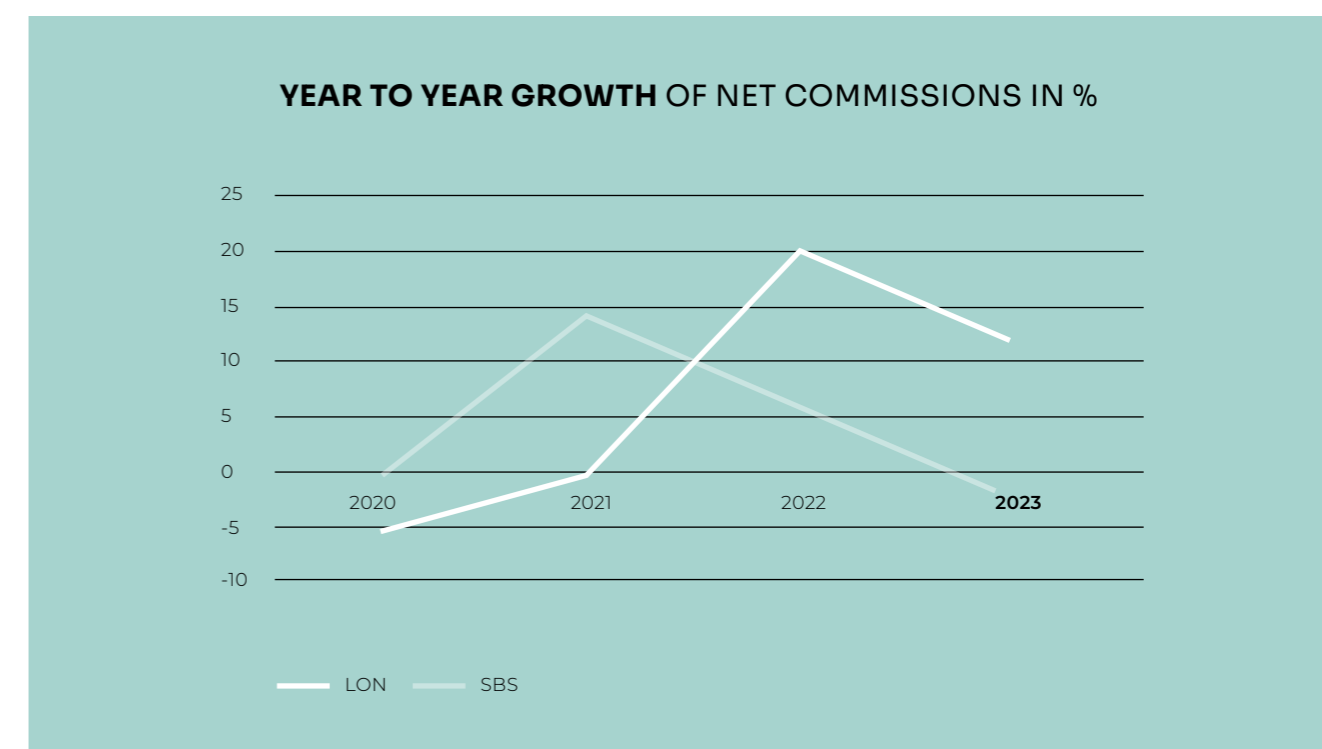
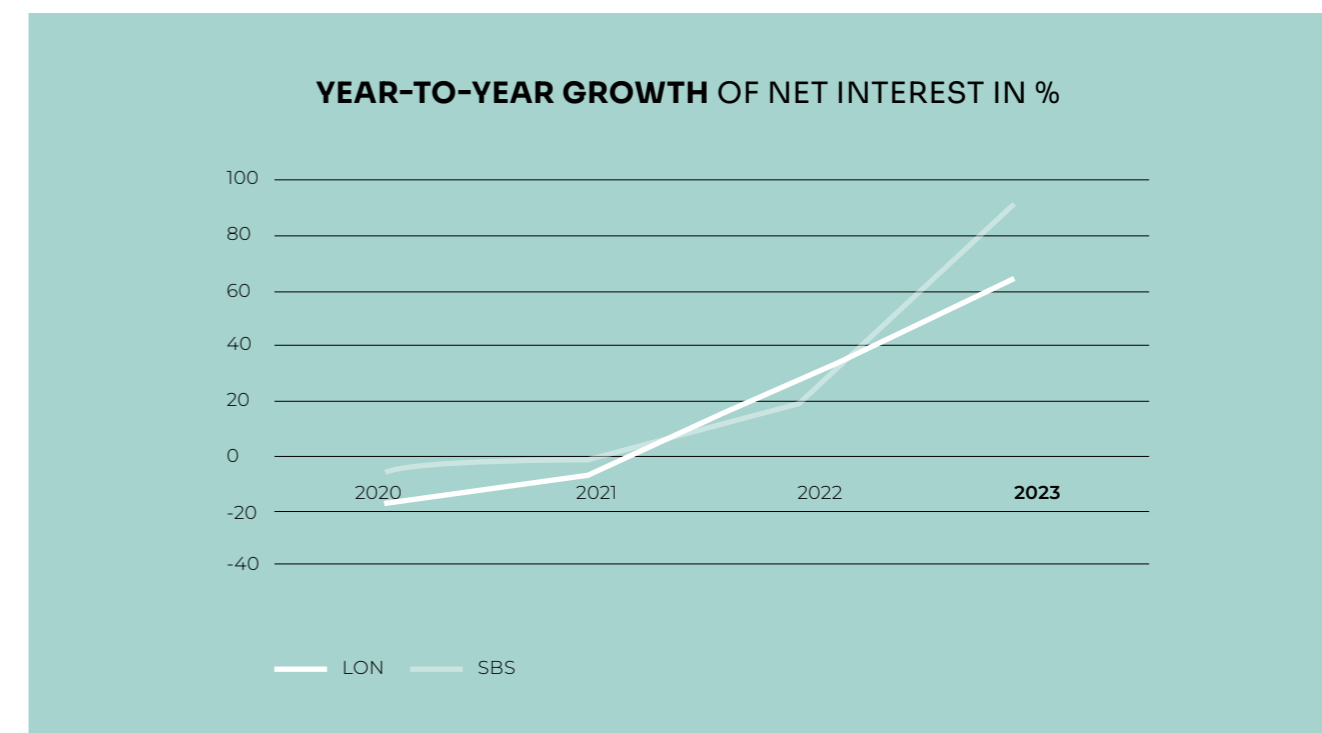
## 2.2 SUMMARY OF KEY EVENTS IN 2023

In 2023, LON ended a strategic period of upturn and achieved record-breaking figures. The results indicate an upswing in all areas of operation, whereby LON has managed to establish itself as a stable and profitable banking institution pursuing profitable and safe growth in the future.

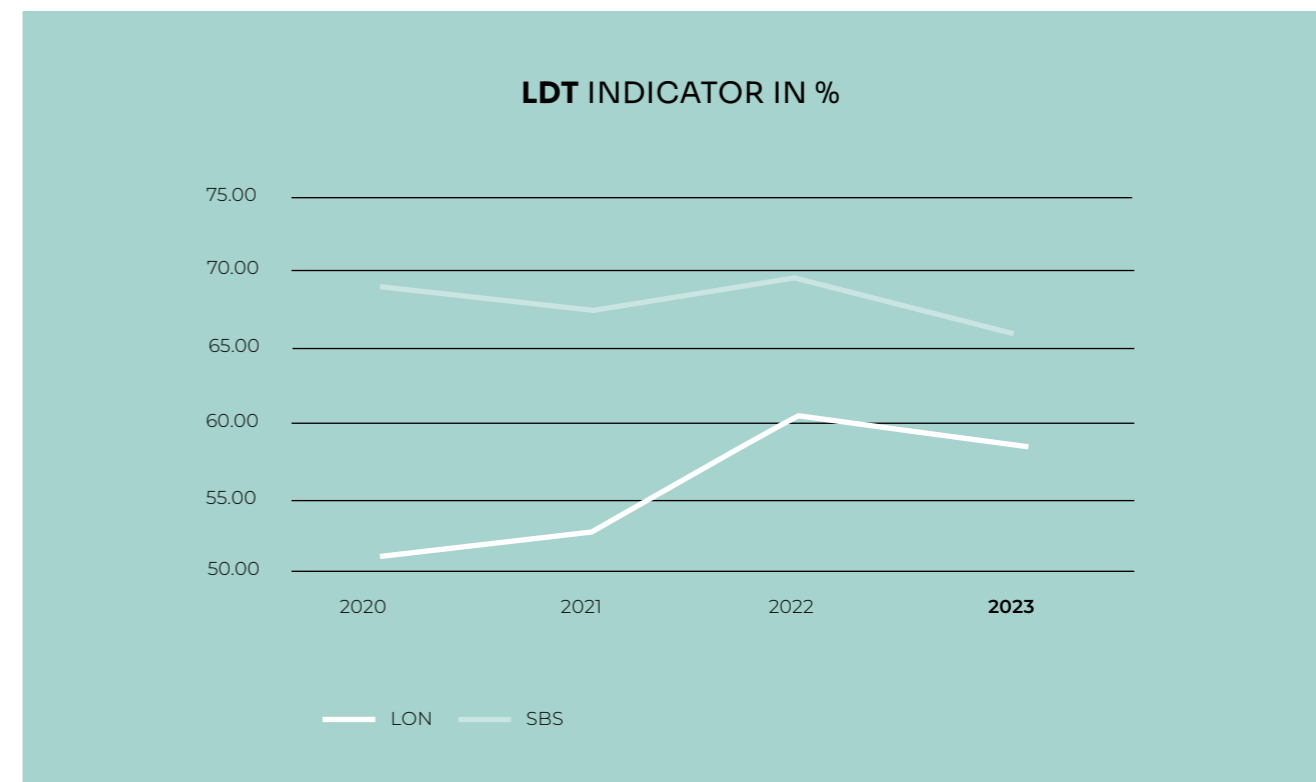
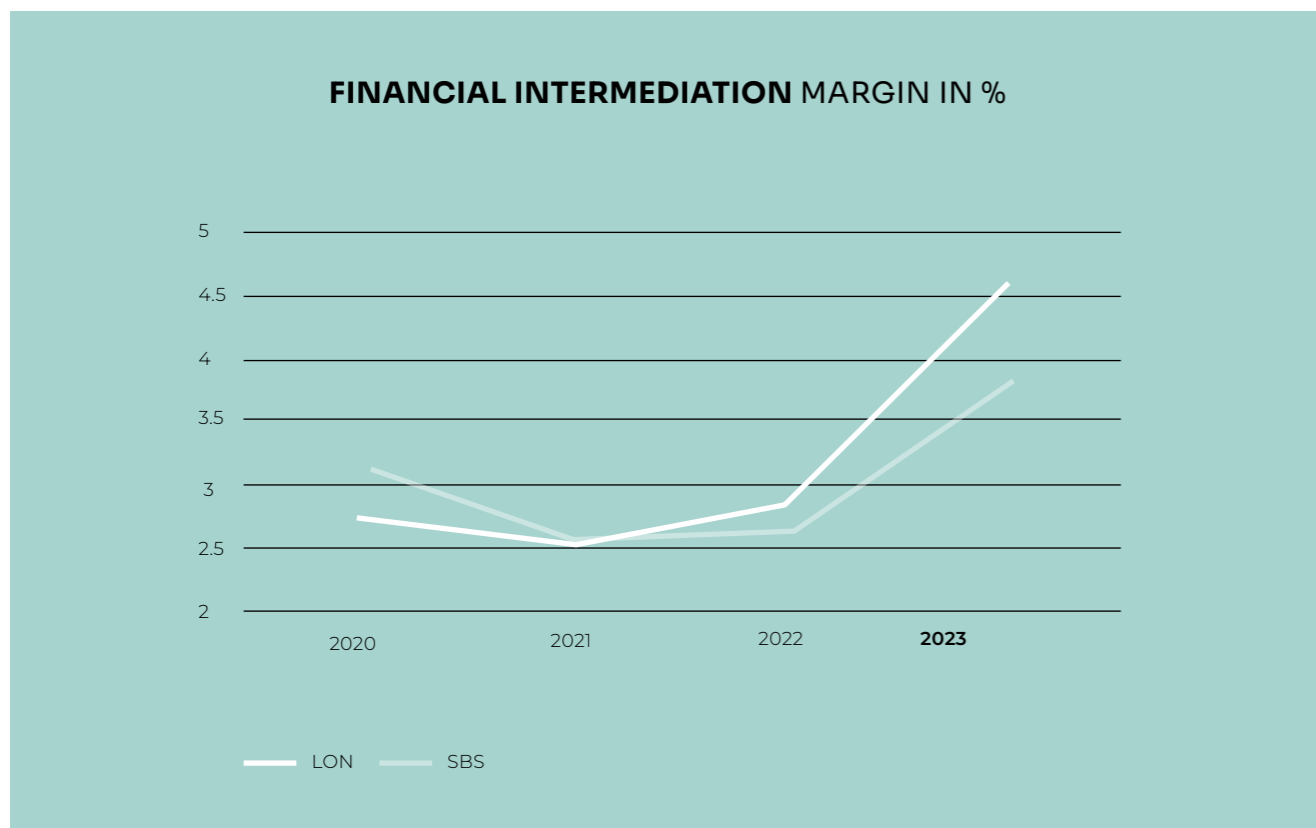
In 2020, LON was the only banking institution in Slovenia with negative return on equity (ROE) before taxes. With the respective upturn in three years, LON has managed to become a profitable institution. Despite the Slovenian banking sector (SBS) having zero ROE growth before taxes in years 2020 to 2022, **LON reduced the difference to SBS in the respective years, and, in 2023 recorded growth with rates comparable to SBS.**



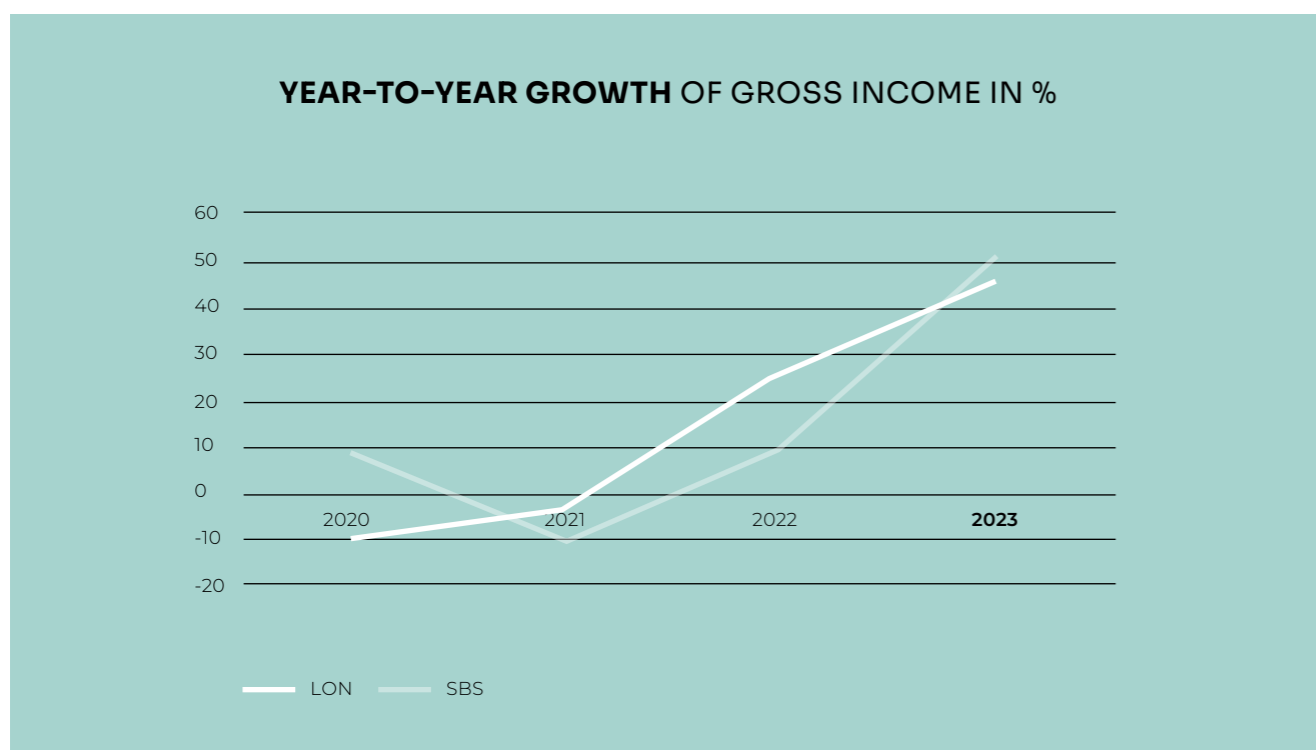
The reason for profitability growth in 2023 can be partially attributed to the market situation, whereby LON did not build its growth only on net interest. LON managed to upturn its operations and exceeded SBS in terms of year-to-year growth of net commissions. Although the growth of net commissions was negative in SBS in 2023, LON still managed to achieve growth rates comparable to those in 2022. This indicates that **LON builds its operations on a solid foundation, where the share of non-interest income increases and strengthens LON reputation and market position.**



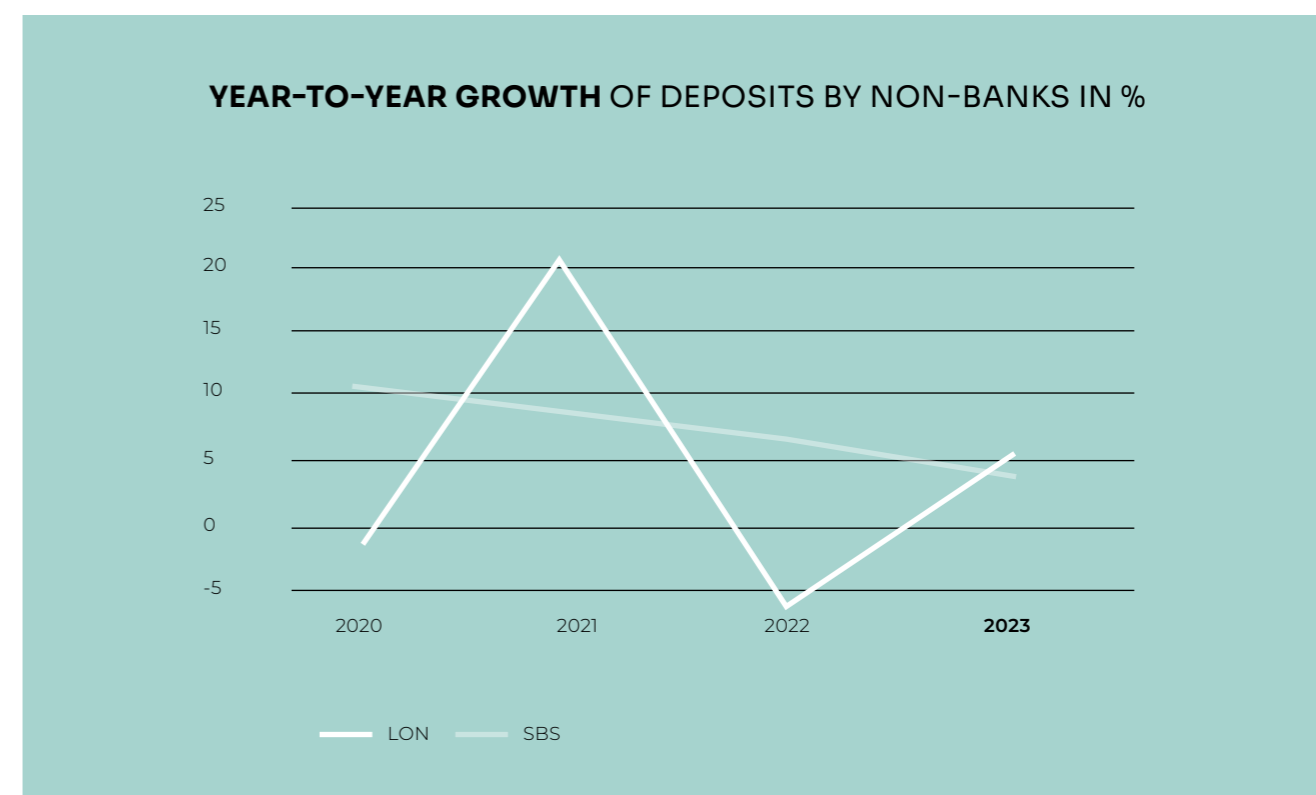
LON also achieved an upturn in the field of financial intermediation margins. **Not only did it manage to close the gap on SBS, but also overtook it in terms of growth and absolute values of financial intermediation margin.**



The LTD indicator confirms this. Namely, **LON halved the gap to SBS in terms of the Loan-Deposit ratio (LTD)**. In 2022, the difference was almost 20 percentage points, and only 8 percentage points in 2023. In this way, LON manages to control profitability as well as liquidity, where it improves the management of surplus liquidity.

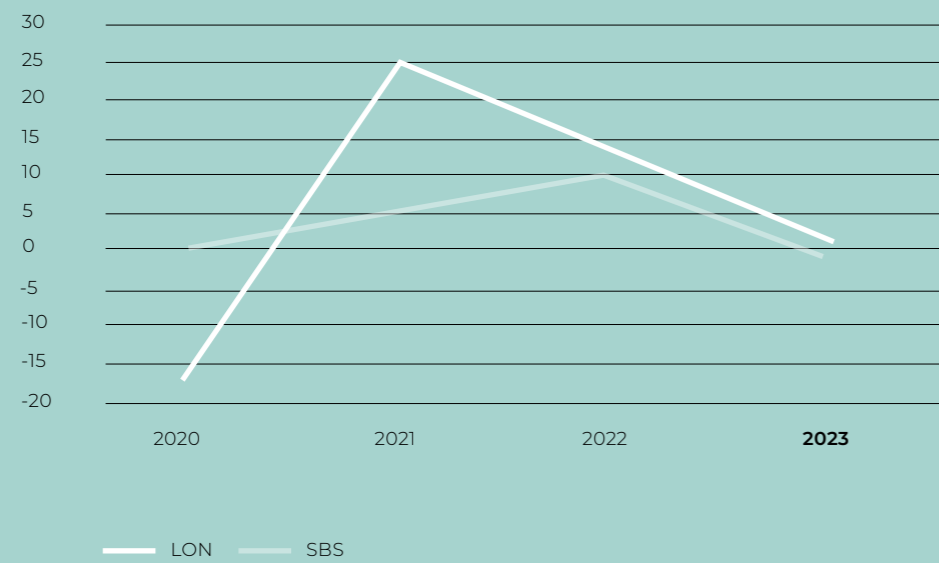


**LON had good income growth in line with the average SBS growth**, where it must be pointed out that LON recorded growth also due to the increasing non-interest income, while, in 2023, SBS grew mainly due to market conditions in terms of higher interest rates on credits.



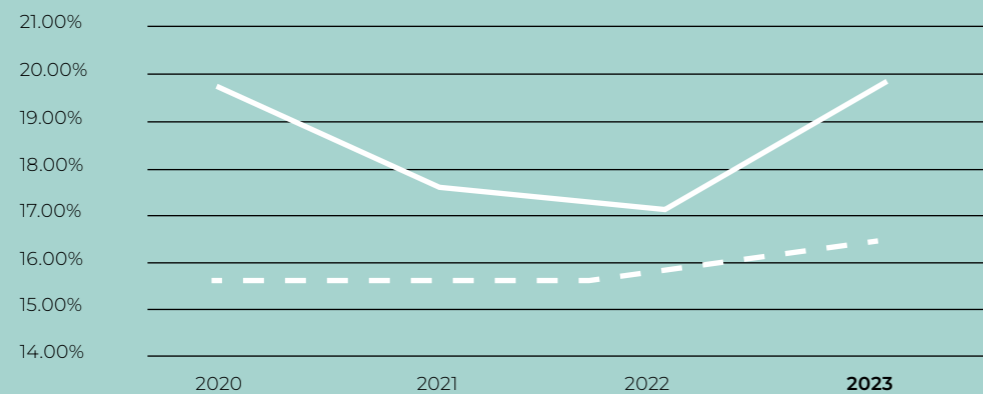
Compared to 2021, the deposits dropped in 2022, mainly because LON launched an active policy of managing excess liquidity. Its prudent market policy of deposit rates in 2023 enabled LON to have higher growth of deposits from the banking sector, which is **reflected in the increase of clients' trust in LON.**

### YEAR-TO-YEAR GROWTH OF LOANS TO THE NON-BANKING SECTOR IN %



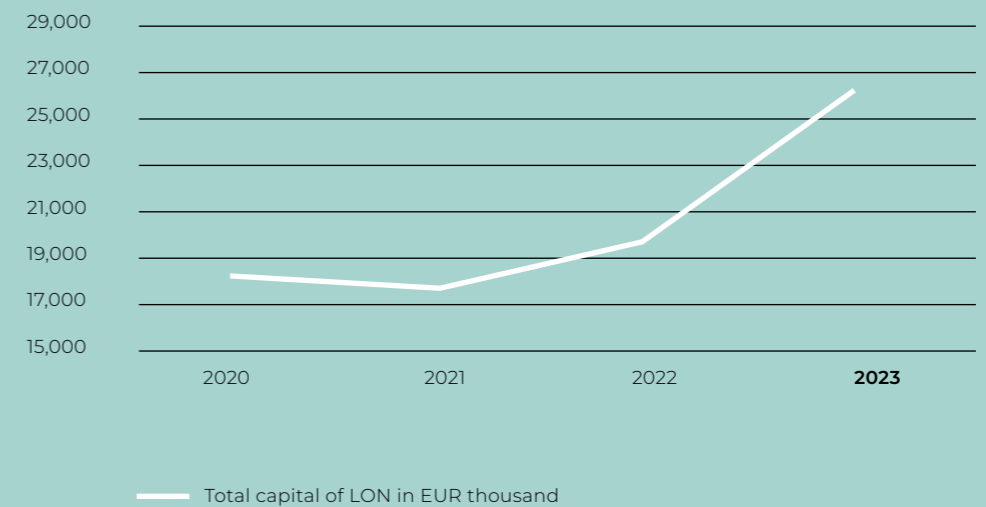
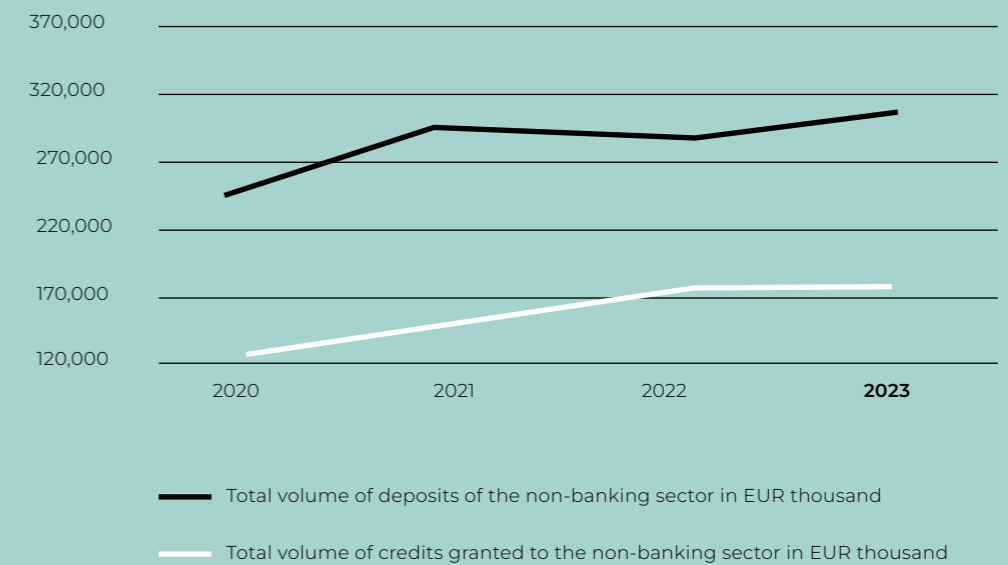
The growth in loans also indicates that **LON increases and consolidates its position on the Slovenian banking market**, as after the negative growth in 2020 due to the provision of capital value, it grew faster than SBS.

### CAPITAL ADEQUACY IN % - TOTAL CAPITAL



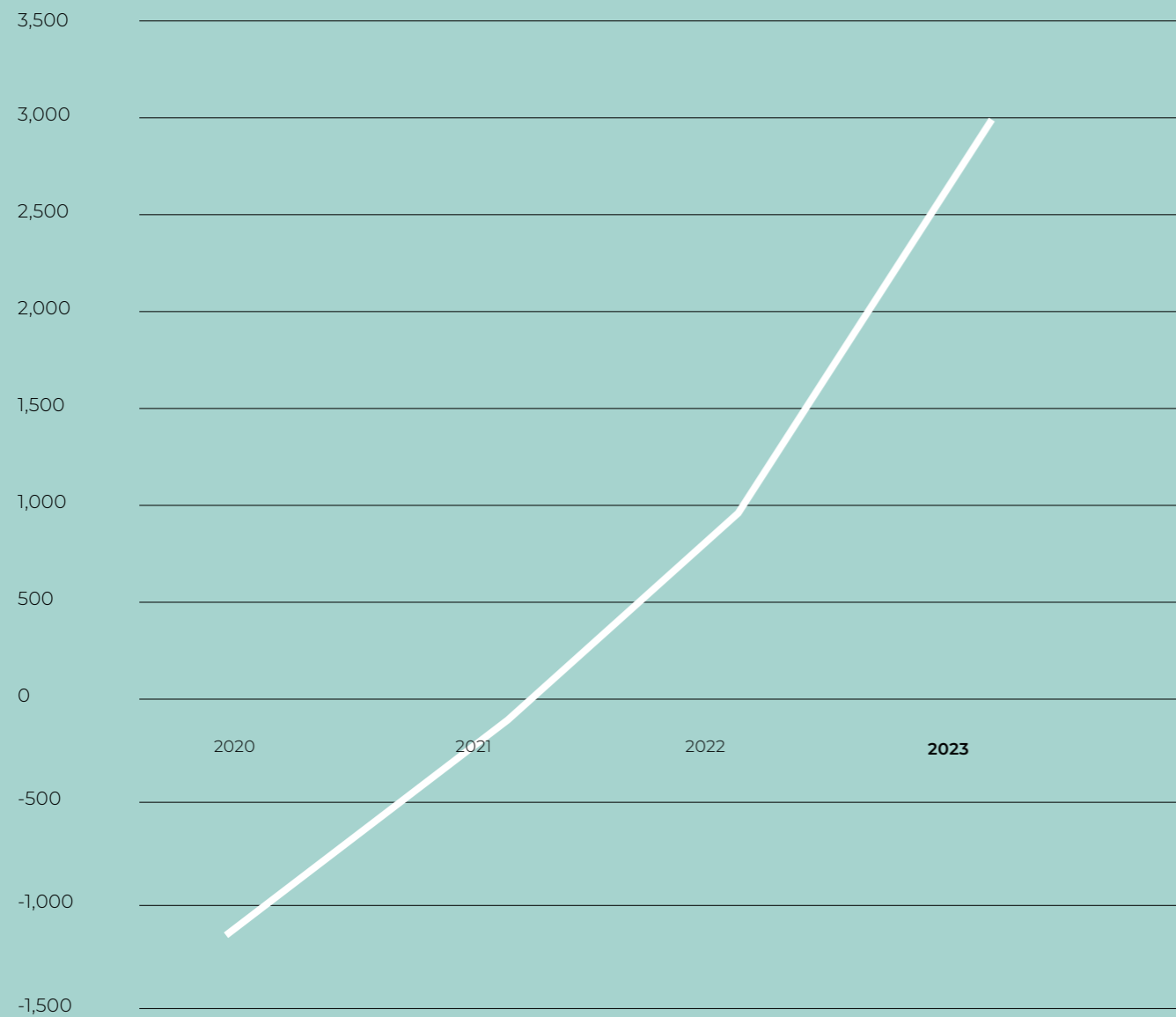
This all confirms that **LON successfully ended the 2020-2023 strategic period of the upturn**. Also, with the successful recapitalisation in December 2023, with owners putting trust in the LON's future, LON succeeded in increasing adequacy of the total capital, which is now more than 3 percentage points above the regulatory level.

LON had **steep and stable growth** in the last three years in the field of deposits, credits to non-banking sector and the total accounting equity.



# OPERATING PROFIT OR LOSS BEFORE TAXES IN EUR THOUSAND

Sharp increase in profit before tax indicates that LON managed an **upturn in difficult market situation in 2020, 2023**, as it has become a **stable and trustworthy financial institution which is competitive on the Slovenian banking market, and achieved comparable, in some segments even better results as SBS, in 2023**. In line with its slogan, in the last three years, LON has proved that it can.



*lahko!*



## STRATEGIC ACTIVITIES

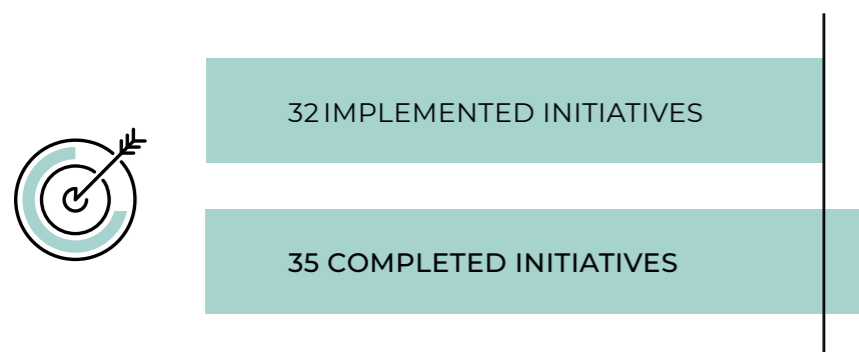
LON successfully completed activities under the Overarching and IT strategy for the 2021-2023 period, and implemented and finished 7 additional initiatives in 2023. This means that of 13 completed initiatives from 2021 and 15 completed initiatives from 2022, LON ended 2023 with 35 realised initiatives of the initial 32. The success indicates the commitment and ability of LON to achieve the objectives set and implement innovative solutions in a timely manner. By implementing more initiatives than planned, LON proved its agility.

LON devised a new strategy for the three-year period of 2024-2026 that will further strengthen its competitiveness on the banking market. This shows LON's commitment to continuous development and adjustment to changes, as well as improvement of its competitive position in the banking sector.

Among important completed projects and line activities from both strategies, LON highlights the following:

- In 2023, it digitalised work in the branches by establishing a document management system and signature pads, thus providing for a more efficient document management and better user experience.
- LON extended paperless operation with clients and thus strengthened sustainable development and simplified processes for customers and employees;
- It introduced a new Halcom channel for commercials users;
- Electronic and mobile banks were upgraded with new services and better user experience;
- LON optimised processes in the field of supporting banking activities and in the Risk Management Division.
- It implemented the process and systems for collecting ideas;
- To enhance information security, a security control centre (24/7) was launched to provide continuous control of information security and thus early detection of and rapid response to potential threats, and a system to control privileged access of external contractors. Information security was increased by applying an XRD tool that provides comprehensive detection, analysis and response to threats in information environment. By implementing the tool, LON further increased protection against attacks and malware.

## OVERARCHING AND IT STRATEGY FOR THE 2021-2023 PERIOD



## A SECURITY CONTROL CENTRE (24/7)

To enhance information security, a security control centre (24/7) was launched to provide continuous control of information security and thus early detection of and rapid response to potential threats, and a system to control privileged access of external contractors. Information security was increased by applying an XRD tool that provides comprehensive detection, analysis and response to threats in information environment. By implementing the tool, LON further increased protection against attacks and malware.

## 03 REPORT ON THE WORK OF THE SUPERVISORY BOARD AND THE AUDIT OF ANNUAL REPORT FOR 2023

In accordance with legal and statutory powers and authorisations, the Supervisory Board supervises and monitors LON's operations and work of the Management Board. The framework for functioning of the Supervisory Board is defined by the LON's Articles of Association, legislative provisions (ZBan-3, ZGD-1, and the Regulation on Internal Governance Arrangements, the Management Body and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks), LON's internal acts (Rules of Procedure of the Supervisory Board, Rules of Procedure of the Audit Committee and the Risk Committee), and other rules applicable in the field of operation of banks and savings banks.

### 3.1 COMPOSITION AND ORGANISATION OF THE SUPERVISORY BOARD IN 2023

The composition of the Supervisory Board is laid down by the LON's Articles of Association stipulating the minimum and maximum number of members of 5 or 6, respectively. Members of the Supervisory Board are appointed for a renewable five-year period.

As at 31/12/2023, the Supervisory Board sat in the following configuration:

- Christoph Geymayer, President
- Milan Zaletel, Deputy President
- Uroš Vidović, Member
- Dejan Kaisersberger, Member
- Jure Mikuž, Member

Expert support to the Supervisory Board work is provided by two committees: Audit Committee and Risk Management Committee, the members of which are members of the Supervisory Board of the bank in accordance with the provisions of ZBan-3. Members of the Audit Committee and the Risk Management Committee are appointed by the Supervisory Board choosing from its members. Each committee is composed of a president and at least two members. Competence and tasks of the Supervisory Board committees are stipulated by the legislation (ZGD-1, ZBan-3), the Articles of Association and internal acts of the savings bank (Rules of Procedure of the Audit Committee and the Risk Committee of Hranilnica LON, d.d.).

The membership of the Supervisory Board and its committees in 2023 is presented in detail in Point 5 of the Chapter "Presentation of LON".

### 3.2 OPERATION OF THE SUPERVISORY BOARD

The Supervisory Board is composed of members that provide independent, professional, fair and comprehensive actions and decision-making in performing the function that is in the best interest of LON.

In performing their function, the Supervisory Board members act in line with the standards of professional diligence, in good faith and in accordance with the ethical standards. If there is a conflict of interest, members remove themselves from the procedure and voting on the respective case.

In 2023, the Supervisory Board convened at eleven meetings.

In accordance with legal and statutory powers, the Supervisory Board monitored and supervised LON's operations throughout the year, made decisions on developmental and current issues, provided opinions on key questions and decisions, and decided on other transactions in its capacity. The Supervisory Board members actively and critically participated in addressing certain decisions at the meetings.

In 2023, the Supervisory Board paid special attention to the following important matters:

#### RISKS

The Supervisory Board was actively involved in the Internal Capital Adequacy Assessment (ICAAP) and the Individual Liquidity Adequacy Assessment Process (ILAAP), and confirmed both of them. At the quarterly level, it addressed detailed reports on individual types of risk, monitored activities in the field of restructuring of claims, non-performing claims, including the activities to reduce the volume of matured and outstanding claims (recovery). At the proposal of the Risk Management Committee, it adopted or granted consent to several LON's internal acts in the field of risk management, and, through the Risk Management Committee and reports of experts services, was regularly informed on the implementation of regulatory changes, requirements and recommendations of the Bank of Slovenia and the Internal Audit Service. The Supervisory Board monitored proposals for using key external contractors of the savings bank with the risk assessment related to external contracting, and also followed the implementation of different activities in the field of risk management. In line with the Policy on remuneration and limit systems, it validated key performance indicators and their values for the Management and key staff. It participated in the process of using key external contractors and risk assessment relating to external risk. It kept a close eye on the implementation of measures to achieve required capital ratios and actively participated in the procedure for implementing recapitalisation.

#### FINANCIAL OPERATION

The Supervisory Board verified and validated the LON's Annual Report for 2022, and regularly reviewed quarterly reports on LON's operations. The Supervisory Board most diligently monitored also the realisation of measures envisaged to reduce operating costs.

#### MANAGEMENT

The Supervisory Board regularly monitored the implementation of the staff policy of the Supervisory Board members and holders of key functions, and also kept an eye on the implementation of measures to prevent conflicts of interest. In terms of the composition of the Supervisory Board, there was a change due to a withdrawal of authorisation to perform the function of the Supervisory Board member, filed in March 2023 by the candidate Miha Praunseis. The candidate was appointed a Supervisory Board member at the General Meeting in January 2023 under a suspensive condition to obtain a permit by the Bank of Slovenia to perform the function of the LON's Supervisory Board member. After withdrawing the request, the Supervisory Board proposed the General Meeting to elect a new member in accordance with the selection procedure, i.e. Jure Mikuž. Jure Mikuž was elected a LON's Supervisory Board member at the General Meeting on 29/05/2023. He took up the function of the Supervisory Board member on 18/07/2023, after the Bank of Slovenia issued him an authorisation to perform the said function. By authorising Jure Mikuž, the Supervisory Board was again complete in accordance with the Articles of Association, and thus the majority diversity of membership was provided in the Supervisory Board committees.

The Supervisory Board regularly monitored the implementation of Management Board activities to eliminate deficiencies identified by the regulator, and familiarised itself with the follow-up of recommendations made by the Internal Audit Service on a quarterly basis.

It reviewed the LON's Annual Report for the financial year 2022, approved it and submitted a positive assessment to the report of the authorised auditor. Within its powers, it participated in the procedures to select and assess the abilities and adequacy of the members of the management body.

#### **BUSINESS PLAN AND DEVELOPMENT STRATEGY OF THE SAVINGS BANK**

The Supervisory Board gave consent to the business plan for 2024, and monitored the implementation of LON's strategy on a quarterly basis.

In addition to the already stated activities, the Supervisory Board also addressed several other matters in 2023, including the approval of the annual report of the Supervisory Board work, it supervised the implementation of other actions adopted at the meetings of the Supervisory Board and committees, adopted or submitted a consent to other internal acts in the field of operation of the Supervisory Board and its committees, promptly decided on investments that require a consent of the Supervisory Board due to exposures or other internal provisions, and performed other prescribed activities.

#### **COOPERATION WITH CONTROL FUNCTIONS**

In 2023, the Supervisory Board addressed regular reports on the work of control functions (Business Compliance Officer, the Officer for prevention of money laundering and terrorist financing, Information Security Officer, and Internal Audit Service). It dealt with regular reports on the work of control functions that provided an overview of the implementation and efficiency of internal controls, reports on risks and other findings. The Supervisory Board gave its consent or familiarised itself with the annual plan of work of control functions and addressed the positions or opinions of the control functions in individual matters. All the respective activities are crucial for efficient risk management and provision of compliance with the relevant banking rules. In this way, LON manages to maintain integrity, transparency and trust in its operations while also protecting the interests of all stakeholders.

### **3.3 OPERATION OF THE AUDIT COMMITTEE**

In 2023, the Audit Committee convened at six meetings where it addressed several important matters relating to the delivery of opinions to the Supervisory Board with regard to the LON's annual report, the appointment of an independent auditor for reviewing financial statements, and the performance of other tasks in the field of accounting, internal controls and internal audit.

At the quarterly level, the Committee regularly dealt with LON's financial statements within the scope of the report on operation, took note of the progress and findings of the annual report audit, and monitored the implementation of audit procedures. In addition to the above, by discussing matters at the Committee meetings and meetings with the head of Internal Audit Service, it monitored the operation of the Internal Audit Service, examined annual and semi-annual reports on the operations of the Internal Audit Service, and kept a close eye on the implementation of the recommendations by the Internal Audit Service. It discussed changes in internal acts in the field of internal audit and submitted them to the Supervisory Board for approval. It submitted the Supervisory Board a 2024 plan of work of the Internal Audit Service for approval, as well as the strategic audit plan for the 2024-2028 period.

### **3.4 OPERATION OF THE RISK COMMITTEE**

In 2023, the Risk Committee convened at seven meetings. In 2023, it is worth highlighting the consultancy services provided to the Supervisory Board regarding the risk appetite and the strategy of risk management, implementation of the control of the senior management regarding the implementation of the risk strategy, verification of the compatibility of LON product prices with the business strategy of risk management, verification whether the incentives provided by the remuneration scheme adequately consider risks, capital, liquidity, and probability and time schedule of LON's income, and the implementation of other tasks in the field of risk management oversight.

Quarterly, the Committee regularly addressed individual reports on LON's risk exposure, LON's risk profile, and was actively involved in implementing the ICAAP/ILAAP process. It monitored the progress of upgrading the rating system (i.e. CBK), the implementation of regulatory changes in the field of interest risk, and other activities in accordance with the work plan of the Risk Management Division. It discussed several changes of internal acts, in particular policies and strategies in the field of risk management. On a quarterly basis, it monitored the implementation of the LON's business strategy or strategic incentives, examined the work plan of control functions for the next year, and took note of the report on the work of control functions for the previous year. It considered the report on the implementation of remuneration policy for 2022, and the proposal of the Savings Bank key performance indicators for 2023, their values and the model for determining variable part of remuneration for the Management Board and other employees that have significant impact on the risk profile of the Savings Bank. It was engaged in addressing risks relating to the use of key external contractors of the Savings Bank, monitored the activities in the field of the implementation of sustainable development (ESG) and the Regulation on Digital Operational Resilience (DORA), monitored impacts and activities and measures taken due to August floods, monitored the implementation of new products or their changes, and took note of the Periodic annual review and analysis of important products.

### **3.5 SELF-ASSESSMENT OF THE WORK OF SUPERVISORY BOARD AND COOPERATION WITH THE MANAGEMENT BOARD**

The Supervisory Board regularly monitored the implementation of its own decisions, and was actively and critically involved in addressing key matters, and cooperated with the Management Board and individual divisions. Within the scope of the self-assessment of the work of the Supervisory Board of 2022, the Supervisory Board defined and also implemented several measures to eliminate identified deficiencies or improve its operation. For the purpose of measuring performance and efficiency of its work, the Supervisory Board also defined indicators for measuring its efficiency. Its work with the Management Board was adequate in line with the legislation and good practice, the Supervisory Board informed itself of important events that are necessary to assess the situation and consequences and to implement the control of the LON's operations.

As professional consultative bodies, the committees of the Supervisory Board provided professional assessment of the proposals from their expert fields, and regularly reported their findings to the Supervisory Board, monitored the implementation of decisions by the committee and the Supervisory Board in the field of the respective competencies. Presidents of the committees regularly reported on the work of their respective committee at meetings of the Supervisory Board.

The Supervisory Board members possess relevant knowledge, skills and experience required to provide the control of LON's operations. With the new candidate taking up the respective term of the Supervisory Board member, the collective adequacy of the Supervisory Board as a whole strengthened, while the majority diversity of membership was provided in the Supervisory Board committees.

### 3.6 REVIEW AND APPROVAL OF THE ANNUAL REPORT

The Supervisory Board thoroughly examined the Annual Report of LON d.d. for 2023 within the legal time period. The Annual Report was first examined by the Audit Committee, who then submitted it to the Supervisory Board for approval. Based on the opinion by the Audit Committee, the Supervisory Board assessed that the LON's Annual Report for 2023 showed LON's operations, operating result, movement of capital, possibilities of development and position in a comprehensive and fair way.

The Supervisory Board also took note of and addressed the Audit Report. After examining the Auditor's Report in accordance with Article 282(2) of the Companies Act, the Supervisory Board declared that it had nothing to add and that it agreed with the findings presented in the report.

Pursuant to the provisions of Article 282 of the Companies Act, the Supervisory Board approves the Annual Report of Hranilnica LON d.d., Kranj for 2023 with the corresponding Audit Report.

Christoph Geymayer, MA  
President of the Supervisory  
Board



## 04 LON'S IDENTITY CARD

<b>Company name</b>	Hranilnica LON d.d., Kranj
<b>Registered office</b>	Žanova ulica 3 4000 Kranj, Slovenija
<b>Telephone</b>	+ 386 4 28 00 777
<b>Website</b>	www.lon.si
<b>E-mail address</b>	info@lon.si
<b>Principal activity</b>	Other monetary intermediation
<b>Activity Code</b>	K/ 64.190
<b>Registration</b>	with the Kranj Local Court Registration number: 1/03560/00 Date of registration: 06/ 07/ 1992
<b>Share capital</b>	EUR 16,809,375.00
<b>Company ID No.</b>	5624908
<b>Identification number</b>	SI40451372
<b>Settlement account with the Bank of Slovenia</b>	SI56 6000 0000 6000 006 SI56 0100 0000 6000 018
<b>Swift</b>	HLONSI22
<b>Management bodies</b>	Management Board Supervisory Board General Meeting

### 4.1 ACTIVITIES OF LON

LON is a holder of banking licence under Article 5 of the Banking Act (ZBan-3) that includes services of accepting deposits and other repayable funds from the public and granting credits on their own account. LON has an authorisation to perform mutually recognised and additional financial services. More information on the scope of LON services is available on LON's website and the website of the Bank of Slovenia ([www.bsi.si/financna-stabilnost/subjekti-nadzora/hranilnice-v-sloveniji/14/hranilnica-lon-dd-kranj](http://www.bsi.si/financna-stabilnost/subjekti-nadzora/hranilnice-v-sloveniji/14/hranilnica-lon-dd-kranj)).

LON can conduct business and transactions only in euro, with the exception of foreign exchange cash operations

The financial year corresponds the calendar year.

## 4.2 BRANCHING

### GORENJSKA REGION

<b>Kranj</b> Business Unit	Žanova ulica 3, Kranj	T: 00 386 (0)4 28 00 777 F: 00 386 (0)4 201 13 37
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### SAVINJSKA REGION

<b>Celje</b> Business Unit	Krekov trg 7, Celje	T: 00 386 (0)3 62 05 530 F: 00 386 (0)03 62 05 536
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<b>Velenje</b> Business Unit	Trg mladosti 6, Velenje	T: 00 386 (0)3 62 05 540 F: 00 386 (0)3 62 05 546
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### DOLENJSKA REGION

<b>Novo Mesto</b> Business Unit	Glavni trg 28, Novo mesto	T: 00 386 (0)7 62 02 580 F: 00386 (0)7 62 02 586
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### KOROŠKA REGION

<b>Slovenj Gradec</b> Business Unit	Cankarjeva ulica 1, Slovenj Gradec	T: 00 386 (0)2 62 17 257 F: 00 386 (0)2 62 17 256
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### OSREDNJESLOVENSKA REGION

<b>Ljubljana</b> Business Unit	Slovenska cesta 56, Ljubljana	T: 00 386 (0)1 32 09 595, F: /
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<b>Grosuplje</b> Business unit	Kolodvorska 3, Grosuplje	T: 00 386 (0)1 32 05 510 F: 00 386 (0)01 32 05 516
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### PODRAVJE REGION

<b>Maribor</b> Business Unit	Ulica Heroja Bračiča 3, Maribor	T: 00 386 (0)2 62 00 520 F: 00 386 (0)2 62 00 526
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### POSAVSKA REGION

<b>Brežice</b> Business Unit	Cesta 1. borcev 21, Brežice	T: 00 386 (0)7 62 02 570 F: 00 386 (0)7 62 02 576
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## 4.2 POSLOVNA MREŽA



9

branches  
around  
Slovenia



45 employees  
in the MARKET  
DIVISION

## 05 MANAGEMENT BODIES

### MANAGEMENT BOARD

MEMBER	FUNCTION	DATE OF TAKING UP THE FUNCTION
dr. Imre Balogh	President of the Management Board	19/06/2020
Igo Gruden	Management Board member	22/12/2020

### SUPERVISORY BOARD

MEMBER	FUNCTION	DATE OF TAKING UP THE FUNCTION
Christoph Geymayer, MA	President of the Supervisory Board	01/12/2020
Milan Zaletel	Deputy President of the Supervisory Board, Supervisory Board member	26/01/2022
Uroš Vidović, MA	Supervisory Board member	14/12/2020
Dejan Kaisersberger, MA	Supervisory Board member	21/12/2021
Jure Mikuž, MA	Supervisory Board member	18/07/2023

### RISK COMMITTEE

MEMBER	FUNCTION	DATE OF TAKING UP THE FUNCTION
Uroš Vidović, MA	President of the Risk Committee	10/06/2021
Dejan Kaisersberger, MA	Member of the Risk Committee	26/01/2022
Christoph Geymayer, MA	Member of the Risk Committee	21/07/2022

### AUDIT COMMITTEE

MEMBER	FUNCTION	DATE OF TAKING UP THE FUNCTION
Milan Zaletel	President of the Audit Committee	23/12/2020
Jure Mikuž, MA	Member of the Audit Committee	28/07/2023
Dejan Kaisersberger, MA	Member of the Audit Committee	26/01/2022

## 5.1 POLICY ON THE APPOINTMENT OF MEMBERS OF THE MANAGEMENT BODY

Members of the management body must fulfil predetermined criteria and conditions as imposed by law (ZGD-1, ZBan-3, and others), EBA guidelines, LON's Articles of Association and internal acts. The fulfilment of conditions and criteria for a Management Board and Supervisory Board member is assessed before and after the candidate has been appointed a member of the LON's management body.

The management body consisting of the Management Board and Supervisory Board must be composed to possess adequate knowledge, skills and experience required for in-depth understanding of LON's activities and risks. The management body in the supervisory function (the Supervisory Board) must also include independent members. The composition of the management body must provide complementarity and diversity of competences of individual members. Diversity in the composition is reflected in different professional experience, age, education and expertise and different characteristics of the management body members. Adequate knowledge, skills and experience are deemed theoretical experience obtained through education and training, and practical experience obtained from previous workplaces, as well as knowledge and skills acquired and proven by the member through their business conduct.

LON does not have a special committee established for appointments, thus these tasks are carried out by the Supervisory Board. The Supervisory Board decides on the appointments of Management Board members or submits a proposal to the General Meeting for appointing a Supervisory Board member, based on the assessment of suitability performed in advance which is implemented by a special committee for assessing the suitability of the LON's management body members in accordance with the provisions of the Policy of selecting suitable candidates for the management body members. The Supervisory Board or the General Meeting must decide on the appointment of a candidate for the Supervisory Board member or Management Board member before the authorisation to perform the function of the Supervisory Board or the Management Board member is issued. Within the scope of assessing the suitability of a candidate for the management body member, which is also a basis for their appointment with the respective body responsible for appointments, the fulfilment of the predetermined conditions and criteria is assessed based on the submitted documents, personal presentation of the candidate and other information obtained. In assessing the fit and proper requirements of the management body members, in addition to the individual assessment of the management body member, also the suitability of the management body as a whole is assessed, i.e. in terms of complementarity and diversity of individual members, and the assessment whether the Management Board or Supervisory Board as a whole is composed to possess adequate knowledge, skills and experience required for in-depth understanding of LON's activities and risks. After the candidate for the management body member has been appointed, the Bank of Slovenia, based on the LON's requirement to issue authorisation to perform the function of the Supervisory Board or Management Board member, performs the procedure to assess the fulfilment of conditions by the respective candidate. If, after the assessment of the Bank of Slovenia, the candidate is deemed to fulfil the conditions laid down by the Banking Act, EBA guidelines on assessing the suitability of the management body members and other relevant regulations, the respective candidate is issued an authorisation to perform the function of the Supervisory Board member or Management Board member.

### 5.3 NUMBER OF DIRECTORSHIPS HELD BY MEMBERS OF THE MANAGEMENT BODY

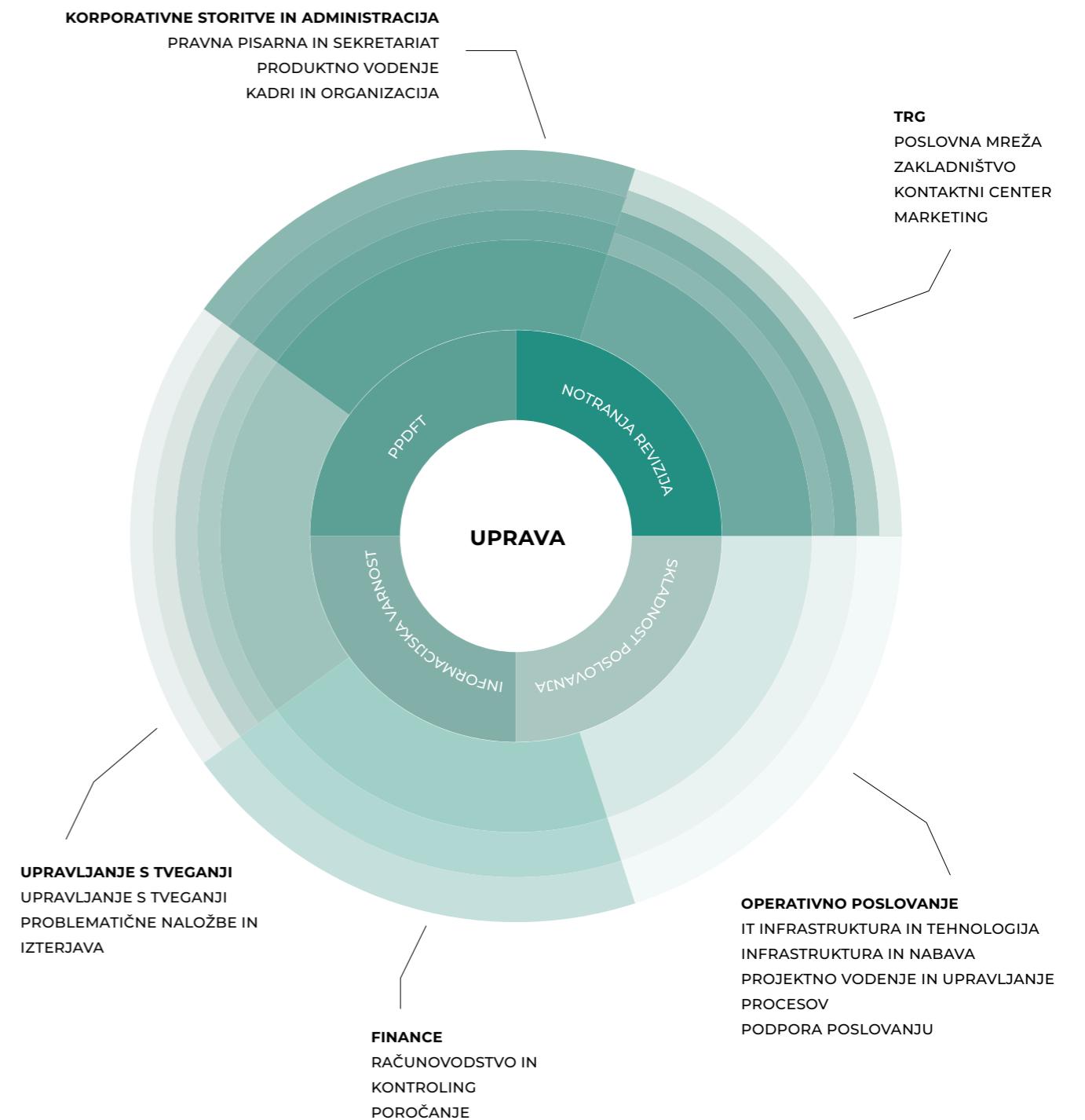
Directorships held by the member of the Management Board and Supervisory Board with other legal persons as at 31/12/2023:

	NUMBER OF DIRECTORSHIPS HELD IN OTHER COMPANIES OR ORGANISATIONS PURSUANT TO ARTICLE 435(2) (A) OF THE CRR	NUMBER OF DIRECTORSHIPS HELD IN OTHER COMPANIES OR ORGANISATIONS PURSUANT TO ARTICLE 38 OF THE ZBAN-3
<b>MANAGEMENT BOARD</b>		
Dr. Imre Balogh	0	0
Igo Gruden	0	0
<b>SUPERVISORY BOARD</b>		
Christoph Geymayer, MA	2	2
Milan Zaletel	3	1
Uroš Vidović, MA	1	1
Dejan Kaisersberger, MA	1	1
Jure Mikuž, MA	14	4

### 06 ORGANISATION CHART

The LON's Management constantly pursues the objective of transparent organisational structure with clearly defined reporting lines that comply with the rules for preventing conflict of interest, provide for the introduction of the four-eyes principle, efficient system of internal controls, and delimitation of powers and responsibilities.

Organisation chart as at 31/12/2023:



## 07 MANAGEMENT DECLARATION

To achieve high level of transparency of management, as a part of the business report, LON submits the management declaration in accordance with Article 70(5) of the Companies Act (ZGD-1).

### 7.1 DECLARATION ON INTERNAL GOVERNANCE ARRANGEMENTS

Pursuant to the fifth paragraph of Article 70 of the Companies Act, LON makes the following declaration on internal governance arrangements under the business part of the Annual Report. LON pursues the internal governance arrangements, including corporate governance, in line with the legislation applicable in the Republic of Slovenia, while also considering its internal acts and Articles of Association. In this regard, LON fully complies with the acts referred to in the Article 9(2) of ZBan-3.

With the view of strengthening the internal governance arrangements, LON, in its operations, considers in particular:

- Provisions of the applicable ZBan-3 that defines the internal governance arrangements, in particular provisions from Chapter 3.4 (Bank management system) and Chapter 6 (Internal governance arrangements and Internal capital adequacy) in the part of requirements that apply to banks and savings banks and to management body members;
- Decision on the internal governance arrangements, arrangement of the management body and process of assessing internal capital adequacy for banks and savings banks; and
- EBA guidelines governing internal governance, assessment of suitability of management body members and holders of key functions, and the remuneration policy and practice based on the relevant decisions by the Bank of Slovenia on the use of these guidelines.

LON has adopted the Management Policy that defines core areas of corporate governance, and the document is publicly disclosed and published on the LON's website. LON has not committed to use any of the public codes and has adopted the Code of Ethical and Professional Conduct, which is published on the website, and the provisions of which are fully considered in its operation.

By signing this declaration, LON undertakes to continue with its proactive operation to strengthen and promote adequate internal governance arrangements and corporate integrity in broader professional, financial, economic and other public.

### 7.2 DESCRIPTION OF THE MAIN FEATURES OF THE UNDERTAKING'S INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO THE FINANCIAL REPORTING PROCESS

LON manages all significant types of risk in accordance with the Risk Management Policy. The system of internal controls is established at the level of on-going internal controls that include control policies and procedures in business and supporting organisational units, monitoring the compliance of business transactions or investments with the accepted risk limits, control of adequate implementation of working procedures by employees, controls of reporting, safeguarding property, safety of information system, as well as at the level of independent internal control functions (risk management, business compliance, internal audit, prevention of money

laundering and terrorist financing and information security) that are directly subordinated to the LON's Management Board. The control of business and supporting organisational units on the one hand, and control functions on the other hand is separated also at the management level.

The main objective of internal controls in risk management in terms of financial reporting is to provide reliability (credibility), correctness, integrity and completeness of financial data, as well as the relevant delimitation of competences and responsibilities in accounting procedures, professional and efficient performance of tasks, operation in line with the regulations and internal rules, and fair disclosure of accountancy data in internal and external reports.

Monitoring the efficiency of ways to hedge in terms of financial reporting and reduction of risks is a process based on the internal control system. Its building blocks are internal controls preventing and detecting any potential errors, including the activities performed by the business compliance office, the prevention of money laundering and terrorist financing office, information security office and internal audit service. Due to more efficient performance of its function, the Supervisory Board has established the Audit Committee focusing on the field of financial reporting and the Risk Committee which is mainly in charge of the control and consultancy in risk management. The compliance of the system of internal control and risk management with banking rules is annually assessed by the external audit that reviews LON's annual report.

### 7.3 DATA PURSUANT TO ARTICLE 70(6) OF THE COMPANIES ACT (ZGD-1)

#### IMPORTANT DIRECT OR INDIRECT HOLDINGS

As at 31/12/2023, LON had 170 shareholders who owned 224,026 shares, of which 10 major shareholders held 91.83% of the company share capital. The share of ownership over 5% in the total capital, which is a threshold of a substantial share in the total capital within the meaning of ZTFI and ZTFI-1 (Market in Financial Instruments Act) as at 31/12/2023, was reached by 5 shareholders.

SHAREHOLDER	NUMBER OF SHARES	PERCENTAGE OF SHARES
Kylin prime Group AG	55,939	24.96%
Zorn Otmar	47,109	21.02%
GIC GRADNJE d.o.o.	45,423	20.27%
FIN-NEP d.o.o.	11,500	5.13%
ETA KAMNIK d.o.o.*	11,000	4.91%
AG d.o.o.*	11,000	4.91%

\* related companies

## REVIEW OF LON'S MAJOR SHAREHOLDERS ACCORDING TO THE BALANCE AS AT 31/12/2023

	NUMBER OF SHARES	SHARE IN CAPITAL
KYLIN PRIME GROUP AG	55,939	24.96%
Zorn Otmar	47,109	21.02%
GIC GRADNJE d.o.o.	45,423	20.27%
FIN-NEP d.o.o.	11,500	5.13%
CAPSTONE GLOBAL SOLUTIONS LIMITED	11,000	4.91%
ETA Kamnik, d.o.o.	11,000	4.91%
AG d.o.o.	11,000	4.91%
UNILINK CONSULTING LIMITED	4,724	2.11%
ROSE CAPITAL S.A.R.L.	4,260	1.90%
ETHIC INTERNATIONAL, d.o.o.	3,757	1.68%
<b>Total 10 major shareholders</b>	<b>205,712</b>	<b>91.78%</b>
Other shareholders	18,306	8.17%
Own shares	8	0.00%
<b>Total shares, without partial rights</b>	<b>224,026</b>	<b>99.96%</b>
Domestic investors	147,575	65.84%
Foreign investors	76,451	34.11%
Partial rights	99	0.04%
<b>Total all shares</b>	<b>224,125</b>	<b>100.00%</b>

Except for persons indicated in this disclosure, LON has no recognised persons having direct and/or indirect interest in capital or voting rights that should be disclosed in accordance with the Market in Financial Instruments Act (significant share) and/or for which a relevant permit in accordance with ZBan-3 (qualifying share) should be obtained on their behalf.

### SPECIAL CONTROL RIGHTS

All shares issued are from the same class and have the same rights. None of the holders has special control rights.

### RESTRICTIONS ON VOTING RIGHTS

Each share has its own vote. Voting rights of LON's shareholders are not restricted by the Articles of Association to a specific share or specific number of votes. LON's shares are freely transferable in accordance with Article 8 of the Articles of Association. Only shareholders entered in the central register of book-entry securities and who register their presence at the General Meeting are entitled to participate in and exercise voting rights at the General Meeting.

The rights of individual LON shareholders are restricted with the order by the regulator according to which the shareholders Kylin Prime Group AG, FIN-NEP d.o.o. and Capstone Global Solutions Ltd. have restricted voting and other management rights.

## RULES ON THE APPOINTMENT AND REPLACEMENT OF MEMBERS OF MANAGEMENT AND SUPERVISION BODIES

In appointing and replacing members of the management body in the function of management and supervision, LON pursues the Policy of selecting suitable candidates for the management body members in LON which considers the provisions of relevant banking legislation (ZBan-3, ZGD-1), regulations of the Bank of Slovenia, EBA guidelines and other internal acts in the respective field.

The Policy defines the procedure to select and appoint suitable candidates for management body members and also specifies required knowledge and competences as well as detailed criteria and procedures to prepare an assessment of ability and suitability of members of the management body. The Policy also addresses practices regarding diversity in the LON's management body.

Assessments of ability and suitability (fit and proper assessment) of management body members are conducted before and after the appointment if there occur circumstances requiring re-assessment, or at least once a year.

## RULES ON AMENDING THE ARTICLES OF ASSOCIATION

The Articles of Association may be amended according to the procedure specified by law, whereas LON has no special rules on amending the Articles of Association. As per the provisions of the Articles of Association, the General Meeting empowered the Supervisory Board to amend the Articles of Association with regard to those provisions that refer to the harmonisation of its text with the applicable decisions adopted by the General Meeting.

## MANAGEMENT'S POWERS TO ISSUE OR PURCHASE OWN SHARES

The LON's Management Board currently has no powers of the General Meeting to issue or purchase own shares.

## MANAGEMENT'S POWERS TO INCREASE SHARE CAPITAL FROM APPROVED CAPITAL

Pursuant to the decision by the General Meeting of 24/01/2023, the LON's Management Board is entitled to increase share capital based on the approved capital for up to 150,000 new shares or a maximum of EUR 11,250,000.00. The authorisation applies for a period of five years, i.e. until January 2028. Under the authorisation to increase share capital based on the approved capital, the Management Board, with the consent of the Supervisory Board, successfully completed recapitalisation in December 2023, under which a total of 56,294 shares were issued. In the context of the remaining authorised capital, 93,706 new shares can be issued until January 2028.

## 7.4 OPERATION OF THE GENERAL MEETING, ITS KEY COMPETENCIES AND DESCRIPTION OF SHAREHOLDERS' RIGHTS AND MODALITIES FOR EXERCISING

### OPERATION OF THE GENERAL MEETING

The General Meeting is made up of LON's shareholders.

The Management Board convenes the General Meeting at least once a year, or if it is necessary for the interest of LON. The General Meeting can be also convened by the Supervisory Board, in particular when LON's Management Board fails to convene the General Meeting in a timely manner or when this is necessary for the smooth functioning of LON. The call of the General Meeting can also be requested by shareholders the total shares of who reach one twentieth of the share capital.

The Management Board convenes the General Meeting at least 30 days in advance by publishing the call together with the agenda and proposals for adopting resolutions in a way laid down by the legislation and the Articles of Association. The General Meeting decides by a majority of the votes cast, unless the Articles of Association of legislation specify a qualified majority.

In accordance with the Articles of Association and legislation, shareholders may propose agenda to be expanded or make a counterproposal to individual points of agenda.

### KEY COMPETENCES

The General Meeting decides on distribution of profit at the proposal of the Management Board and based on the opinion of the Supervisory Board, on the adoption of the annual report if it is not confirmed by the Supervisory Board or if such decision based on the decision by the Supervisory Board and the Management Board is left to be made by the General Meeting, on elections and revocation of Supervisory Board members, on discharging Management Board members and Supervisory Board members and remuneration of the Supervisory Board members, on adoption, amendments and supplements to the Articles of Association, on measures to increase or decrease share capital, on termination and status changes in LON (merger, takeover or division), on the appointment of an auditor and other matters laid down by the Articles of Association or legislation. The General Meeting decides on issues associated with the LON's business management if it is required by the Management Board in the event that the Supervisory Board rejects the consent.

### DESCRIPTION OF SHAREHOLDERS' RIGHTS

LON's capital is divided to ordinary registered shares with the code LONR. In terms of shares:

- Shareholders participate in the underlying principal proportionally to their percentage in share capital, proportionally to the percentage presented by the share against the company's assets, both in terms of profit sharing (in the form of dividends) and participation in liquidation, while considering the provisions of the Articles of Association,
- Shareholders are entitled to management at the General Meeting;
- Shareholders have the right to information by consulting the material before the General Meeting is convened, by exercising the right to consult the share register, by consulting business and audit reports, and the right to ask a question for the Management Board at the General Meeting.

LON's dividend policy stems from the main objectives defined in strategic plans, statutory provisions and recommendations of the Bank of Slovenia and the European Central Bank. LON has a conservative dividend policy in place that enables it to meet minimum capital requirements.

### MODALITIES FOR EXERCISING SHAREHOLDERS' RIGHTS

Shareholders – holders of shares entered in the central share register of book-entry securities at the end of the seventh day before the General Meeting are entitled to participate in and exercise voting rights at the General Meeting and who registered their attendance at the General Meeting no later than at the end of fourth day before the General Meeting.

Shareholders exercise their rights at the General Meeting in person or by a legal representative or proxy. Organised collection of authorisations of shareholders to vote at the General Meeting is possible only under conditions and in the manner stipulated by the applicable legislation.

Each share represents one vote at the General Meeting.

## 7.5 COMPOSITION AND OPERATION OF MANAGEMENT OR SUPERVISION BODIES AND THEIR COMMITTEES

LON is managed according to a two-tier system. LON is managed by the Management Board, while its operations are supervised by the Supervisory Board. Management is based on the provisions of the Slovenian and European legislation, Articles of Association, internal acts and generally accepted good business practice.

### MANAGEMENT BOARD

LON's operations are managed by the Management Board which represents and acts on behalf of LON. According to the provisions of the Articles of Association, the Management Board has a minimum of two and a maximum of three members, of which one is the president. The Management Board is appointed by the Supervisory Board for a period of five years with an option of re-appointment. The function of the Bank's Management Board can be performed by a person who has obtained a permit to perform the function of a Management Board member. The Supervisory Board decides on the appointment of a certain person for performing the function of a Management Board member based on preliminary assessment of the respective person drawn up by a special committee for assessing ability and suitability of management body members. The Supervisory Board must decide on the appointment of a certain person for the LON's Management Board member before the respective person files a request for the issuing of the permit for performing the function.

The LON's Management Board consists of the president of the Management Board and the member of the Management Board who meet on a weekly basis at the Management Board meetings. The Management Board manages operations independently and under its sole responsibility. In accordance with the provisions of ZBan-3, two members of the Management Board jointly represent and act on behalf of LON. The functioning of the Management Board is regulated by the Management Board Rules of Procedure.

LON's Management Board provides for the establishment and implementation of such arrangements of the LON's internal management which ensure efficient and prudent management based on a clear definition of powers and responsibilities and the policy and measures for preventing the occurrence of conflicts of interest. LON's Management Board is fully responsible for LON's operation and its risk management, including (i) approving strategic goals, determining, adopting and regularly reviewing the risk-taking and risk management strategy, and the arrangement of internal management; (ii) providing the integrity of systems of accounting and financial reports including also financial and operational supervision, and providing business compliance of LON with the applicable regulations and standards; (iii) supervising

the procedures of disclosing information and procedures of informing competent authorities and other interested parties; and (iv) providing efficient control of senior management. The Management Board provides for regular monitoring and evaluation of the efficiency of internal management arrangements and also adequate measures to eliminate potential deficiencies. The Management Board regularly informs the Supervisory Board of significant issues of LON's operation, business policy, financial situation and other issues in the field of its operation.

For the entire term of the function, a member of the Management Board must comply with the statutory conditions for performing the function of a LON's Management Board member and (i) act in accordance with the requisite professional diligence and in particular provide that LON's Management Board functions in accordance with the requirements of the Banking Act, (ii) act with honesty, integrity and independence of mind to effectively assess and challenge the decisions of the senior management regarding LON, (iii) act in accordance with the highest ethical management standards, taking into account the prevention of conflicts of interest, (iv) devote sufficient time to efficiently carry out the function of the member.

The Management Board may transfer certain decision-making rights to the collective decision-making bodies. As an assistance to the Management Board in its functioning, the following bodies were established in LON at the end of 2023: Credit Committee, Bad Debt Management Committee, Asset, Liability and Risk Committee, Committee for complaints and prohibited conduct, and others.

A more detailed description of competence of collective bodies is given in Chapter 6 of the Business Report.

The membership of the Management Board in 2023 is presented in Point 5 of the Chapter "Presentation of LON".

## **SUPERVISORY BOARD**

The composition and number of members of the Supervisory Board are determined in the LON's Articles of Association. The General Meeting is authorised to appoint Supervisory Board members. After the amendment of the Articles of Association in January 2023, the Supervisory Board has a minimum of 5 and a maximum of 6 members. The Supervisory Board members elect their president and deputy president. The Supervisory Board supervises and monitors the management and operations of LON. It operates pursuant to the adopted Rules of Procedure of the Supervisory Board that govern in detail the principles, procedures and method of work, while main powers and responsibilities are provided in the Articles of Association and acts governing the LON operations (ZBan-3, ZGD-1).

The Supervisory Board also adopts strategic guidance, verifies annual and other financial reports and draws up relevant opinions, provides grounds to its opinion to the annual report of the Internal Audit Revision at the shareholders meeting, and its opinion to the annual report of the Management Board, accepts the annual reports and proposals by the Management Board to use the balance sheet profit, addresses any finding by the Bank of Slovenia, tax authorities and other supervisory bodies in the supervision procedures. In addition, the Supervisory Board gives consent to the Management Board on the strategy of operations and the annual business plan, recovery plan, remuneration policy, organisation of the internal control system, annual work plan of the Internal Audit Service, compliance office, money laundering and terrorist financing prevention service, information security office, and conducts other tasks in accordance with internal acts, the Articles of Association and regulatory provisions.

Consultative bodies of the Supervisory Board are Audit Committee and Risk Committee. Tasks and powers of each of them are defined by the Rules of Procedure of the Audit Committee and Rules of Procedure of the Risk Committee of the Supervisory Board. All members of the committees are also the members of the Supervisory Board.

The membership of the Supervisory Board and its committees in 2023 is presented in Point 5 of the Chapter "Presentation of LON".

## **RISK COMMITTEE**

The Risk Committee is a consultative committee of the Supervisory Board which, in line with its competences, regularly addresses reports on risks and advises the Supervisory Board regarding the LON's risk appetite and the risk management strategy, assists in implementing control of senior management with regard to the risk management strategy, verifies whether the risks are taken into account in the incentives within the remuneration system, and examines whether the LON's product prices are compatible with the business model and risk management strategy.

The Risk Committee members are members of the Supervisory Board.

## **AUDIT COMMITTEE**

The Audit Committee is a consultative committee of the Supervisory Board. In line with its competences, the Audit Committee closely monitors documents relating to the LON's financial statements, and the operation of the Internal Audit Service and organisation of the internal control system. The Audit Committee is also involved in procedures for selecting an external auditor and reviews and monitors their work and autonomy. The Audit Committee members are members of the Supervisory Board.

LON does not have a special committee established for appointments, thus these tasks are carried out by the Supervisory Board. The advisory function is carried out by the Risk Committee that gives the Supervisory Board advice regarding the reimbursement policies and the Committee for assessing ability and suitability of management body members that is involved in the selection procedure and assessment of the abilities and suitability of members. The Committee for assessing abilities and suitability comprises three members, one of whom is the external expert and also its president. Other two members are an expert for developing staff and organisation, while the other is in charge of providing compliance of operation. The assessment of suitability is carried out before the appointment, after the appointment or any time in the event of circumstances that require re-assessment of the suitability to determine whether the management body member is still suitable for performing the function, or at least once a year.

The core values and principles of acceptable and unacceptable conduct and behaviour in LON are provided in the LON's Code of ethical and professional conduct and the Corporate Integrity Policy. They must be complied with by employees at all hierarchical and organisational levels in LON, including the persons performing functions and tasks in LON according to their appointment or other contractual relationship. LON has zero tolerance for unlawful and unethical conduct and non-compliance with the values and principles written down. LON has established a system for managing breaches with the purpose to prevent any form of unlawful act that constitutes an infringement of the rules in terms of compliance of operation. On its website, LON has an open contact for external and internal reporting of infringements through the "Whistle-blower" system where it is possible to submit an anonymous report on the prohibited conduct. On the annual basis, employees are informed of the option to report any form of infringement and prohibited conduct.

## 7.6 DESCRIPTION OF DIVERSITY POLICY

The Diversity Policy with regard to selection of members of the management body is regulated in substance by internal acts in the field of selecting and assessing the suitability of management body members and holders of key functions, which define the conditions and procedure to select management body members and the criteria to assess their suitability. Diversity in the composition of the management body is reflected in different professional experience, age, education and expertise and different characteristics of the management body members. These also include reasonable gender balance in the management body that is achieved by increasing the number of the under-represented gender.

A more diverse management body encourages constructive criticism and discussion based on various positions. LON does not appoint management body members only to strike the balance, e.g. by increasing the number of the under-represented gender, if this is detrimental to the operation and suitability of the management body as whole, or at the expense of the suitability of individual members of the management body.

LON has two-person Management Board and five-person Supervisory Board pursuant to the Articles of Association. Both bodies possess different knowledge and experience necessary for efficient operation and long-term risk management. By appointing the fifth member of the Supervisory Board, the proper diversity of the committee members in the supervisory function was ensured. However, the composition of the Supervisory Board remains unchanged in terms of gender, since all the members are men. The General Meeting has already addressed the issue, and in March 2024 appointed Prof. Dr. Mejra Festić a member of LON's Supervisory Board, who will take the term of office under a suspensive condition to obtain a permit by the Bank of Slovenia.



## 08 VISION, MISSION, VALUES

### 8.1 VISION

LON is a responsive, flexible financial institution with friendly staff that enables clients in the local environment to achieve their goals.

### 8.2 MISSION

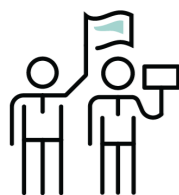
The key reason for LON's existence is to satisfy clients, i.e. provide prompt and efficient banking services. The fulfilment of clients' wishes, dreams and visions for the future. It also means welcoming clients, i.e. citizens and small entrepreneurs, to become part of LON's community and to tell their family members, friends, colleagues and business partners with excitement about LON's excellent banking services with a lovely personal touch.

### 8.3 VALUES



#### TRUST

We are gaining trust with fair treatment and responsible work. We are genuine and always tell the truth. We are honest in presenting our views. We use plain language. We call a spade a spade.



#### COOPERATION

The whole must be greater than the sum of its parts. Through cooperation we justify the trust of all stakeholders. We work together to find solutions that lead to long-standing relationships and mutual satisfaction.



#### RESPONSIBILITY

We are transparent. We do what we say. We stand by our words. We value the integrity the highest. We are aware of the responsibility we have.



#### EXCELLENCE

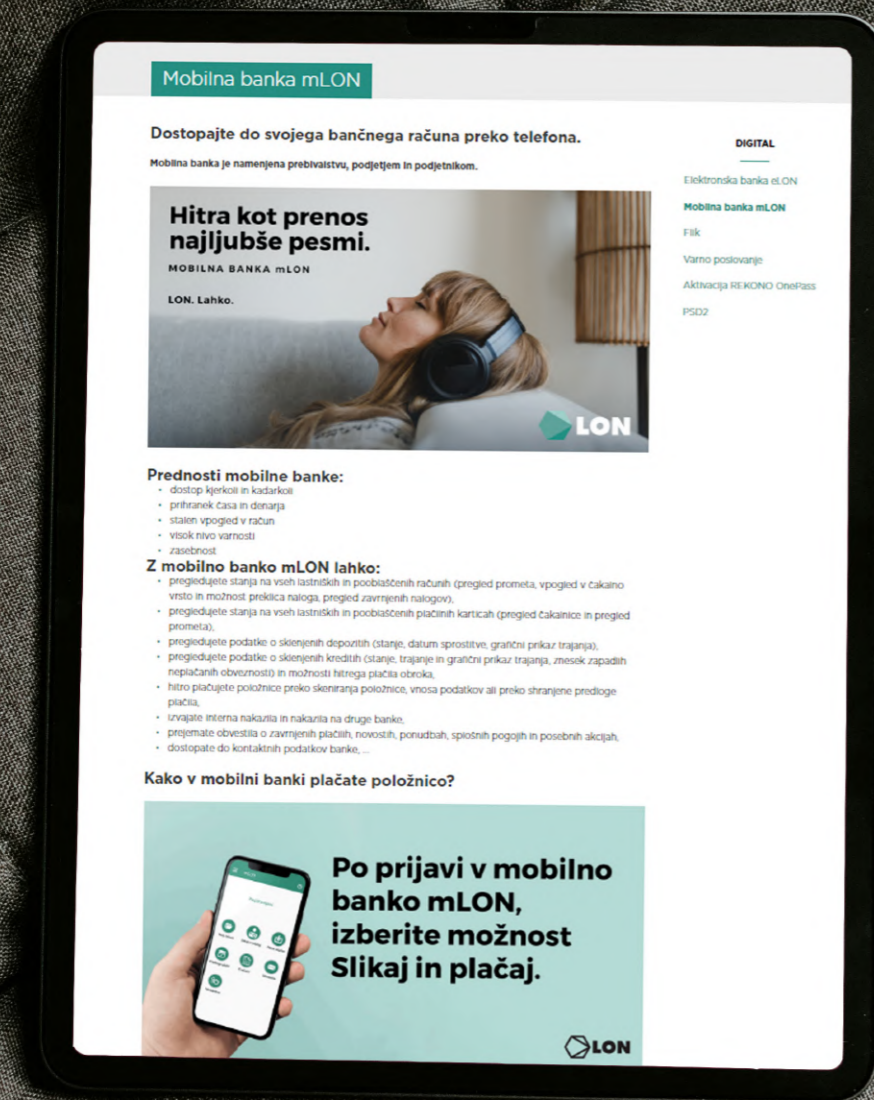
We constantly learn and improve. We increase our abilities and strive for excellence. We show excellence in the way we operate, create our services and in our relationships.



# 02

## BUSINESS REPORT

Business environment  
Operations in 2023  
Strategic activities in 2023  
Sustainable development  
Human resources and employee structure  
Operating policies  
Corporate risk management  
Internal audit  
Compliance office, information security and MLTFP  
External audit  
Significant business events that occurred after the end of the financial year



## 01 BUSINESS ENVIRONMENT

### 1.1 GENERAL ECONOMIC ENVIRONMENT IN SLOVENIA

At the end of the previous year, the business climate improved. The value of the Business Climate Indicator was still negative at the end of the year, but showing improvement.

The moderation of GDP this year is expected to be followed by the boost in growth that will be based on the recovery of external demand, growth of real household income and high government spending. GDP growth forecast (December data) is expected to be 1.3%. The economic growth in the 2024-2026 period will increase and reach 2.3 in average.

The stable labour market will support the growth of private consumption in the next forecast period. Gradual reduction of uncertainty significantly contributes to the respective growth.

In December 2023, the inflation slowed down and amounted to 4.4%. The year-on-year growth in consumer prices measured with the Harmonised Indices of Consumer Prices (HICP) dropped by 3.8% in December. Rise in food prices was slowing down, but still remained high. In December, it was reduced to 5.6%, while the price of alcoholic beverages and tobacco to 4.5%.

Nominal debt has been increasing since 2019. The mid-year government debt was 90.3% in 2023, and decreased from 90.9% compared to at the end of 2022.

In the previous year, financial markets were marked mainly by the trend of increase in interest rates of central banks, but showed deceleration in the second half of the year.

### 1.2 BANKING ENVIRONMENT

With -2.5% according to the last available data (December 2023), the year-on-year growth in loans to non-financial corporations registered a drop in the majority of activity groups, although the monthly increase in November was significantly under the average from previous months.

A substantial increase was detected in the field of interest rates that increased both for financing of non-financial corporations and households. Fixed interest rates for new loans granted to non-financial corporations increased by 3.0 percentage points from the beginning of the year to November, while the floating rates increased by 1.5 percentage points. Fixed interest rates for housing loans increased by 1.7 percentage points, the floating rates by 1.9 percentage points and for consumer credits by 0.6 or 1.5 percentage points respectively. Current lending to households was still decreasing.

In November, the share of NPE was 1.0%. Share of NPE in the public segment was at 1.5% percentage points, while share of NPE for non-financial corporations stabilised at 1.6%.

The improvement of the structure of the whole portfolio was detected, since the exposure in Group 2 somewhat decreased. At the level of the whole portfolio, the share of Group 2 amounted to 4.5% in October compared to 5.1% in December 2022. An even sharper drop was present in the NFD portfolio, i.e. from 9.5% to 7.4%.

Coverage of bad investment with impairments and provisions increased to 58.6% compared to the end of 2022 (56.4%).

After the last year's boost, the year-to-year growth of household deposits slowed down to 4.7% by October 2023, while the year-to-year growth of deposits from non-financial corporations was still volatile and amounted to 8.8% in October 2023. In particular in the second half of the year, banks began to increase interest rates on time deposits, which encouraged savers to take long-term deposits.

The realised gains of the Slovenian Banking System before taxes until the end of October 2023 amounted to EUR 930 million, which was 155% more than in the comparable period last year. Year-to-year net impairments and provisions increased only by EUR 21 million. The creation of the latter prevailed in nine of fifteen banks or savings banks. Compared to previous years, the return on equity before tax doubled to 20.9%.

Gross and net income in the first eleven months of 2023 exceeded that of 2022 by 55.1% gross and 114.7% net. A trend of rapid increase was detected in net interest. Net interest income was increased due to significantly higher levels of interest rates or price effects on total assets. On the other hand, the adjustment of interest rates for deposits was small and reserved.

The Bank of Slovenia estimates that the excess over capital requirements is sufficient in the majority of banks and savings banks. According to the last available data in October 2023, the Liquidity Coverage Ratio (LCR) amounted to 344%, which was 55 percentage points more than at the end of 2022, and remained high over the regulatory requirement (100%).

## 02 OPERATIONS IN 2023

### 2.1 CAPITAL RATIOS

As at 31/12/2023, LON reached the Tier 1 capital ratio of 18.25% (31/12/2022: 15.30%) and the Total Capital ratio of 19.89% (31/12/2022: 17.12%). At the end of 2023, LON met the prescribed level of regulatory capital requirements.

in EUR '000	REALISATION AS AT 31/12/2023	REALISATION AS AT 31/12/2022
Total capital (in EUR '000)	25,645	20,815
Tier 1 Capital (in EUR '000)	23,528	18,599
Total Capital ratio (%)	19.89	17.12
Tier 1 capital ratio (%)	18.25	15.30
Regulatory required level of Total Capital ratio (%)	16.45	15.75

## 2.2 CREDITING

LON ended 2023 above the planned values. In the first half of 2023, the balance of credits to non-banking sector decreased, while the second half of the year registered growth and neutralised the previous drop in operations. The reasons for the respective movement were, in particular, high inflation, high growth in financing costs, decrease in real income, reduced demand for purchasing immovable property, and uncertain economic situation. In particular in the first half of the year, LON was faced with capital restrictions that limit the volume of credit.

In 2023, LON registered increase in demand for financing natural persons, reaching 3% growth. Natural persons were especially in demand of consumer credits, while the demand of residential loans decreased on the year-to-year basis.

in EUR '000	REALISATION AS AT 31/12/2023	REALISATION AS AT 31/12/2022	31/12/23 <sup>real</sup> / 31/12/22 <sup>real</sup>
Volume of new investments in credits	52,107	72,259	72.1%
Balance of credits to non-banking sector	177,703	176,217	100.8%
- of which: Balance of credits to households	119,393	117,500	101.6%
→ of which sole proprietors	5,153	6,622	77.8%
→ of which public	114,241	110,879	103.0%
- of which: Balance of credits to non-financial corporations	53,122	56,350	94.3%

In 2023, LON registered EUR 9,421 thousand income from investments in credits, which was 40.8% or EUR 2,729 thousand more than in 2022. As at 31/12/2023, LON had 4.36% (as at 31/12/2022: 3.98%) of the weighted average effective interest rate.

As at 31/12/2023, LON had EUR 53,122 thousand of investment in credit to non-financial corporations, which was 5.7% less than the balance of 31/12/2022. LON follows its strategy and mainly finances sole proprietors, small and medium-sized enterprises. It seeks opportunities also in other segments that are not regarded target if the investment meets the required parameters and LON can achieve an appropriate pricing policy. In granting investments, LON follows the principle of investment diversification with an emphasis on the creditworthiness of clients, cash flows created by clients and adequate hedging.

As at 31/12/2023, LON presented credits to banks in the amount of EUR 1,502 thousand, which is a long-term deposit.

# 177,703 thousand EUR

## BALANCE OF CREDITS TO NON-BANKING SECTOR

# 53,122 thousand EUR

## BALANCE OF CREDITS TO NON-FINANCIAL CORPORATIONS

# 9,421 thousand EUR

## INCOME FROM INVESTMENTS IN CREDITS



## 2.3 INVESTMENTS IN FINANCIAL ASSETS

At the end of 2023, the balance of financial assets was at the level of the previous year. As at 31/12/2023, the balance of financial assets measured at fair value through other comprehensive income was EUR 671 thousand, while the balance of financial assets measured at amortised cost was EUR 69,377 thousand.

In 2023, LON did not purchase securities due to a significant increase in key interest rates by the ECB, and resulting severe price depression of government bonds. LON places all excess funds into the overnight deposit with the ECB. In 2023, LON also had no maturities in the securities. LON estimates that key interest rates as laid down by the ECB have already peaked in this cycle, and 2024 will be more suitable for purchasing debt securities.

in EUR '000	REALISATION AS AT 31/12/2023	REALISATION AS AT 31/12/2022	31/12/23 <sup>real</sup> / 31/12/22 <sup>real</sup>
Government	70,048	70,546	99.3%
Bank	0	0	/
Other issuers	0	0	/
<b>Total financial assets</b>	<b>70,048</b>	<b>70,546</b>	<b>99.3%</b>

## 2.4 SOURCES OF ASSETS

LON's sources of assets are mainly deposits of clients other than banks. Their value as at 31/12/2023 amounted to EUR 307,637 thousand (as at 31/12/2022: EUR 291,631 thousand), which was 98.6% of all financial assets measured at amortised cost (as at 31/12/2022: 98.5%).

in EUR '000	REALISATION AS AT 31/12/2023	REALISATION AS AT 31/12/2022	31/12/23 <sup>real</sup> / 31/12/22 <sup>real</sup>
Deposits of clients other than banks	307,637	291,631	105.5%
- of which: deposits from households	184,356	217,847	84.6%
- of which: deposits from non-financial corporations	118,025	72,306	163.2%
- of which: deposits from other depositors	5,256	1,478	355.7%

In 2023, LON registered reduction in the share of sight deposits, as at 31/12/2023 they amounted to 72.9% (as at 31/12/2022: 81.9%), and the increase in the share of long-term deposits, as at 31/12/2023 they amounted to 16.9% (as at 31/12/2022: 12.5%), and short-term deposits, as at 31/12/2023 they amounted to 10.2% (as at 31/12/2022: 5.5%). At the end of 2023, the weighted average interest rate of deposits of clients other than banks was 0.48%, which was considerably more than at the end of 2022 (0.15%).

As at 31/12/2023, credit facilities from banks and central banks amounted to EUR 359 thousand, which was less than as at 31/12/2022 when they amounted to EUR 625 thousand.

## 2.5 TRANSACTION BUSINESS

As at 31/12/2023, LON had 18,669 open accounts, which was 377 accounts less than at the end of 2022. In 2023, the number of current accounts reduced, i.e. natural persons (by 519 to 13,094 accounts) and sole proprietors (by 59 to 1,542 accounts), while the number of company accounts increased (by 198 to 4,033 accounts). The drop in the number of current accounts was related to the restricted crediting in 2023. The structure or quality of current accounts (share of the most active users) increased compared to 2022.

LON recorded a drop in the number of payment orders in the amount of 5.5%. The total amount of payment orders decreased by 8.6% compared to 2022.

▼	13,094	NATURAL PERSONS
▼	1,542	SOLE PROPRIETORS
▲	4,033	COMPANIES

## 2.6 FINANCIAL OPERATION

The financial result is presented in detail in the Income Statement. LON ended the 2023 financial year with the profit from continuing operations of EUR 2,997 thousand and net profit of EUR 2,411 thousand.



### 2.6.1 NET INTEREST

in EUR '000	REALISATION AS AT 31/12/2023	REALISATION AS AT 31/12/2022	31/12/23 <sup>real</sup> / 31/12/22 <sup>rea</sup>
Interest income	12,583	8,214	153.2%
Interest expense	(1,638)	(1,589)	103.0%
<b>Net interest</b>	<b>10,945</b>	<b>6,625</b>	<b>165.2%</b>

In 2023, LON realised EUR 10,945 thousand net interest income (EUR 12,583 thousand of interest income and EUR 1,638 thousand interest expense) which was 65.2% increase compared to 2022.

in EUR '000	REALISATION AS AT 31/12/2023	REALISATION AS AT 31/12/2022	31/12/23 <sup>real</sup> / 31/12/22 <sup>rea</sup>
Cash and cash balances	1,914	174	1,099.4%
Other financial assets (liabilities)	60	228	26.1%
Available-for-sale financial assets	0	38	0.0%
Credits	9,421	6,691	140.8%
Maturities of held-to-maturity financial assets	1,189	1,082	109.9%
<b>Interest income</b>	<b>12,583</b>	<b>8,214</b>	<b>153.2%</b>

In 2023, LON generated EUR 9,421 thousand interest income from credits, which was 40.8% more than in 2022. High growth of interest income from credits was mainly a result of EURIBOR movement from the negative value to approximately 4%. Compared to the previous year, financial assets did not change much, since in 2023 LON did not purchase new securities. In the same period, the interest income from cash in hand and cash balances increased to EUR 1,914 thousand. Each day, LON placed these assets to the overnight deposit opened with ECB, where the fix interest rate of overnight deposit was 4.00% as at 31/12/2023.

In 2023, LON had EUR 1,638 thousand of interest expense, which was 3.0% more than the realised interest expense in 2022.

in EUR '000	REALISATION AS AT 31/12/2023	REALISATION AS AT 31/12/2022	31/12/23 <sup>real</sup> / 31/12/22 <sup>real</sup>
Financial liabilities to central banks	0	132	0.0%
Interest from government securities	0	52	0.0%
Financial liabilities measured at amortised cost	925	723	128.0%
Interest for other financial liabilities	676	662	102.2%
Financial liabilities from lease	36	22	169.1%
<b>Interest expenditure</b>	<b>1,638</b>	<b>1,589</b>	<b>103.0%</b>

Expense from financial liabilities measured at amortised cost representing the largest item among interest expense increased in 2023 by EUR 202 thousand compared to 2022 (28.0%).

Since the key interest rates of the European Central Bank (ECB) were high at the end of 2023, LON had no financial liabilities towards ECB.

## 2.6.2 NET COMMISSIONS

in EUR '000	REALISATION AS AT 31/12/2023	REALISATION AS AT 31/12/2022	31/12/23 <sup>real</sup> / 31/12/22 <sup>real</sup>
Income from commissions	3,666	3,301	111.0%
Expenses for commissions	(464)	(442)	104.9%
<b>Net commissions</b>	<b>3,203</b>	<b>2,860</b>	<b>112.0%</b>

In 2023, LON generated EUR 3,203 thousand of net commissions, which was 12.0% more than in 2022. Income from commissions amounted to EUR 3,666 thousand, which was 11.0% more than in 2022. Commissions from payment transactions represented 65.0% of the income from commissions. They were dominated by commissions from current accounts and commissions from performing payment transactions. LON had expense of EUR 464 thousand for commissions, which was 4.9% more than in 2022.

## 2.6.3 COSTS

In 2023, LON had total operating costs amounting to EUR 10,445 thousand, which was 15.3% more than in 2022 (EUR 9,057 thousand). The largest share of the total operating costs was taken by labour cost (52.6%), followed by cost of services (33.7%), depreciation costs (6.4%), costs related to payments into resolution fund and deposit-guarantee scheme (4.9%), while the remaining costs were material costs (2.5%). LON recorded the largest increase of costs in the field of consultancy costs and deposit-guarantee cost.

## 2.6.4 OTHER OPERATING INCOME AND EXPENSE

Other operating income in 2023 mainly included income from property leasing that amounted to EUR 337 thousand.

## 2.6.5 COMMUNICATION, MARKETING AND SALE

In 2023, LON's visibility was enhanced and upgraded by emphasising concrete functionalities and advantages of LON's products. All marketing activities continued to follow the LON's slogan. We can.

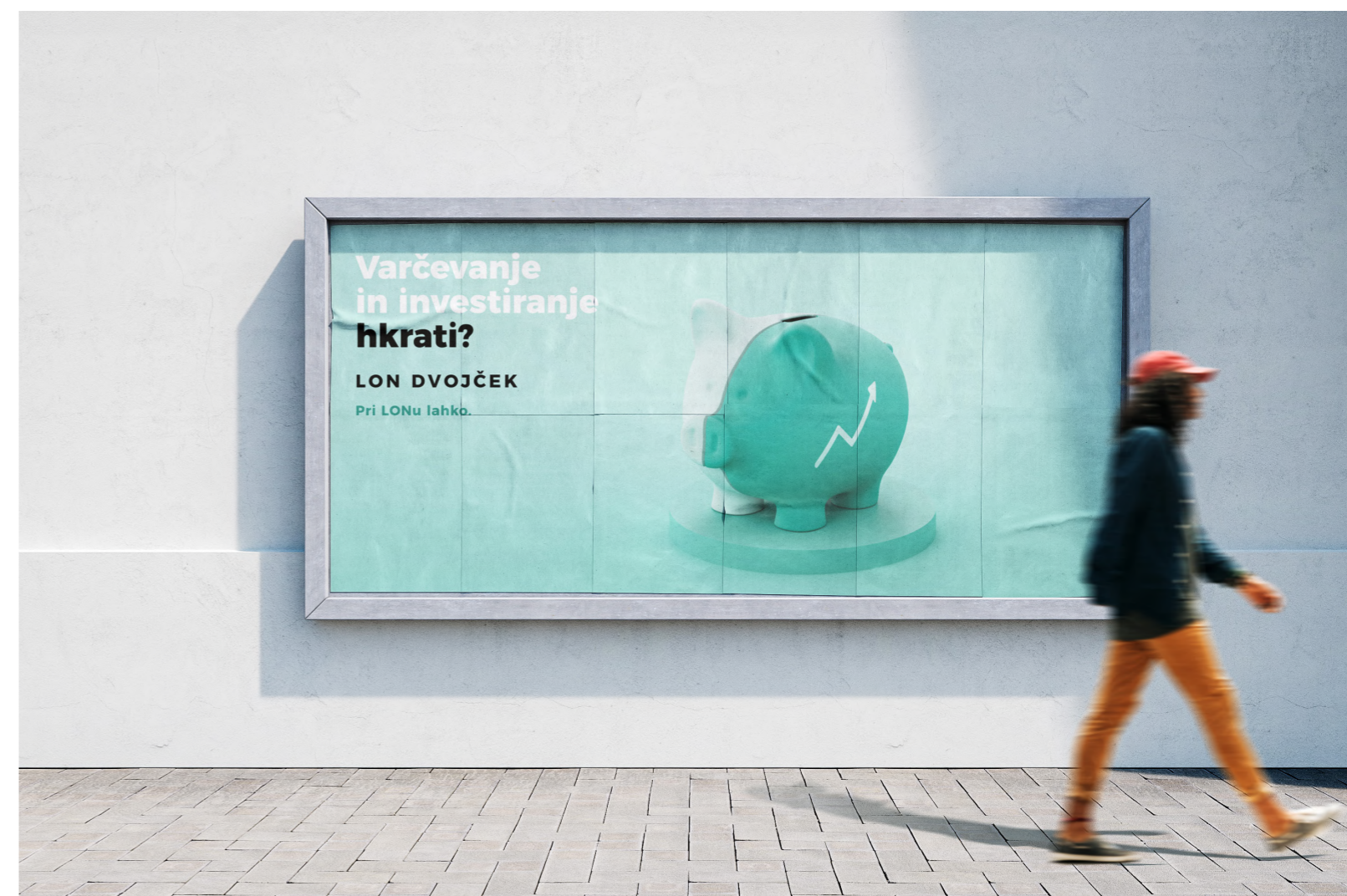
Professional assistance and advice for customers are provided by a team of 40 highly-trained banking consultants and business trustees in 9 business units throughout Slovenia. In addition, there is also a contact centre for personal contact with customers. LON continued the communication on social media, in particular through the Instagram platform, and in this way brought its operations close to younger target group that will become important in the future structure of clients.

Consistent communication combining visual presence as well as conceptually compliant messages remained key for LON brand building also in 2023.

### REVIEW OF MARKETING AND COMMUNICATION ACTIVITIES

In 2023, the advertising campaign was launched with a new offer **LON DVOJČEK** designed for existing clients. The main advantage of the product is that it is an alternative to standard deposits since it enables making deposits at higher interest rate upon simultaneous investment in the mutual fund that it customised according to an individual risk profile.

During the year, also a completely new product was presented – capital life assurance called **LON Prihodnost**. It comprises investment and insurance part and provides individual composition of portfolio for a period of 10 years.



## 2.6.5 COMMUNICATION ON SOCIAL MEDIA AND WEBSITE

LON is active on social networks Facebook, Instagram and LinkedIn and also in creating posts on a monthly basis. So-called “boosts” are used for additional promotion of Instagram and Facebook posts that increase the reach and encourage engagement of users. The editorial plan combines posts relating to topical subjects, posts promoting LON’s products and posts that are part of advertising campaigns.

Instagram is very visual channel and for this reason posts include several interesting videos in portrait format since users are becoming increasingly interested in this type of content. On Facebook, LON pursues the goal of positioning itself as a fun and accessible bank that offers customised services. Posts are created that attract followers to integrate and have better reach. In 2023, posts were prepared on the LinkedIn profile to share important news, achievements and special offers. In 2023, numerous new followers and likes of the website were achieved on Facebook. New followers joined LON on Instagram as well. Both channels recorded the increase of user involvement by over 300%, while the reach of posts improved by almost 200%.

## 2.8 IMMOVABLE PROPERTY MANAGEMENT

In 2023, LON optimised occupancy of the administrative building and realised a long-term lease of its premises. In addition, premises in the administrative building measuring 320 m<sup>2</sup> were finished and equipped and also put on long-term lease.

Also, the business units Celje, Velenje, Grosuplje and Brežice were refurbished to have uniform, modern image and provide attractive and comfortable premises for clients and employees. Energy efficient devices and machinery were used for refurbishment, thus reducing energy consumption in all renovated business units.



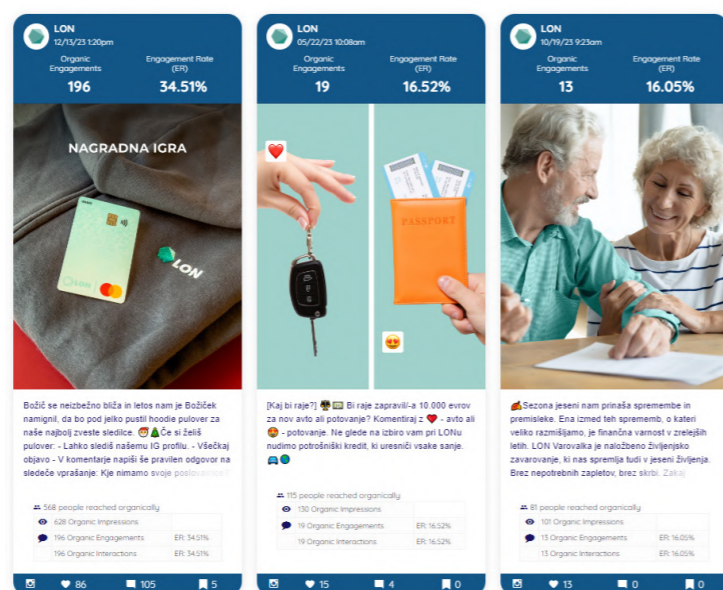
320 m<sup>2</sup>

FINISHING AND EQUIPMENT OF UNFINISHED PREMISES  
LONG-TERM LEASE



**300%** increased of user involvement

**200%** improved reach of posts



## 03 STRATEGIC ACTIVITIES IN 2023

### 3.1 MARKETING

In 2023, LON set up a concept of gradual transition of call centre and branches to conduct transactions with existing clients remotely. As a first step, a pilot solution of video consultations was established. The innovation enables clients to select a call centre or a branch from the drop-down menu to order a consultancy service to be performed as a video call organised by LON. This approach provides a more flexible and convenient experience for clients, and at the same time enables LON to use digital technologies for performing its services more efficiently.

### 3.2 INTERNAL PROCESSES

In 2023, digitalisation and renovation of key processes continued and brought several benefits. Renovation helped LON to save time, increase cost efficiency, standardise documents and improve quality of process implementation resulting in reduced number of errors and complaints. By continuing automation of processes for granting credits and limits, a more simplified process of granting was established and user-experience of clients improved. The implementation of new technological solution for granting residential loans was completed, and the existing technological solution for granting exceptional overdraft limits of natural persons was optimised.

A tool for collecting ideas of employees for internal improvement of processes was established, focusing mainly on adjustments that improve user-experience of clients. This approach enables constant improvements of services and customer satisfaction.

### 3.3 INFORMATION SECURITY AND SUPPORT

In 2023, a security operating centre was successfully implemented to provide constant and efficient monitoring and analysis of events in the ICT environment. In this way, threat detection and timely and adequate response to any security incident that may endanger LON's operations are provided.

In 2023, ICT equipment of LON's users was upgraded and processes automated, which contributed to enhanced efficiency and safety of the ICT environment. LON verifies statuses of all ICT sources on a regular basis, while also assessing their impact on process implementation, and provides timely upgrades or replacements. By conducting tests of switch-overs between data centres, LON takes care of resilience and availability of its infrastructure.

LON also updated processes to ensure business continuity and successfully completed penetration testing. Internal and external training in the field of cyber security were organised for the employees. By establishing infrastructure solutions, LON provided efficient and safe work from home also after the COVID-19 pandemics.

### 3.4 PAYMENT SYSTEMS

In 2023, as part of the digitalisation project, numerous improvements were introduced to eLON electronic bank and mLON mobile bank that provide users with better user experience and an option to manage additional products, e.g. direct debits. At the same time, LON increased the operation database accessible to users via both applications. The key upgrade was the introduction of the so-called "card management" in eLON and mLON, introducing safety card elements for the clients of both channels. Simple communication in key moments between clients and LON was established through on-line banking and the new Halcom channel was introduced for business users.

In March 2023, the T2-T2S platform was consolidated with the aim of simplifying transactions via payment systems. A new ESMIG platform and account migration (RTGS and TIPS) with ICM were introduced to the new platform. Among the more significant activities, it is worth mentioning the suspension of settlement account with the Bank of Slovenia; the commercial account within the bank is used for operation.



## 04 SUSTAINABLE DEVELOPMENT

### 4.1 CORPORATE SOCIAL RESPONSIBILITY

In 2023, LON embarked on a journey of intensive integration of sustainability into its operations. By adopting the strategy of sustainable development, LON shifts from the phase of raising awareness to the phase of active implementation of sustainability into its business model. In local environments, LON has become a reference and strives to further strengthen its role of an important financial institution in Slovenia in all key segments of its operations, in particular in the field of granting green investments. In 2023, LON defined sustainable development as one of key strategic activities of the 2024-2026 strategic period, and focused on the sustainable and profitable growth.

In 2023, LON contributed to a broader socio-economic development through its activities in the field of social responsibility and acted responsibly in relation to its clients, employees and broader social environment. LON paid special attention to employees, raising awareness of clients in the field of financial services and their associated traps, financial literacy of the old population, use of on-line digital tools, mentorship, support to professional and young athletes, donations and other humanitarian actions. LON supported involvement in sport and associations that raise awareness of a healthy life style. LON financially supported employees in need who suffered material damage in devastating August floods, and recognised the contribution of local volunteer fire-fighter departments and allocated funds to them through different donations. It even made a step forward and offered these associations and societies completely free banking services. It provided associations and societies completely free banking operation through a business account for the entire period of account validity.

In 2023, LON recognised and exploited business opportunities on the market. It has actively engaged in the development of new products and services and improved the existing ones. The Environmental, Social and Governance factors were introduced into business and investment decisions to provide lasting benefits to clients and society at large. LON included sustainable elements into the credit process, products and services and thus supported national and global objectives in the field of sustainable development. It updated the risk management process and laid foundations to create profit through business opportunities that emerge in the transition to the low-carbon, inclusive and circular economy.



### 4.2 CODE OF ETHICAL AND PROFESSIONAL CONDUCT AND ANTI-CORRUPTION ACTIVITIES

The Code is the highest-ranking act of LON and at the same time a basic document of corporate culture assisting all employees in making assessments and decisions in their daily work. In 2023, LON verified the level of familiarisation of employees with the revised Code of ethical and professional conduct. With the Code, LON lays down fundamental principles and rules to be complied with by all bodies and employees in professional or personal relationship with clients, colleagues, shareholders, business partners and natural or social environment. The Management Board and the Supervisory Board share the conviction that LON's success directly depends on the actions and conduct of employees. LON advocates the future that is based on professional and ethical conduct. This vision requires engagement of employees at all hierarchical and organisational levels and obtaining and sustaining trust of clients, business partners, shareholders, state authorities, regulator and the society as a whole.

The Code describes the fundamental values of LON and how to implement them in practice, general principles of conduct and behaviour, and the principles of relationship towards clients, colleagues, shareholders, business partners as well as social and natural environment.

In terms of the relationship with the social environment, LON pursues the following principles with the aim of reducing the possibility of participating in acts of corruption:

- It is politically neutral and rejects requests for supporting political parties;
- It treats all shareholders and business partners fairly and equally;
- It does not accept or present gifts, make favours, provide hospitality or other benefits for itself or for others if these are made or accepted with the aim of obtaining proceeds or any other benefits as a favour for conducting business or performance of service;
- It complies with the applicable Customer Acceptance Policy in entering into a business relationship;
- It does not grant credits under conditions not compliant with the principles of prudent and diligent conduct of business, and does not offer any discounts and conditions that are not in line with market parameters.
- It does not employ persons without providing sound justification, and adequately treats persons in special relationship; and
- It reports prohibited conduct or attempts to the system for reporting infringements in LON.

## 4.3 SUSTAINABLE RELATIONSHIP WITH THE SOCIAL ENVIRONMENT

### HUMAN RESOURCES MANAGEMENT

The responsibility towards employees is an important part of LON's social responsibility. Employees are brand ambassadors and "live business cards" of LON. They help to shape the image of the company, have impact on its reputation, and create and change the perception of external stakeholders.

LON promotes personal and professional development of its employees, takes care of their health and provides safety at work, organises informal gatherings outside working hours and communicates openly with all employees.

At LON, all employees are able to reconcile working life and family life, since LON was awarded the "Family-friendly Undertaking" basic certificate already in 2013, followed by the "Family-friendly Undertaking" full certificate in 2017. The certificate means the confirmation of the previous work in this field and new commitments in providing work-life balance.

### RESPONSIBILITY TOWARDS CONSUMERS

LON regularly informs clients on new developments, offer and changes, both by regular mail and by electronic means via e-mail, on-line or mobile bank, SMS messages, web pages and social media (Facebook, Instagram, LinkedIn).

LON provides clients with a simple channel to submit complaints. In this context, it also protects clients' benefits as well as LON's reputation. LON replies its clients within a reasonable period from receiving complete and understandable complaint. If the claim by a client cannot be resolved in the specified period due to the nature of the problem, LON keeps the client informed on the progress of the case. In 2023, all complaints by clients were settled out of court.

LON assists individuals and companies who got into difficulties to return to normal operation as soon as possible. In these cases, LON helps with financial restructuring measures.

### RESPONSIBILITY TOWARDS BUSINESS PARTNERS AND SUPPLIERS

LON avoids unlawful price discrimination and complies with regulations. With its business partners it has signed non-disclosure agreements and contracts for personal data processing.

LON manages conflicts of interest so that employees do not exploit business opportunities of LON for their own account or for the account of entities that have common interest with LON. LON's employees avoid circumstances where their own interest would not be in line with LON's interest and could endanger impartial and objective implementation of tasks of decision-making process.



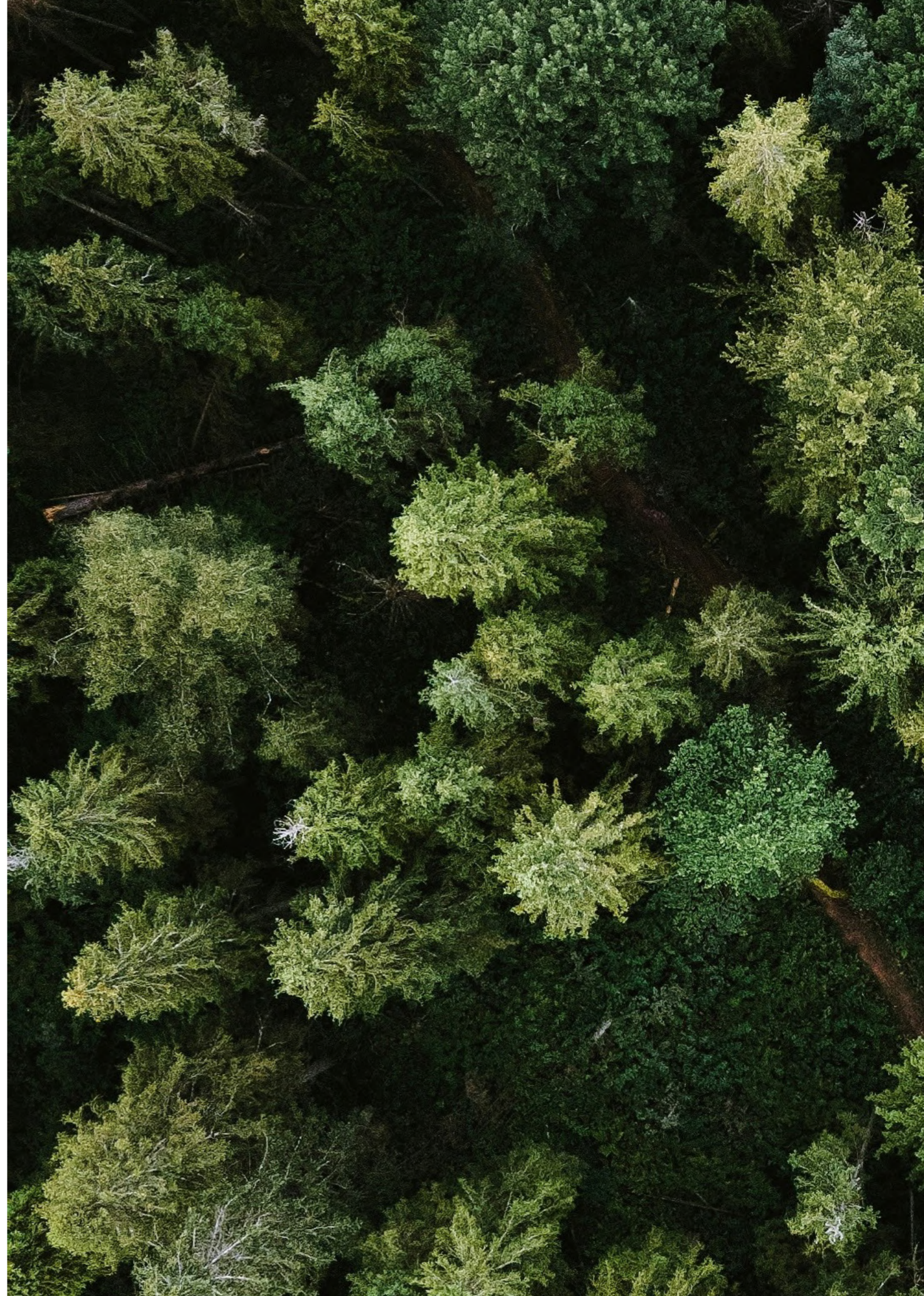
## RESPONSIBILITY TOWARDS MEDIA

LON aims at fair, sincere and quality public relations with media, since it is aware that they are an important part between LON and users and that their correct information helps to maintain positive and especially realistic image of LON.

Communication is clear, concise and positive. Information is written to be understood by the recipient, while at the same time it is a realistic depiction of the current situation or addressed topic. LON always provides current, relevant and comprehensive information to the journalists' questions. Through press announcements and posts on the website, LON provides information for the general public on business results, relevant developments in LON and business decisions.

## SUSTAINABLE RELATIONSHIPS WITH THE NATURE

Sustainable relationships with the nature and environmental liability is the central tenet of LON. LON is increasingly introducing paperless operation and has a system of separate collection of waste in place. The office building in Kranj reflects the principles of green policies. LON has an energy-efficient building with green roofs and uses LED lighting. For heating and cooling purposes, it uses water drawn from a water well using a heat pump. LON reduces its direct environmental footprint by implementing different measures, such as: energy consumption, water consumption, paper consumption, waste management and recycling, immovable property management, digitalisation of processes, etc. LON makes improvements in the field of indirect environmental footprint through credit and investment activities and has ceased to finance coal extraction and coal-fired electricity generating installations, including upgrades or improvements of existing coal-fired power plants. As part of its investment policy, LON supports economic activities and projects associated with low-carbon and circular economy.



## 05 HUMAN RESOURCES AND EMPLOYEE STRUCTURE

In 2023, LON continued its staff policy focused on maintaining and obtaining highly qualified, responsible, committed and satisfied employees. LON believes that motivated employees are key to achieving strategic goals. They are provided optimum conditions for work and development, while their development is constantly promoted. LON's open communication creates a positive work environment that contributes to employee satisfaction and loyalty to LON. Throughout the year, knowledge acquisition and upgrading are encouraged, as is compliance with LON's values: trust, cooperation, responsibility and excellence.

### 5.1 NUMBER OF EMPLOYEES AND EMPLOYMENT

At the end of 2023, LON employed 105 people, which is a 5% increase compared to the year before. In 2023, LON was joined by 20 new employees, while 12 people left, some due to retirement.

#### 5.1.1 EMPLOYEES BY BUSINESS AREAS

As at 31/12/2023

BUSINESS AREA	MEN		WOMEN		TOTAL	
	NUMBER	SHARE	NUMBER	SHARE	NUMBER	SHARE
Management	2	1.90%	0	0.00%	2	1.90%
Control functions	2	1.90%	2	1.90%	4	3.81%
Finance Division	1	0.95%	6	5.71%	7	6.67%
Operational Management Division	13	12.38%	11	10.48%	24	22.86%
Market Division	20	19.05%	25	23.81%	45	42.86%
Division of Corporate Services and Administration	2	1.90%	7	6.67%	9	8.57%
Risk Management Division	4	3.81%	10	9.52%	14	13.33%
<b>Total</b>	<b>44</b>	<b>41.90%</b>	<b>61</b>	<b>58.10%</b>	<b>105</b>	<b>100.00%</b>

As at 31/12/2022

Business area	MEN		WOMEN		TOTAL	
	NUMBER	SHARE	NUMBER	SHARE	NUMBER	SHARE
Management	2	2.00%	0	0.00%	2	2.00%
Control functions	2	2.00%	3	3.00%	5	5.00%
Finance Division	1	1.00%	6	6.00%	7	7.00%
Operational Management Division	14	14.00%	9	9.00%	23	23.00%

Market Division	23	23.00%	20	20.00%	43	43.00%
Division of Corporate Services and Administration	2	2.00%	6	6.00%	8	8.00%
Risk Management Division	4	4.00%	8	8.00%	12	12.00%
<b>Total</b>	<b>48</b>	<b>48.00%</b>	<b>52</b>	<b>52.00%</b>	<b>100</b>	<b>100.00%</b>

#### 5.1.2 EMPLOYEES BY AGE AND GENDER

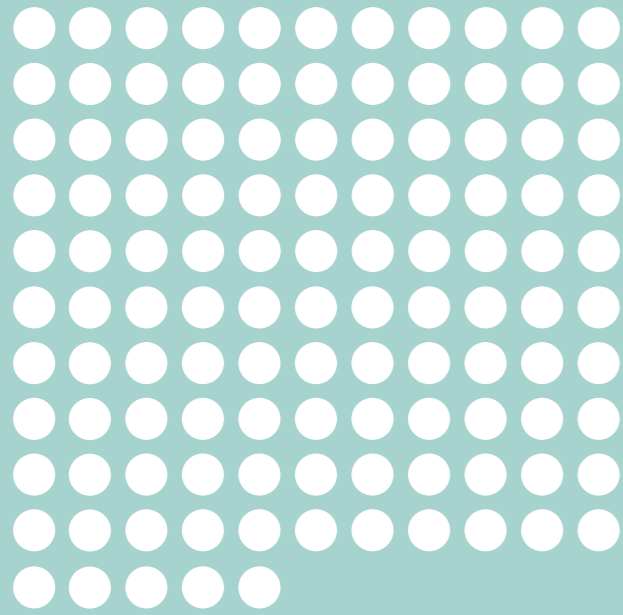
In terms of the principle of gender balance, LON has a stable split between men and women. At the last day of 2023, LON had 42% male and 58% female employees. The respective split contributes to diversity and enriches the work experience since it brings together different perspectives and abilities, thus enhancing work dynamics and encouraging innovation and efficiency.

As at 31/12/2023

LETO	MEN		WOMEN		TOTAL	
	NUMBER	SHARE	NUMBER	SHARE	NUMBER	SHARE
2023	44	41.90%	61	58.10%	105	100.00%
2022	48	48.00%	52	52.00%	100	100.00%

The age structure of employees remained the same, while the average age increased from 42 to 43 years. The largest share of employees was between 36 to 50 years, which additionally contributed to the diversity.

AGE	31/12/2023				31/12/2022			
	MEN	WOMEN	NUMBER	SHARE	MEN	WOMEN	NUMBER	SHARE
20–25 years	0	2	2	1.90%	1	1	2	2.00%
26–30 years	1	6	7	6.67%	3	1	4	4.00%
31–35 years	3	7	10	9.52%	4	11	15	15.00%
36–40 years	7	13	20	19.05%	9	14	23	23.00%
41–45 years	9	16	25	23.81%	11	10	21	21.00%
46–50 years	13	9	22	20.95%	10	6	16	16.00%
51–55 years	5	3	8	7.62%	4	5	9	9.00%
56 years or more	6	5	11	10.48%	6	4	10	10.00%
<b>Total</b>	<b>44</b>	<b>61</b>	<b>105</b>	<b>100.00%</b>	<b>48</b>	<b>52</b>	<b>100</b>	<b>100.00%</b>

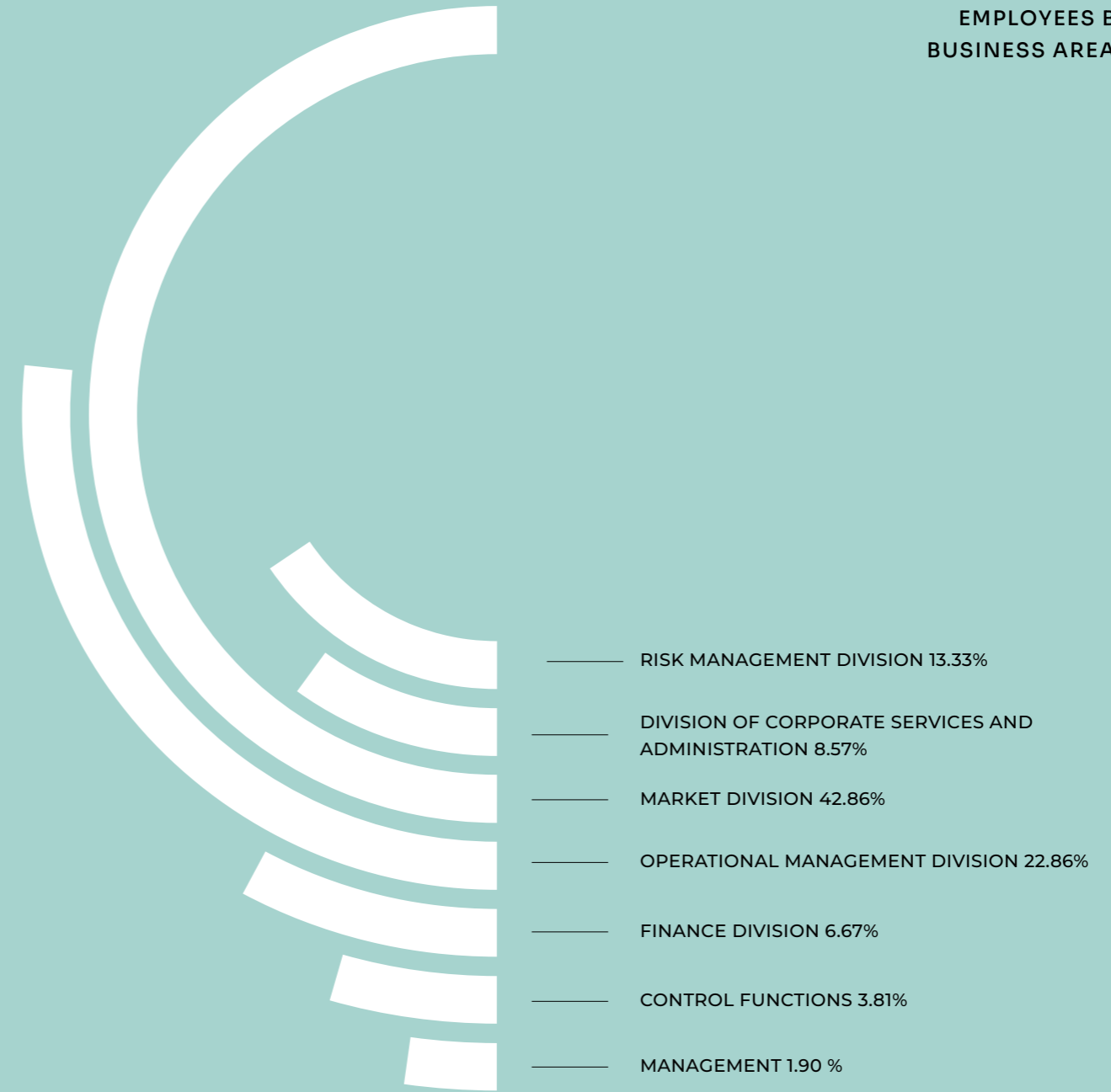
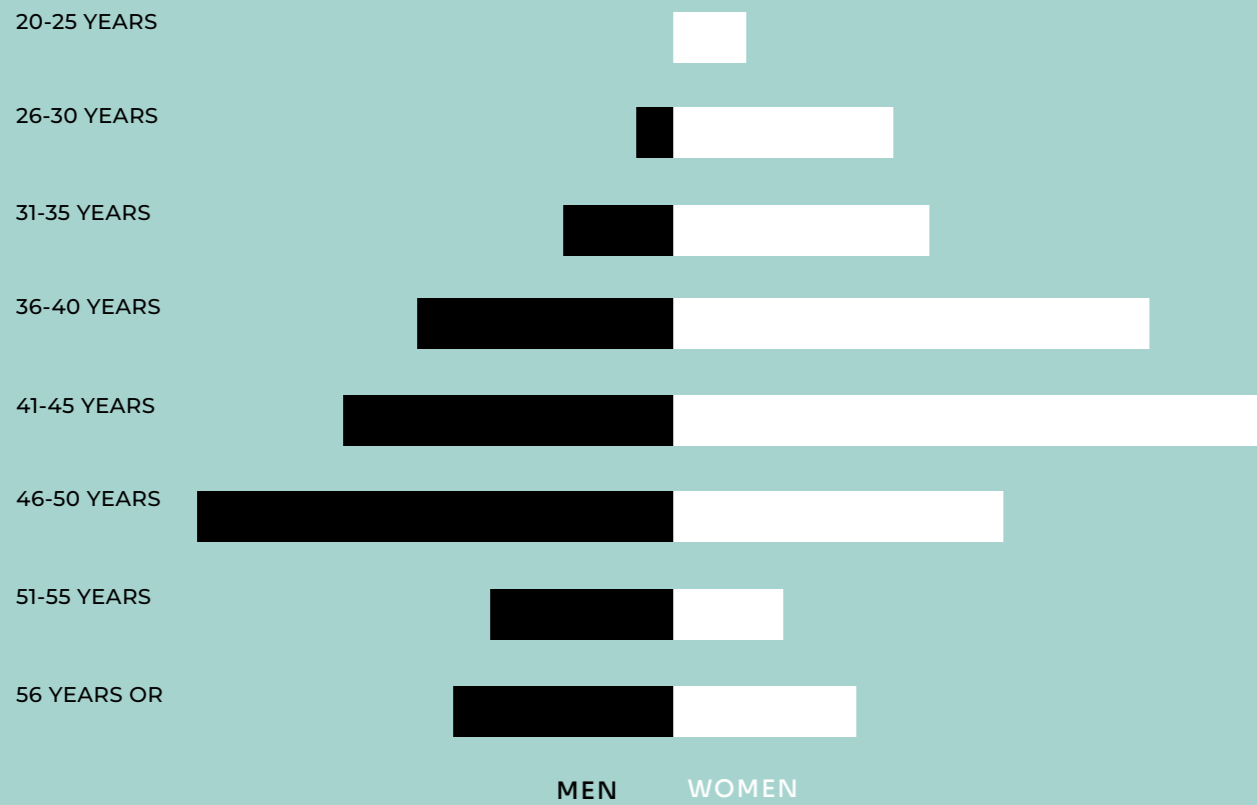


2022 100 EMPLOYEES

2023 105 EMPLOYEES



AGE STRUCTURE OF EMPLOYEES



### 5.1.3 EMPLOYEES ACCORDING TO THE LEVEL OF EDUCATION

The educational structure of employees improved in 2023 compared to 2022, which was confirmed by the data that LON still maintained a high share of employees having more than secondary level education. The share of employees with education higher than secondary level was 75%.

LEVEL OF EDUCATION	31/12/2023		31/12/2022	
	NUMBER	SHARE	NUMBER	SHARE
Level V	26	25.00%	27	27.00%
Level VI	38	35.58%	32	32.00%
Level VII	36	34.62%	36	36.00%
Level VIII or higher	5	4.81%	5	5.00%
<b>Total</b>	<b>105</b>	<b>100.00%</b>	<b>100</b>	<b>100.00%</b>

### 5.2 EDUCATION AND DEVELOPMENT OF EMPLOYEES

In 2023, LON paid special attention to investment in education and training of employees, which is the most profitable investment in the future success of LON. LON's employees attended different educational programmes, and completed 478 days of education in total, i.e. 4.8 days of education per employee in average. LON enables constant professional growth and personal development of its employees, whereby it focuses mainly on fields of education arising from the needs of work processes and that are considered key for further professional development of employees.

Employees actively attended specialist consultancy events and conferences throughout the year and thus kept in touch with the latest trends and content. The majority of education programmes was conducted by the Izobraževalni center ZBS education centre and other authorised institutions. At the commercial field, the focus was on educating the employees in the field of sales, insurance and investment funds. In addition, internal education courses were organised as well dealing with numerous topics, such as overview of contemporary trends and new developments in individual segments of operation, the field of MLTFP, compliance of operation, legislative updates, health and safety at work, information security and personal data protection. Internal educational activities also comprised refresher training on current developments in certain segments of operations.

### 5.3 INTERNSHIP OF PUPILS AND STUDENTS

LON actively combines knowledge with practical experience and provides pupils and students to gain practical experience under LON's mentorship during their education. Not only does this opportunity enable them to have an insight into work processes at LON, but also enhances their theoretical knowledge and promotes development of their skills and competencies. In this way a bridge between academic knowledge and actual working environment is created, preparing young talents for a successful career and offering them an opportunity for personal and professional growth. Also, in 2023, LON allowed pupils and students to do their mandatory internship.



## 5.4 EMPLOYEE COMMITMENT AND SATISFACTION

For the third year in a row, LON conducted an annual survey on organisational climate, satisfaction and engagement of its employees. Based on the results, it takes actions to improve. The survey showed a significant improvement compared to 2022.

LON is aware of the importance of a positive working environment in achieving efficient operations of the organisation and better welfare of employees. In 2023, the focus was on the activities that promote well-being, commitment and engagement of employees and thus contribute to achieving desired outcomes.

Every year, LON puts more emphasis on carrying out the annual survey which is crucial for identifying improvements, adjusting strategies, maintaining productivity, reducing turnover and building a positive organisational culture.



## 5.6 LON FULLY CERTIFIED AS FAMILY-FRIENDLY UNDERTAKING

Since 2017, LON has proudly borne the title of “Family-friendly Undertaking”. It is committed to providing balance between work and family life of its employees. Among the actions taken are a child’s time bonus that enables flexibility of working time of the parents of children in kindergartens, seeing first-graders off to school on the first school day, and special paid leave for parents of nine-graders on an information day.

Employees opting for a part-time work, are offered a possibility of shorter working time after returning from the maternity leave in accordance with the law.

The year of 2023 was also characterised by different social events. Socialising with employees was again organised in 2023 with the aim of strengthening relations. Events consisted of various educational and entertaining team tasks and unusual sports. In December, employees were invited to a traditional end of year party, while LON also took care of their children presenting them with gifts.

LON understands that good relationships are key for well-being and performance at the workplace. For this reason, it will continue to work to preserve and enhance the high level of mutual respect and trust. Using different educational and social events, LON will keep on strengthening close bonds among employees.



## 06 OPERATING POLICIES

In 2023, LON ended its 2021-2023 strategic period and set up a new strategy for the 2024-2026 period. The new strategy makes LON a **“Solution bank of trustworthy customers”**.

The main emphasis of the strategy is on improving cost efficiency and LON's visibility and reputation. LON will achieve a controlled growth, in terms of quality, risks and costs.

The new strategy includes 6 main strategic activities:

- Establishing lean and digitalised processes;
- Reorganising work of the selling platform;
- Financing green future in a sustainable way;
- Bringing LON solutions closer to customers;
- Re-branding the LON savings bank/bank;
- Developing a highly motivating working environment.

LON's strategy envisages the main objectives of the Management body to be achieved, including the ultimate goal of the capital over 10% and dividend payment (balance-sheet profit). To achieve these objectives, LON has established a system of strategic control indicators for implementing the strategy. The strategy represents evolution of progress since it is maintaining LON's advantages and adds activities to exceed expectations of the Management body.


LON will continue to digitalise processes, where it will focus on increasing efficiency and automation of internal processes with an emphasis on achieving cost optimisations of operations with a higher level of productivity. It will also focus on additional improvement of the user experience through digitalising the contact with clients and by using new, simple solutions for all client segments. By opening new digital communication channels and expanding the usage of the existing ones, LON will provide its customers active and constant availability and responsiveness. One of the key objectives is also shortening the time of introducing new products through a controlled process of introducing changes and paperless operation.

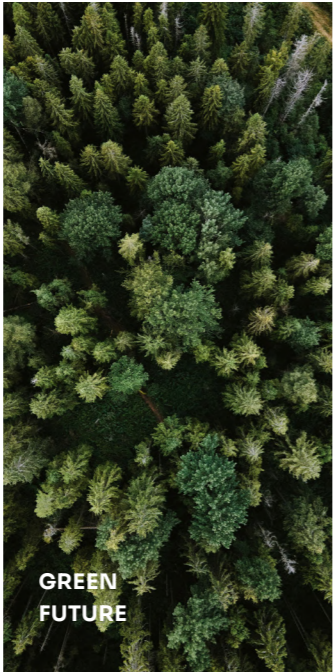


**DIGITIZED PROCESSES**


**DIVIDEND PAYMENT**

**CAPITAL OVER**  
**10%**





**GREEN FUTURE**



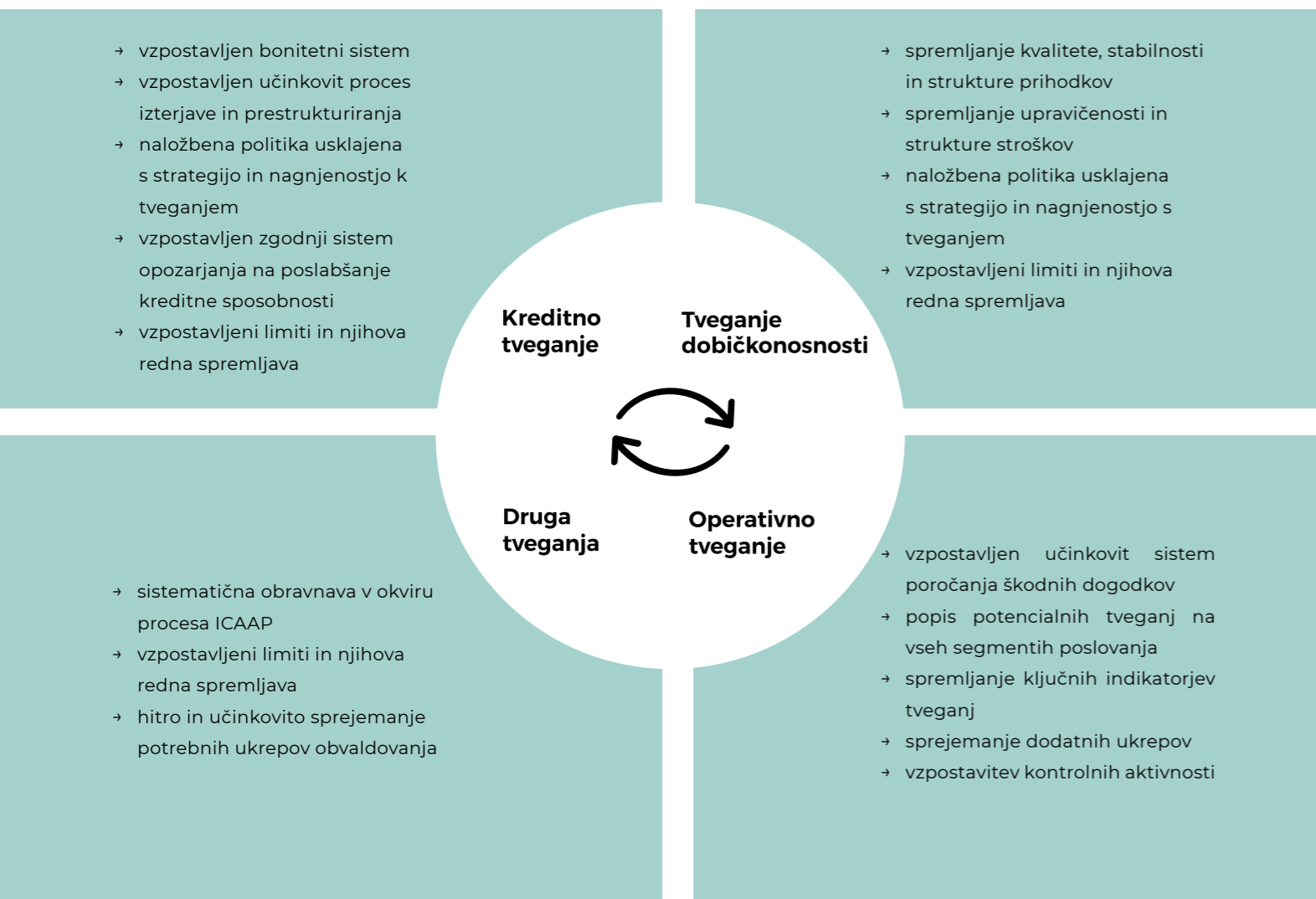
**HIGHLY MOTIVATING WORKING ENVIRONMENT**

## 07 CORPORATE RISK MANAGEMENT

### 7.1 RISKS

For LON, risks constitute a likelihood that future events will have a different impact on its operations, stability, income and capital than expected. The operations of the savings bank are exposed to different risks which differ in substance and scope, while in practice they are interlined and coincide. The savings bank must have established processes in place to provide for adequate identification and assessment of risks it is facing during its operation, as well as procedures of appropriate management. The LON's objective of the risk management is to prudently take risks and provide long-term profitability of operations according to the risks taken, while meeting all regulatory requirements.

LON sees significant risks in credit risk, profitability risk and operational risk. LON also focuses on the strategic and capital risk, interest rate and liquidity risk, which it (in addition to all other risks) includes in the process of the Internal Capital Adequacy Assessment (i.e. ICAAP) and manages appropriately.



### CREDIT RISK

Credit risk is a risk of loss due to failure to meet the obligations of a debtor to the savings bank. In the field of credit risk management, LON focuses on achieving low share of defaulters with its established adequate rating system, early warning system for deteriorating creditworthiness and providing adequate cover of claims in default through impairments. The investment policy is aligned with the LON's strategy, which sets out certain limits that are regularly monitored. LON regularly monitors and analyses operations of debtors, settlement of their liabilities, control or credits granted, as well as the suitability and quality of collateral.

### PROFITABILITY RISK

Profitability risk refers to the insufficient amount, composition and diversification of revenue and expenditure or incapacity to provide the sufficient profitability level. Profitability does not only define profit as a result of the Income Statement, but also the quality and stability of revenue and the moderation and structure of costs. Profit enables LON to grow, maintain or increase its competitiveness and strengthen the capital base. Profitably is the first safeguard against risks and the first line of defence against decrease in capital due to reduction in the value of assets or investments. Losses endanger capital and liquidity and may tarnish the reputation, thus reducing public trust.

### OPERATIONAL RISK

Operational risk is a risk of loss due to inadequate or unsuccessful implementation of internal processes, people's actions or operation of systems, or other external events. It includes the compliance risk and due diligence risk, legal risk, ICT risk, outsourcing risk, product management risk, risk of fraud, model risk, money laundering risk, business continuity risk, payment transaction risk, risk of employee errors, information security risk, reputational risk and ESG risk. LON has established a system of operational risk management which includes systematic collection and reporting on loss events and their management, list of potential risks with the aim to establish additional measures and control activities, monitoring key risk indicators warning if a possibility of risk occurrence in advance, and monitoring special measures for risk management, reporting on operational risks before relevant management bodies that take additional risk management measures, if necessary (Committee for managing balance sheet and risks (ALR Committee), NS Risk Committee).

### RISK PROFILE OF THE BANK

The Savings 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 Savings Bank has a set of key indicators specified for each type of risk, and also limit values for each of the said indicators to determine risk assessment and weights of relevance. The Savings Bank also measures its risk profile through exposures to risks, measured capital reserve for individual types of risk, and internally set methodologies and indicators for monitoring and measuring risks.

The credit risk is the most significant risk to which LON is exposed. Risk assessment is graded low, since it is based on the non-performing exposures ratio (NPE). However, in terms of volume, the credit risk is the central risk managed and monitored by LON.

LON closely monitors and manages other risks as well (operational risk, liquidity risk, interest

rate risk, capital risk, profitability risk, strategic risk, reputational risk) that arise from operations and dynamic business environment to which LON is exposed.

The assessment of individual risks is based on the current exposure and the achievement of internal and regulatory limits set. While the trend indicates the assessment and future impact of risks on LON, taking into account the complexity and structure of LON's portfolio.

For all the above-stated types of risk, LON has defined internal approaches for timely detection, measurement and drawing up measures for their management and control.

Based on the growth of input raw material (inflation risk) and energy products, LON expects the credit risk to increase, which could affect the increase of profitability risk through impairments. However, high interest rates have a positive impact on income. LON expects that the positive impact on the income will be higher than the negative impact on creating additional impairments. Therefore, the profitability risk is not increasing, but it stagnates.

Liquidity risk remains low due to surplus liquidity. The interest rate hike had a positive impact on the Savings Bank as it had a total positive gap (in particular in the period up to 12 months). Due to strong competition and increase in regulatory requirements, the strategic risk is increased, having constant trend. Further optimisation of processes contributed to the mitigation of operational risk that had been increased due to high staff turnover in the past.

NAZIV NAJPOMEMBNEJŠIH TVEGANJ ZA HRANILNICO	OCENA TVEGANJA 31. 12. 2023	TREND
Kreditno tveganje	NIZKO-SREDNJE	▲
Operativno tveganje	NIZKO-SREDNJE	▶
Likvidnostno tveganje	NIZKO	▶
Tveganje dobičkonosnosti	NIZKO-SREDNJE	▲
Obrestno tveganje	NIZKO	▶
Tveganje kapitala	NIZKO-SREDNJE	▶
Tveganje ugleda	NIZKO-SREDNJE	▶
Strateško tveganje	SREDNJE-VISOKO	▶
Kibernetsko tveganje	NIZKO-SREDNJE	▶
Podneba tveganja	NIZKO-SREDNJE	▶

## 7.2 RISK MANAGEMENT PROCESS

The objective of the risk management is to provide a comprehensive overview and control of LON's risk profile, and to monitor relevant measures with the aim of harmonising the exposure to risks with the capacity and willingness of LON to take risks (i.e. risk appetite or willingness to accept risks). The inclination (appetite) to assume the respective risks is set at a conservative level and defines the types of risks and tolerance to individual types of risks that LON is willing and capable to take in order to achieve the business objectives set.

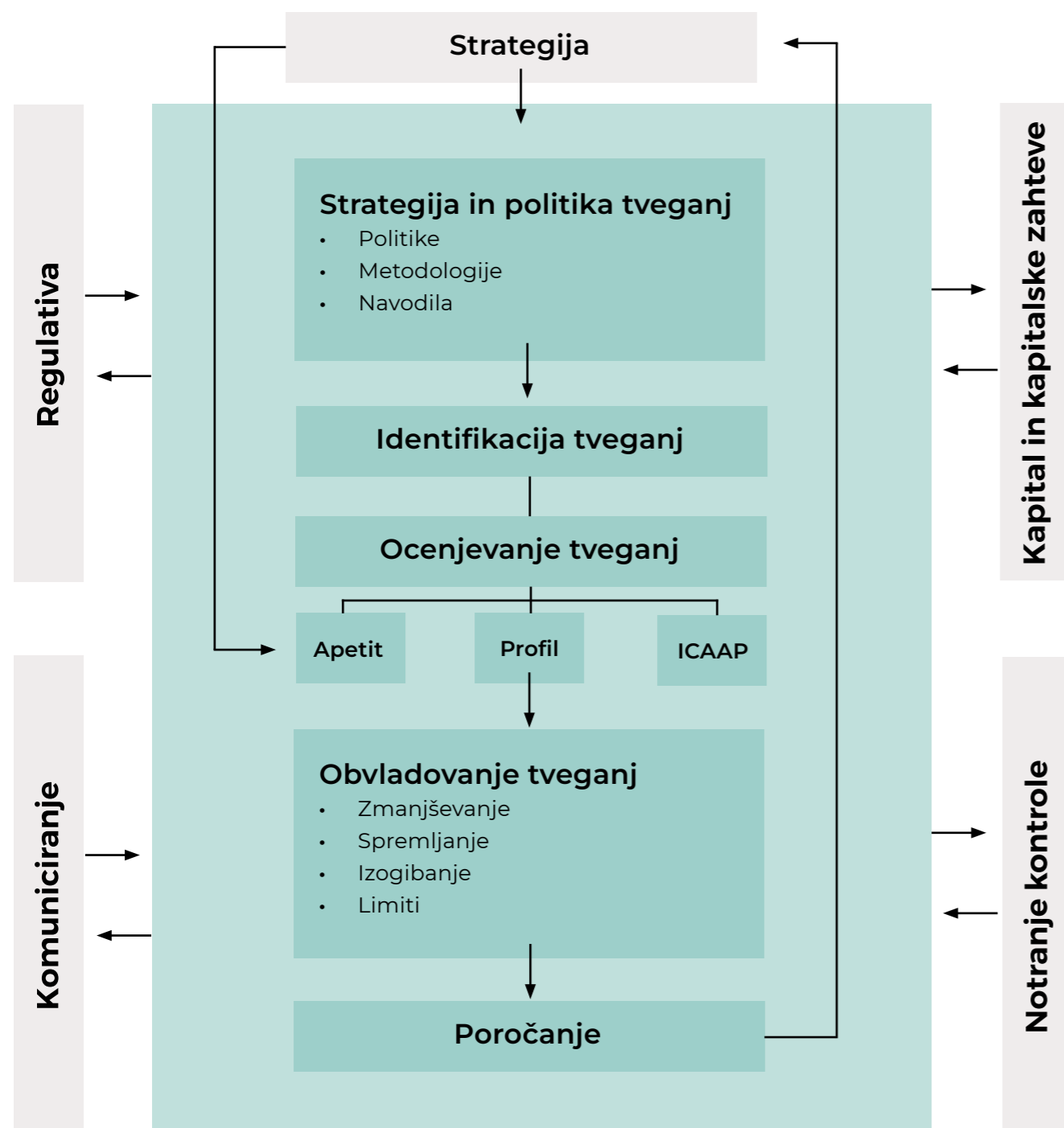
Key components of the efficient risk management:

- A **strategy** that answers the question: "What is the strategy of the Savings Bank and its associated risks?"
- A methodology for risk assessment laying down procedures for **identifying, measuring, assessing, managing and reporting risks**.
- A risk appetite that defines the amount of risk the Savings Bank is willing to accept to achieve the business objectives set.
- A **risk profile** reflects risks to which the Savings Bank is exposed according to the structure of a business model and their significance.
- **Internal Capital Adequacy Assessment Process (ICAAP)** and **Internal Liquidity Adequacy Assessment Process (ILAAP)** and implementing **different stress tests** that represent and quantify potential negative events and their resulting impacts on different segments of operation.
- A **risk control** in accordance with the business strategy and risk appetite.
- Very important are the established internal controls since they reduce the level of inherent risk to the acceptable and manageable level.

### RISK MANAGEMENT PROCESS

The LON's attitude to risk-taking is defined within the internal limit system, where different indicators represent exposures to individual risks taken within the framework of its operation. Limit values are set in accordance with LON's objectives and strategy as well as its capacity to take individual risks. The respective indicators and limit values are regularly monitored, as well as appropriate measures, if necessary.

LON has both limit (threshold) and target values determined for these indicators. Limits are set as to comply with the necessary regulatory requirements while also providing for risk-taking in the amounts ensuring safe and profitable business. The efficient risk management that includes regular monitoring and reporting on the indicators, provides timely actions before the cap is reached.

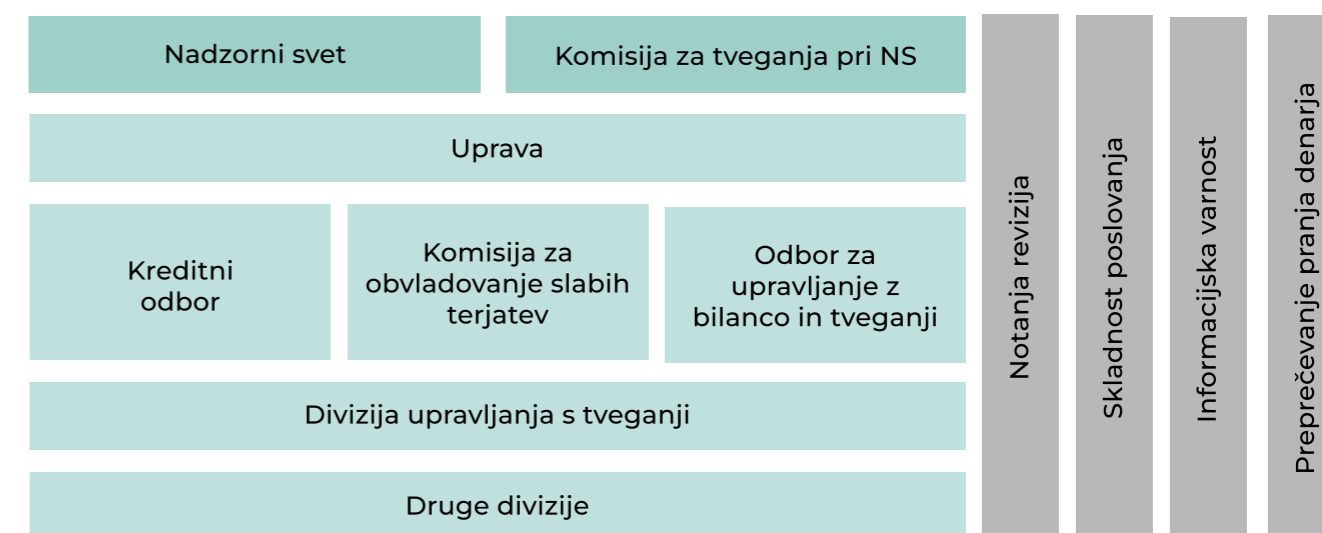


### 7.3 RISK MANAGEMENT ORGANISATION

Risk management is an on-going process within the regular work process and relates to establishing or identifying, analysing, assessing and managing all types of risks that occur in operations. The LON's Management Board, Risk Management Division, Credit Committee, Bad Debt Management Committee, the Asset, Liability and Risk (ALR) Committee are actively involved in this process, while the Internal Audit, Compliance Office and other divisions and services are engaged in supervision activities. Systematic risk management encompasses an adequate organisational structure and clear division of responsibilities and also provides harmonisation between the risk management strategy and risk appetite and strategic goals.

Management and supervisory bodies in the field of risk management are in charge of reviewing, updating (at least once a year) and approving strategies and policies of risk-taking, risk management and providing all conditions necessary for taking the assumed risk into account.

#### RISK MANAGEMENT ORGANISATION



The LON's Management Board is primarily responsible for efficient functioning of the risk management system. A "3 Lines of Defence" model is used in risk management and includes a clear division of responsibilities and tasks of an individual line.

- **Line 1** – risk-taking, understanding the importance of risks and an established internal control system; responsibility: employees, senior management (directors of individual divisions);
- **Line 2** – risk management, compliance of business; responsibility: Risk Management Division, Business Compliance Office, Information Security Office, Prevention of Money Laundering and Terrorist Financing Office;
- **Line 3** – supervision and control; responsibility: Internal Audit Service.

Internal controls consist of rules (internal acts with descriptions of business processes, determined competence and responsibility, assignment of tasks, making decisions and internal controls) and controls (information barriers, functional and organisational separation of individual functions, four-eye-principle, mutual verification and rule of two signatories) of the implementation of organisational, business and work procedures. LON strives for and aspires to continuous improvement of internal controls at the level of business, control and supporting functions, and at the level of each financial service.

**The Risk Management Division** is responsible mainly for establishing efficient risk management processes and harmonising already established risk management processes. It is involved in all phases of the process for recognising, assessing, monitoring and managing risks and respective reporting. It regularly reports to the Asset, Liability and Risk (ALR) committee, Credit Committee, Management Board, Risk Committee with NS and the Supervisory Board.

**The Compliance Office** analyses, assesses and manages risk of non-compliance in relation to domestic and international regulations and internal documents with the aim of preventing legal sanctions and financial losses and reputational risk. The Information Security Office analyses, assesses and manages risks in the field of information security and personal data protection, and reports on non-compliance, security incidents or emergence of new threats. The Prevention of Money Laundering and Terrorist Financing Office reports on potential or actual infringements or frauds in the respective field.

**The Internal Audit** operates independently of business lines and other functions. In the risk management system, it is responsible for independent analysis and verification of the efficiency of established risk management processes and internal controls.

**The Management Board** has a key role and ultimate responsibility for the efficiency of established risk management processes and their harmonisation with internal acts and applicable legislation. The Management Board must ensure that LON's business objectives, strategies and policies are adequately in line with strategies and policies of risk-taking and risk management. If business objectives, strategies and policies follow the high-risk appetite strategy, the Management Board must provide a proportionally efficient arrangement of internal management.

**The Supervisory Board** accepts and cooperates in drawing up the Business Strategy, Strategy of Risk-taking and Risk Management, and policies on managing individual risks. In addition, it supervises the efficiency of internal audit operation and organisation of other internal controls. It also addresses on-going reports in the field of risk management and is involved in appointing key functions in the risk management system. Within the Supervisory Board, a Risk Committee is established as well to provide expert support regarding risk management.

**Credit Committee** decides on investment in crediting and financing third parties, and transactions with securities and other financial instruments issued by the non-financial corporations.

**The Asset, Liability and Risk (ALR) Committee** takes care of strategic management of assets and liabilities, and integrated management of all types of risk (incl. operational risk and pricing policy), as well as successful and efficient overall operation of LON.

**The Bad Debt Management Committee** deals with reports on claim recovery, adopts adequate actions for recovery, and proposes measures for managing and restructuring bad debts.

## 7.4 DEVELOPMENT OF RISK MANAGEMENT

In LON, the process of efficient risk management is based on the following principles:

- Clear demarcation of key responsibilities for risk management – Supervisory Board, Management Board, lower management levels and committees;
- Active participation of all management bodies and senior management in managing risks;
- Process of identification and management of risks, and measurement and monitoring of risk exposure are a continuous and recurring process;
- Risks should be measured, monitored and reported through a coordinated and clearly defined risk management process;
- Appropriately set risk limits that are based on the inclination to taking risks and strategic initiatives to provide for the coherence between risks, profitability and capital;
- Introduction of the ICAAP process and strategies of taking and managing risks into the framework or business planning and laying down the business strategy in order to provide adequate coherence between LON's business objectives, strategies and policies;
- Inclusion of risk management processes in all business processes at all levels of operation; to quantify significant risks, a model approach is used (where applicable and possible according to the data availability or if there are adequately long and quality time series available) and is regularly verified and tested;
- Standardised approaches, data from regulatory body and expert assessments are used to less significant risks;
- Setting clear rules for managing individual types of risks with accompanying procedures to manage each individual type of risk with clearly defined objectives;
- Collecting complete, timely and accurate data important for risk management and providing technology and information sources for data security and processes; and
- Established independent control system to prevent, as much as possible, errors, embezzlement and irregularities, and eliminate conflicts of interest.

Relevant risk culture is very important for efficient risk management since it determines norms, attitude and behaviour of LON and employees regarding the risk awareness, risk-taking and management, which has an impact on the risk-associated decisions. It must be present in all employees in terms of high personal integrity and professionalism in personal conduct and decisions. Each employee must be familiar with relevant policies and framework of risk management, and use the respective principles in their everyday work. However, it is crucial that employees and management do not rely only on policies, but assume direct personal responsibilities for their actions and decisions.

LON places a special emphasis on constant improvement of risk management system with the aim of providing appropriate monitoring, assessment and management of risks. Activities pursued in risk management are in particular aimed at:

- Updating and developing methodologies to calculate expected credit losses pursuant to IFRS 9;
- Preparing validation methodologies and implementing model validations in the field of credit risk;
- Automating processes in determining credit ratings of clients;
- Providing compliance with constantly evolving regulatory requirements;
- Providing adequate staffing of control functions;
- Efficient control of the limits set to risks;
- Establishing efficient cooperation, communication and exchange of data between individual

- services that are included in monitoring, assessment and management of risks;
- Upgrading clear and timely reporting on the type and level of risk;
- Implementing and upgrading the Internal Capital Adequacy Assessment Process (ICAAP) and the Individual Liquidity Adequacy Assessment Process (ILAAP);
- Constant improving of the internal control system;
- Supplementing key IT tools to support risk management.

In 2023, LON regularly monitored the harmonisation of internal rules in the field of risk with the regulations in force. Future activities will continue to be deployed in particular to providing compliance with the regulatory requirements because the regulatory environment keeps evolving. Additionally, the focus will be mainly on the improvement of processes in terms of better response and efficiency.

## 7.5 DECLARATION APPROVED BY THE MANAGEMENT BODY ON THE ADEQUACY OF RISK MANAGEMENT ARRANGEMENTS OF THE INSTITUTION PROVIDING ASSURANCE THAT THE RISK MANAGEMENT SYSTEMS PUT IN PLACE ARE ADEQUATE WITH REGARD TO THE INSTITUTION'S PROFILE AND STRATEGY

LON is aware of all types of risk that arise in operations, both in terms of internal processes, systems and people as well as risks that emerge from the external environment. LON has an established risk management system that is harmonised with LON's business objectives, strategy and risk profile. In its operations, LON takes risks which it is willing and able to take (i.e. risk appetite), while paying special attention to complying with regulatory requirements.

The Management Board is responsible for determining, monitoring and reviewing the integral risk management system in LON and the risk management strategies that define goals, methodology and responsibilities of individual organisational units in the field of risk management.

The Supervisory Board carries out the function of supervising the operation of the Management Board in determining, adopting and implementing the risk management strategy, and contributes to the establishment and realisation of a stable internal management arrangement.

The Supervisory Board and the Risk Committee regularly monitor key risk measures and their harmonisation with the set strategy, risk profile and limit values.

dr. Imre Balogh  
President of the  
Management Board



Christoph Geymayer, MA  
President of the Supervisory  
Board



## 08 INTERNAL AUDIT

The Internal Audit Service operates in accordance with the legislation governing the field of internal audit, existing International Standards for the Professional Practice of Internal Auditing, Code of Professional Conduct and Ethics of Internal Auditors, Core Principles for the Profession of Internal Auditing, and the Charter on the operation of the internal audit service in an independent and impartial manner while providing the required professional diligence.

The internal audit service is an independent organisational part of LON that reports directly to the Management Board, and in this way the independence and organisational autonomy of operation is provided. It reports directly to the LON's Management Board, the Audit Committee and the Supervisory Board in the form of periodic and annual reports on internal auditing. It draws up quarterly reports on the implementation of recommendations to eliminate identified deficiencies or irregularities for the Management Board, Audit Committee and Supervisory Board.

In 2023, the Internal Audit Service conducted internal audits in line with the adopted annual plan of work which is confirmed by the Management with the consent of the Supervisory Board on an annual basis. In addition to regular internal audits, the Internal Audit Service also performs extraordinary internal audits on suspicion of fraud, significant irregularities or increased risk in LON's operation, as well as consultancy services.

In 2023, the Internal Audit Service conducted 12 regular internal audits, of which 2 were performed in cooperation with external contractors. The recommendations issued by the Internal Audit Service are regularly implemented.

## 09 COMPLIANCE OFFICE, INFORMATION SECURITY AND MLTFP

LON is aware of the importance of respect for values and legislative norms that are crucial for further growth and stability. Each employee in LON is responsible for their understanding of internal acts, laws and other regulatory provisions that govern their respective field of work, while functions of internal controls provide adequate training and spread the culture of business compliance.

By establishing functionally and organisationally separated function of business compliance or Compliance Office, LON takes care of long-term performance and enhanced integrity as well as its reputation. Because LON considers compliance risk as a more significant risk in the ICAAP process, the compliance risk management including the assessment of risk of non-compliance and adequately defined system of internal controls is crucial.

The compliance function held by the person responsible for providing business compliance is a part of the system for providing efficient control environment in LON with the aim of establishing and assessing compliance risk to which LON is or could be exposed in its operation. This function, mainly having preventive role, places a great emphasis on educating employees, monitoring the implementation of new legislative developments into LON's operation, processing and preventing complaints, frauds, misuses, swindles, conflicts of interest and other prohibited conduct. The person responsible also provides for constant communication among employees on values and ethical standards, advises the Management Board and senior management and replies to questions relating to employee compliance risks. In the framework of the Committee for assessing ability and suitability of management body members the authorised person regularly on an annual basis and upon new functions assesses the ability and suitability of members of the Management Board and Supervisory Board.

The competences and responsibilities of the person responsible for providing business compliance follow the annual work plan for the current year. In 2023, the compliance officer was actively involved in the field of introducing of changing new or existing products and services by preparing analyses of compliance risks. The compliance officer assessed the adequacy of LON's internal acts and updated provisions of the Corporate Integrity Policy, Implementation of Business Compliance Policy, Compliance Risk Management Methodology, Rules on managing internal acts and circulars, Complaint Procedure and Settlement Policy, Rules on preventing, detecting and investigating frauds, and the Rules on personal data protection. They analysed compliance risk in commissioning external providers, addressed complaints within the Committee for complaints and addressing prohibited conduct, conducted independent studies of business compliance in selected fields, and participated in the procedure for assessing ability and suitability of members of Supervisory Board, Management Board and holders of key functions in LON. They drew up ordinary and extraordinary reports on compliance risk and maintained high level of professionalism in the field of banking and financial activities.

The Management Board appointed the officer of Prevention of Money Laundering and Terrorist Financing and their deputy. The function is organised centrally and carried out by PMLTF officer and their deputy. Internal controls are in line with internal acts and established at two levels, i.e. The level of business units and the level of PMLFT officer and their deputy. The internal audit regularly reviews the field, i.e. no later than 18 months. In 2023, LON implemented its regular annual programme of internal training.

The field of the prevention of money laundering in LON is governed by the overarching act Customer Acceptance Policy that includes guidelines defining clients not to conduct business

with and which clients require additional verification and risk identification and additional approval procedures before entering into the business relationship.

The internal act Rules on the implementation of measures of PMLTF specifies procedures and instructions relating to the implementation of the provisions of the Prevention of Money Laundering and Terrorism Financing Act. The internal act specifies powers and responsibilities of employees and mode of operation of internal controls. Both the Policy and the Rules were renewed in 2023.

In the field of information security, the Management Board appointed an Information Security Officer. The function is organised centrally and carried out by the information security officer and their deputy.

In 2023, the resilience of the LON d.d. information system against external threats and potential errors by employees was further enhanced by introducing the security operating centre. Along with the upgrades to the information system, also new security controls were introduced and training of employees in the field of information security organised.

By penetration tests and examinations of the employees in the field of information security, LON gets familiarised with potential threats and maintains a state of readiness for adequate and timely response to any undesired events. The cooperation with external organisations in the field of prevention of fraud relating to cyberspace continued.

## 10 EXTERNAL AUDIT

The audit of financial statement of LON, d.d., Kranj for 2023 was conducted by the audit company BDO revizija, d.o.o., Cesta v Mestni log 1, Ljubljana. The respective company has conducted the audit for the sixth time.

## 11 SIGNIFICANT BUSINESS EVENTS THAT OCCURRED AFTER THE END OF THE FINANCIAL YEAR

### 11.1 SUPERVISORY LETTER AND SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP) FOR 2023

Within the scope of SREP process, the Bank of Slovenia reduced the capital adequacy ratios for 2023, which LON has to meet from 01/01/2024, namely:

- Additional own funds requirement of 3.50%, which is 0.25 percentage point less than at 31/12/2023
- Guidance on additional own funds to 1.25%, which is 0.25 percentage point less than at 31/12/2023

### 11.2 APPOINTMENT OF A NEW SUPERVISORY BOARD MEMBER

On 12 March 2024, at the request of a shareholder Dr. Otmar Zorno, the 45th General Meeting was convened at the LON registered office in Kranj, where a new member of the LON's Supervisory Board was appointed, i.e. Dr. Mejra Festić.

In accordance with the Banking Act, the decision of appointment takes effect under a suspensive condition to obtain a permit by the Bank of Slovenia.

# 03

## MANAGEMENT RESPONSIBILITY STATEMENT

The Management Board certifies the financial statements and business report for the year ended as at 31 December 2023, as well as the applied accounting policies and notes to the financial statements of this annual report.

The Management Board is responsible for the preparation of the annual report in the manner that presents a true and fair view of the financial situation and operating results of LON for the year ended at 31 December 2023.

The Management Board confirms that appropriate accounting policies were consistently applied and that accounting estimates were prepared according to the principles of prudence and good governance. The Management Board also confirms that financial statements together with respective notes were drawn up on the basis of the going concern assumption of LON and in accordance with the applicable legislation and international financial reporting standards, as adopted by the European Union.

The Management Board is responsible for properly managed accounting, adopting adequate measures for asset protection, and preventing and detecting frauds and other misconduct or unlawful activities.

A tax office may inspect accounts at any time in five years of the date when the tax had to be calculated, which may consequently cause an additional tax liability and penalty. The Management Board is not aware of any facts or circumstances that may cause significant liabilities of this kind.

Kranj, 21/03/2024

Igo Gruden  
Management Board  
member



dr. Imre Balogh  
President of the  
Management



# 04

## INDEPENDENT AUDITOR'S REPORT



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### POROČILO NEODVISNEGA REVIZORJA delničarjem družbe LON d.d., Kranj

#### POROČILO O REVIZIJI RAČUNOVODSKIH IZKAZOV

##### Mnenje

Revidirali smo računovodske izkaze družbe LON d.d., Kranj (»Družba«), ki vključujejo izkaz finančnega položaja na dan 31. decembra 2023, izkaz poslovnega izida, izkaz drugega vseobsegajočega donosa, izkaz sprememb lastniškega kapitala ter izkaz denarnih tokov za tedaj končano leto, in pojasnila k računovodskim izkazom, vključno s pomembnimi informacijami o računovodskih usmeritvah.

Po našem mnenju priloženi računovodski izkazi v vseh pomembnih pogledih pošteno predstavljajo finančni položaj družbe LON d.d., Kranj na dan 31. decembra 2023 ter njeno finančno uspešnost in denarne tokove za tedaj končano leto v skladu z Mednarodnimi standardi računovodskega poročanja, kot jih je sprejela Evropska unija (»MSRP kot jih je sprejela EU«).

##### Podlaga za mnenje

Revizijo smo opravili v skladu z Mednarodnimi standardi revidiranja (»MSR«) in Uredbo (EU) št. 537/2014 Evropskega parlamenta in Sveta z dne 16. aprila 2014 o posebnih zadevah v zvezi z obvezno revizijo subjektov javnega interesa (»Uredba«). Naša odgovornost na podlagi teh pravil je opisana v tem poročilu v odstavku *Revizorjeva odgovornost za revizijo računovodskih izkazov*. V skladu s Mednarodnim kodeksom etike za računovodske strokovnjake (vključno z Mednarodnimi standardi neodvisnosti), ki ga je izdal Odbor za Mednarodne standarde etike za računovodske strokovnjake (»Kodeks IESBA«) ter etičnimi zahtevami, ki se nanašajo na revizijo računovodskih izkazov v Sloveniji, potrjujemo svojo neodvisnost od Družbe in, da smo izpolnili vse druge etične zahteve v skladu s temi zahtevami in Kodeksom IESBA.

Verjamemo, da so pridobljeni revizijski dokazi zadostni in ustrezni kot osnova za naše mnenje.

##### Ključne revizijske zadeve

Ključne revizijske zadeve so tiste, ki so bile po naši strokovni presoji najpomembnejše pri reviziji računovodskih izkazov za tekoče poslovno leto. Te zadeve so bile obravnavane v okviru revizije računovodskih izkazov kot celote in pri oblikovanju našega mnenja o njih in ne podajamo ločenega mnenja o teh zadevah.

##### Oslabitev kreditov strankam, ki niso banke

Na dan 31.12.2023 znašajo krediti strankam, ki niso banke in so merjeni po odplačni vrednosti, 177.703 tisoč EUR (31.12.2022: 176.217 tisoč EUR). Oslabitev teh kreditov na dan 31.12.2023 znaša 3.678 tisoč EUR (31.12.2022: 2.690 tisoč EUR).

##### Opis ključne revizijske zadeve

Kreditno tveganje predstavlja eno najpomembnejših vrst finančnih tveganj, ki jim je družba izpostavljena. Poslovodstvo mora zato določiti ustrezne metode in modele za merjenje in upravljanje kreditnega tveganja, kar predstavlja enega od najpomembnejših ukrepov za zaščito kapitala banke. Eno od ključnih področij presoje poslovodstva Družbe v okviru upravljanja tveganj je ustrezna določitev oslabeitev za pričakovane kreditne izgube za kredite strankam, ki niso banke. Oslabitev kreditov je računovodska ocena, pri čemer so predvsem predpostavke, uporabljene v modelu oslabeitve, podvržene subjektivni presoji poslovodstva.

Poslovodstvo uporablja bistveno presojo:

Pri skupinskih oslabeitvah kreditov;

- pri uporabi podatkov iz preteklosti, ko določa

##### Naš revizijski pristop

Z našimi revizijskimi postopki smo za skupinske oslabeitve kreditov med drugim:

- proučili smo pravilnike, politike in metodologijo, ki jih družba uporablja kot podlago za oslabeitve kreditnega portfelja in jih primerjali z zahtevami MSRP 9
- ocenili smo ustreznost metodologije, pri čemer smo presojali primernost uporabljenih parametrov PD (verjetnost neplačila), LGD (stopnja izgube v primeru neplačila) in CCF (korekcijski faktor), vse v luči trenutnih makroekonomskih razmer;
- ocenili in testirali smo kakovost preteklih podatkov, uporabljenih pri določanju parametrov tveganja;
- pregledali smo zasnovo in delovanje ključnih kontrol na področju razvrščanja komitenta v ustrezen bonitetni razred;
- na vzorcu smo preverili, če bonitetna ocena komitenta v programski rešitvi soglaša z izračunano

- parametre tveganja;
  - pri razvrščanju finančnih sredstev po skupinah glede na ocenjeno kreditno tveganje;
  - pri ocenjevanju kreditnega tveganja v zvezi z izpostavljenostjo;
  - pri presojanju pomembnega povečanja kreditnega tveganja, kar vpliva na prehajanje finančnega sredstva med skupinami tristopenjskega modela slabitev in posledično na izračun pričakovanih kreditnih izgub za vseživljensko obdobje;
  - pri ocenjevanju bodočih denarnih tokov iz poslovanja;
- Pri individualnih oslabitvah kreditov:
- pri vrednotenju zavarovanj in ocenjevanju obdobja poplačil za individualno ocenjene izpostavljenosti, ki imajo poslabšano kreditno kakovost.

Zaradi navedenega ter dejstva, da so krediti strankam, ki niso banke pomembni z vidika računovodskih izkazov, ter da oslabitve slonijo na kompleksnem modelu, smo oslabitve kreditov strankam, ki niso banke, določili kot ključno revizijsko zadevo.

Na oslabitve kreditov strankam, ki niso banke se nanašajo pojasnila k računovodskim izkazom 6.1.5. *Uporaba ocen in presoj*, 6.3.2 *Finančna sredstva* ter v okviru te točke še posebej 6.3.2 *f Oslabitev finančnih sredstev* in točke 6.4.3 *Finančna sredstva*, merjena po odplačni vrednosti, 6.5.12 *Oslabitev in v okviru razkritij Upravljanje tveganj* točka 8 *Kreditno tveganje*.

- bonitetno oceno in če je pripisana komitentom skladno z internimi pravili družbe;
- na vzorcu smo preverili, če je bonitetna ocena ustrezna glede na kriterije kot so finančno stanje in poslovanje komitentov, na celotni bazi komitentov pa, če so vsem pripisane bonitetne ocene;
- pregledali smo zasnovo in delovanje ključnih kontrol, povezanih s prehajanjem posameznih kreditnih izpostavljenosti med skupinami;
- na vzorcu smo preverili, ali so bili prehodi med skupinami skladni s kriteriji, ki veljajo na tem področju;
- na vzorcu smo preverili, ali so dnevi zapadlosti terjatev pri kreditih fizičnim osebam točni, komitenti pa na tej podlagi razvrščeni v pravo skupino;
- skladno z našo metodologijo smo ob upoštevanju delovanja splošnih kontrol v informacijskem sistemu na primeru kreditov fizičnih in pravnih oseb iz skupine 1 in skupine 2 preverili, ali je Družba izvajala sprejeto politiko oslabitev in pravilno izračunala znesek pričakovanih kreditnih izgub na skupinski ravni in sicer tako, da smo preverili:
  - da so krediti razvrščeni v pravo skupino glede na ocenjeno kreditno tveganje;
  - da je uporabljena prava izpostavljenost v primeru neplačila (EAD);
  - da je bila za izračun oslabitve za izbrani primer uporabljena verjetnost neplačila (PD) skladno z MSRP 9;
  - da je bila za izračun oslabitve za izbrani primer uporabljena stopnja izgube v primeru neplačila (LGD) skladno z MSRP 9;
  - metode za oceno v prihodnost usmerjenih informacij;
  - računsko točnost zneska slabitve.
- **Za individualne oslabitve kreditov:** za individualno oslabljene izpostavljenosti smo ocenili primernost metodologije slabitev ter na podlagi vzorca preverili izračun oblikovanih oslabitev, pri čemer smo presojali ustreznost pričakovanih denarnih tokov iz poslovanja ali vnovčenja zavarovanja.
- pregledali smo razkritja v letnem poročilu v zvezi s krediti in oslabitvami, predvsem z vidika zahtev MSRP 7 - Finančni inštrumenti: razkritja

#### **Pripoznavanje prihodkov iz obresti kreditov, merjenih po odplačni vrednosti**

Prihodki iz obresti so za leto 2023 znašali 12.583 tisoč EUR (2022: 8.214 tisoč EUR), od tega prihodki iz obresti kreditov, merjenih po odplačni vrednosti 9.421 tisoč EUR (2022: 6.691 tisoč EUR).

#### **Opis ključne revizijske zadeve**

Prihodki iz obresti kreditov, merjenih po odplačni vrednosti, so ključna postavka v izkazu poslovnega izida. Njihovo pripoznanje ter posledično točnost, obstoj in popolnost izkazanih zneskov, je v veliki meri odvisno od vzpostavljenih in delujočih splošnih kontrol v informacijskem sistemu, tako z vidika

#### **Naš revizijski pristop**

Za obvladovanje tveganj, povezanih s pripoznanjem prihodkov iz obresti, ki so opredeljena kot ključna revizijska zadeva, smo oblikovali spodaj navedene revizijske postopke, s katerimi smo pridobili zadostne in ustrezne revizijske dokaze za naš zaključek. Del postopkov smo opravili revizorji računovodskih izkazov, del, splošne kontrole v informacijskem sistemu, pa naši

upravljanja s pooblastili kot upravljanja s spremembami. Delujoče splošne kontrole v informacijskem sistemu ter druge notranje kontrole, vzpostavljene za zagotavljanje točnosti in popolnosti vhodnih podatkov, so temelj za pravilno pripoznane prihodke iz obresti.

Zaradi pomembnosti zneska ter tveganj, povezanih z nedelovanjem splošnih kontrol v informacijskem sistemu, smo pripoznavanje obresti izpostavili kot ključno revizijsko zadevo.

Poslovodstvo je zagotovilo dodatne informacije o pripoznanju prihodkov iz obresti v pojasnilih k računovodskim izkazom 6.3.4 *Prihodki in odhodki od obresti* in 6.5.1 *Prihodki iz obresti*.

veščaki - revizorji informacijskih sistemov.

Izvedli smo naslednje revizijske postopke:

- seznanili smo se s kontrolnim okoljem in z obstoječimi kontrolami, vpeljanimi v procesu pripoznavanja prihodkov iz obresti in ocenili njihovo zasnovo;
- preizkusili smo zasnovo in učinkovitost delovanja vzpostavljenih kontrol na področjih upravljanja s spremembami in upravljanja s pooblastili v informacijskih sistemih, vpeljanih v proces pripoznavanja prihodkov iz obresti. Pri tem smo preverili, ali lahko samo določeni uporabniki ustvarijo, spremenijo ali izbrišejo uporabniške račune ter kako je vzpostavljen nadzor nad dostopi, prav tako pa tudi ali so spremembe programskih rešitev ustrezno načrtovane, odobrene in izvedene;
- na podlagi ugotovitev, vezanih na zgoraj navedene postopke, smo testirali aplikativno kontrolo, ki zagotavlja točnost izračunanih obresti iz kreditov;
- na vzorcu kreditov fizičnih in pravnih oseb smo preverili, ali so bile uporabljene prave obrestne mere;
- izvedli smo analitične postopke, ki so potrdili točnost, popolnost in obstoj pripoznanih obresti iz kreditov.

#### ***Druge informacije***

Za druge informacije je odgovorno poslovodstvo. Druge informacije obsegajo informacije v letnem poročilu razen računovodskih izkazov in našega revizorjevega poročila o njih. Druge informacije smo pridobili pred datumom revizorjevega poročila razen poročila nadzornega sveta, ki bo na voljo pozneje.

Naše mnenje o računovodskih izkazih se ne nanaša na druge informacije in o njih ne izražamo nobene oblike zagotovila.

V povezavi z opravljeno revizijo računovodskih izkazov je naša odgovornost prebrati druge informacije in pri tem presoditi ali so druge informacije pomembno neskladne z računovodskimi izkazi, zakonskimi zahtevami ali našim poznavanjem, pridobljenim pri revidiranju, ali se kako drugače kažejo kot pomembno napačne. Če na podlagi opravljenega dela zaključimo, da obstaja pomembno napačna navedba drugih informacij, ki smo jih prejeli pred izdajo našega poročila, moramo o takih okoliščinah poročati.

V zvezi s tem na podlagi opisanih postopkov poročamo, da:

- so druge informacije v vseh pomembnih pogledih usklajene z revidiranimi računovodskimi izkazi;
- so druge informacije pripravljene v skladu z veljavnimi zakoni in predpisi; ter
- na podlagi poznavanja in razumevanja Družbe in njenega okolja, ki smo ju pridobili med revizijo, v zvezi z drugimi informacijami nismo ugotovili bistveno napačnih navedb.

#### ***Odgovornost poslovodstva in nadzornega sveta za računovodske izkaze***

Poslovodstvo je odgovorno za pripravo in pošteno predstavitev teh računovodskih izkazov v skladu z MSRP kot jih je sprejela Evropska unija in za tako notranje kontroliranje, kot je v skladu z odločitvijo poslovodstva potrebno, da omogoči pripravo računovodskih izkazov, ki ne vsebujejo pomembno napačne navedbe zaradi prevare ali napake.

Poslovodstvo je pri pripravi računovodskih izkazov Družbe odgovorno za oceno njene sposobnosti, da nadaljuje kot delujoče podjetje, razkritje zadev, povezanih z delujočim podjetjem in uporabo predpostavke delujočega podjetja kot podlago za računovodenje, razen če namerava poslovodstvo Družbo likvidirati ali zaustaviti poslovanje, ali če nima druge možnosti, kot da napravi eno ali drugo.

Nadzorni svet je odgovoren za nadzorovanje postopka računovodskega poročanja Družbe.

### **Revizorjeva odgovornost za revizijo računovodskih izkazov**

Naši cilji so pridobiti sprejemljivo zagotovilo o tem ali so računovodski izkazi kot celota brez pomembno napačne navedbe zaradi prevare ali napake, in izdati revizorjevo poročilo, ki vključuje naše mnenje. Sprejemljivo zagotovilo je visoka stopnja zagotovila, vendar ni jamstvo, da bo revizija, opravljena v skladu z MSR-ji in Uredbo, vedno odkrila pomembno napačno navedbo, če ta obstaja. Napačne navedbe lahko izhajajo iz prevare ali napake, ter se smatrajo za pomembne, če je upravičeno pričakovati, da posamič ali skupaj, vplivajo na gospodarske odločitve uporabnikov, sprejete na podlagi teh računovodskih izkazov.

Med izvajanjem revidiranja v skladu z MSR-ji uporabljamo strokovno presojo in ohranjamo poklicno nezaupljivost. Prav tako:

- prepoznamo in ocenimo tveganja pomembno napačne navedbe v računovodskih izkazih, bodisi zaradi napake ali prevare, oblikujemo in izvajamo revizijske postopke kot odzive na ocenjena tveganja ter pridobimo zadostne in ustrezne revizijske dokaze, ki zagotavljajo podlago za naše mnenje. Tveganje, da ne bi odkrili pomembno napačne navedbe, ki je posledica prevare, je višje kot tveganje, ki je posledica napake, saj prevara lahko vključuje skrivno dogovarjanje, ponarejanje, namerne opustitve, napačne predstavitve ali izogibanje notranjim kontrolam;
- pridobimo razumevanje notranjih kontrol, pomembnih za revizijo računovodskih izkazov, z namenom oblikovanja revizijskih postopkov, ki so okoliščinam primerni, vendar ne z namenom izraziti mnenje o učinkovitosti notranjih kontrol Družbe;
- ovrednotimo ustreznost uporabljenih računovodskih usmeritev in sprejemljivost računovodskih ocen ter z njimi povezanih razkritij, ki jih je pripravilo posloводство;
- na podlagi pridobljenih revizijskih dokazov o obstoju pomembne negotovosti glede dogodkov ali okoliščin, ki zbujejo dvom v sposobnost Družbe, da nadaljuje kot delujoče podjetje, sprejememo sklep o ustreznosti poslovodske uporabe predpostavke delujočega podjetja, kot podlage računovodenja. Če sprejememo sklep o obstoju pomembne negotovosti, smo dolžni v revizorjevem poročilu opozoriti na ustrezna razkritja v računovodskih izkazih ali, če so taka razkritja neustrezna, prilagoditi mnenje. Revizorjevi sklepi temeljijo na revizijskih dokazih pridobljenih do datuma izdaje revizorjevega poročila. Vendar pa kasnejši dogodki ali okoliščine lahko povzročijo prenehanje Družbe kot delujočega podjetja;
- ovrednotimo celotno predstavitev, strukturo in vsebino računovodskih izkazov vključno z razkritji, in ali računovodski izkazi predstavljajo zadevne posle in dogodke na način, da je dosežena poštena predstavitev.

S pristojnimi za upravljanje med drugim razpravljamo o načrtovanem obsegu in časovnem načrtu revidiranja in bistvenih revizijskih ugotovitvah vključno z bistvenimi pomanjkljivostmi notranjih kontrol, ki smo jih ugotovili med revizijo.

Revizijski komisiji tudi zagotovimo izjavo, da smo izpolnili ustrezne etične zahteve glede neodvisnosti in z njimi razpravljamo o vseh razmerjih in drugih zahtevah, za katere se lahko upravičeno domneva, da vplivajo na našo neodvisnost, in kadar je to primerno, o ukrepih, sprejetih za odpravo nevarnosti ali uporabljenih varovalih.

Izmed vseh zadev, o katerih smo razpravljali s pristojnimi za upravljanje, določimo tiste zadeve, ki so bile pri reviziji računovodskih izkazov v tekočem obdobju najpomembnejše in so zato ključne revizijske zadeve. Te zadeve opišemo v revizorjevem poročilu, razen če zakon ali predpis preprečujeta javno razkritje teh zadev, ali kadar se v izjemno redkih okoliščinah odločimo, da zadev ne sporočimo v poročilu, ker utemeljeno pričakujemo, da bi bile škodljive posledice takega ravnanja večje od javne koristi takšnega sporočanja.

### **POROČILO O DRUGIH ZAKONSKIH IN REGULATORNIH ZAHTEVAH**

**Druge zahteve v zvezi z vsebino revizorjevega poročila v skladu z Uredbo (EU) št. 537/2014 Evropskega parlamenta in Sveta (Uredba EU št. 537/2014)**

V skladu s členom 10(2) Uredbe (EU) št. 537/2014 Evropskega parlamenta in Sveta v našem poročilu neodvisnega revizorja navajamo naslednje informacije, ki so zahtevane poleg zahtev mednarodnih standardov revidiranja:

#### **Potrdilo revizijski komisiji**

Potrjujemo, da je revizorjevo mnenje, vključeno v to revizorjevo poročilo, skladno z dodatnim poročilom revizijski komisiji, ki je bilo izdano 27. marca 2024.

### **Prepovedane storitve**

Potrjujemo, da za družbo LON d.d., Kranj nismo izvajali storitev iz prvega odstavka 5. člena Uredbe 537/2014, revizijska družba pa je izpolnjevala zahteve po neodvisnosti pri revidiranju.

### **Druge storitve revizijske družbe**

Revizijska družba za družbo LON d.d., Kranj in njene odvisne družbe poleg revidiranja računovodskih izkazov ni opravljala nobenih drugih storitev, razen tistih, ki so razkrite v letnem poročilu.

### **Imenovanje revizorja, trajanje posla in odgovorni pooblaščen revizor**

Revizijska družba BDO Revizija d.o.o. je bila imenovana na skupščini družbe LON d.d., Kranj dne 28. junija 2021, predsednik nadzornega sveta pa je pogodbo o revidiranju podpisal dne 5. novembra 2021. Pogodba je sklenjena za obdobje 3 let. Obvezno revizijo računovodskih izkazov družbe opravljamo nepretrgoma od 11. septembra 2018.

V imenu revizijske družbe BDO Revizija d.o.o. je za opravljeno revizijo odgovorna pooblaščen revizorka Maruša Hauptman.

Ljubljana, 27. marec 2024



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

  
Maruša Hauptman,  
pooblaščen revizorka

# 05

## FINANCIAL REPORT

Statement of Financial Position as at 31/12/2023 and 31/12/2022  
 Income Statement for the period from 1 January to 31 December  
 Statement of other comprehensive income for the period from 1 January to 31 December  
 Cash Flow Statement for the period from 1 January to 31 December  
 Statement of changes in equity in the financial year 2023 and 2022  
 Notes to financial statements  
 Concise risk statement approved by the management body  
 Credit risk  
 Liquidity risk  
 Interest rate risk  
 Operational risk  
 Profitability risk  
 Foreign exchange risk  
 Other banking risks  
 Capital

## 01 STATEMENT OF FINANCIAL POSITION AS AT 31/12/2023 AND 31/12/2022

in EUR '000	NOTE	31/12/2023	31/12/2022
Cash and cash balances with central banks	6.4.1.	79,257	58,560
Financial assets measured at the fair value through other comprehensive income	6.4.2.	671	643
Financial assets measured at amortised cost	6.4.3.	248,730	246,578
Debt securities		69,377	69,903
- Credits to non-banking sector		177,703	176,217
- Credits to banks		1,502	0
- Other financial assets		148	460
Tangible fixed assets	6.4.4.	6,605	6,309
Investment property	6.4.5.	3,855	3,303
Intangible long-term assets	6.6.	331	319
Corporate income tax claims	6.4.7.	56	456
- Tax assets		0	0
- Deferred tax assets		56	456
Other assets	6.4.8.	329	463
<b>TOTAL ASSETS</b>		<b>339,834</b>	<b>316,631</b>
Financial liabilities measured at amortised cost	6.4.9.	312,101	295,957
- Deposits of clients other than banks		307,637	291,631
- Deposits from banks and central banks		358	625
- Other financial liabilities		4,106	3,701
Derivatives held for hedging		0	0
Provisions	6.4.10.	440	255
Corporate income tax liabilities		145	122
- Tax liabilities		145	84
- Deferred tax liabilities		0	38
Other liabilities	6.4.11.	759	564
<b>TOTAL LIABILITIES</b>		<b>313,445</b>	<b>296,898</b>
Share capital	6.4.12.	16,809	12,587
Capital reserves	6.4.13.	6,698	6,698
Fair value reserve	6.4.14.	26	(18)

Reserves from profit	6.4.15.	4,872	4,872
Own shares	6.4.17.	(1)	(1)
Net profit or loss for the financial year (incl. Retained profit)	6.4.16.	(2,015)	(4,405)
<b>EQUITY IN TOTAL</b>		<b>26,389</b>	<b>19,733</b>
<b>TOTAL LIABILITIES AND CAPITAL</b>		<b>339,834</b>	<b>316,631</b>

Notes to the financial statements are their integral part and must be read together with the financial statements.

## 02 INCOME STATEMENT FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER

in EUR '000	NOTE	2023	2022
Interest income	6.5.1.	12,583	8,214
Interest expense	6.5.2.	(1,638)	(1,589)
<b>Net interest</b>		<b>10,945</b>	<b>6,625</b>
<b>Dividend income</b>		<b>0</b>	<b>0</b>
Income from commissions	6.5.3.	3,666	3,297
Expenditure for commissions	6.5.4.	(464)	(438)
<b>Net commissions</b>		<b>3,202</b>	<b>2,859</b>
Realised profits/losses from financial assets and liabilities not measured at fair value through the income statement	6.5.5.	46	60
Net profit/loss from financial assets and liabilities for trading	6.5.6.	0	8
Change in fair value in calculating hedging instruments	6.5.7.	0	0
Net foreign exchange profits/losses		0	1
Net profits/losses from derecognition without non-current assets held for sale	6.5.8.	(47)	2
Other net operating profits/losses	6.5.9.	332	351
Administrative cost	6.5.10.	(9,778)	(8,445)
Depreciation	6.5.11.	(667)	(612)
Provisions	6.5.12.	(200)	109
Impairments	6.5.13.	(836)	(12)
<b>Profit/loss from continuing operations</b>		<b>2,997</b>	<b>946</b>
Corporation taxes from continuing operations		(586)	(197)
<b>Net profit/loss from continuing operations</b>		<b>2,411</b>	<b>749</b>
<b>NET PROFIT OR LOSS FOR THE FINANCIAL YEAR</b>		<b>2,411</b>	<b>749</b>
<b>EARNINGS PER SHARE</b>		<b>12.31</b>	<b>4.69</b>

Notes to the financial statements are their integral part and must be read together with the financial statements.

### 03 STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER

in EUR '000	2023	2022
Net profit or loss for the financial year after tax	2,411	749
Other comprehensive income after tax	40	(19)
Items not be reclassified to profit or loss	40	139
· Actuarial net gains/losses from defined benefit pension plans	24	202
· Gains/losses related to changes in the fair value of investments in equity instruments measured at fair value through other comprehensive income	27	(30)
· Corporate income tax in relation to items that will not be reclassified to profit or loss	(7)	(33)
Items to be reclassified to profit or loss	0	(159)
· Net gains/losses recognised in the fair value reserve	0	(196)
· Deferred corporate income tax from other comprehensive income	0	37
<b>Comprehensive income of the financial year after tax</b>	<b>2,455</b>	<b>730</b>

Notes to the financial statements are their integral part and must be read together with the financial statements.

### 04 CASH FLOW STATEMENT FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER

in EUR '000	2023	2022
<b>A) CASH FLOW FROM OPERATING ACTIVITIES</b>		
<b>a) Net profit or loss before tax</b>	<b>2,997</b>	<b>946</b>
Depreciation	667	612
Impairment/(impairment reversal) of investment in debt financial instruments measured at fair value through other comprehensive profit	0	(1)
Impairment/(impairment reversal) of credits and other financial assets measured at amortised cost	879	14
Impairment of tangible assets (incl. impairment of investment property), non-tangible assets and other assets	0	0
Net foreign exchange (profits)/losses	0	0
Net (profit)/loss on sale of property, plant and equipment and investment property	0	(3)
Other adjustments to net operating income before tax	28	(109)
<b>Cash flows from operating activities before changes in business assets and liabilities</b>	<b>4,572</b>	<b>1,457</b>
<b>b) (Increase)/decrease in business assets (without cash equivalents)</b>	<b>(4,145)</b>	<b>(20,462)</b>
Net (increase)/decrease in financial assets measured at the fair value through other comprehensive income	24	186
Net (increase)/decrease in credits and other financial assets measured at amortised cost	(4,076)	(21,657)
Net (increase)/decrease in other assets	(93)	1,009
<b>c) Increase/(decrease) in business liabilities</b>	<b>16,324</b>	<b>(30,802)</b>
Net increase/(decrease) in deposits and credit taken measured at amortised cost	16,144	(30,670)
Net increase/(decrease) in derivative financial liabilities for hedging	0	0
Net increase/(decrease) in other liabilities	180	(132)
<b>č) Cash flows from operating activities (a + b + c)</b>	<b>16,751</b>	<b>(49,806)</b>
<b>d) (Paid)/returned corporate income tax</b>	<b>0</b>	<b>0</b>
<b>e) Net cash flows from operating activities (č + d)</b>	<b>16,751</b>	<b>(49,806)</b>
<b>B) INVESTING CASH FLOWS</b>		
<b>a) Receipts</b>	<b>1,045</b>	<b>23,224</b>
Receipts from sales of property, plant and equipment and investment property	0	0
Receipts from sale of investments in debt securities measured at amortised cost	1,045	23,224

c)	Net cash flows from investment (a - b)	(133)	(37,113)
<b>C) CASH FLOWS FROM FINANCING ACTIVITIES</b>			
a)	Cash receipts from financing activities	4,222	1,222
	Receipts from issuing shares and other capital instruments	4,222	1,222
b)	Cash disbursements from financing activities	(144)	(168)
c)	Net cash flows from financing activities (a - b)	4,078	1,054
D.	EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	0	0
E.	NET INCREASE IN CASH AND CASH EQUIVALENTS (AE + BC + CC)	20,697	(85,865)
F.	CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (NOTE POINT 7.5)	58,560	144,425
G.	CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	79,257	58,560

Notes to the financial statements are their integral part and must be read together with the financial statements.

## 05 STATEMENT OF CHANGES IN EQUITY IN THE FINANCIAL YEAR 2023 AND 2022

2023 (In EUR '000)	Share capital	Capital reserves	Fair value reserve	Reserves from profit	Retained profit/loss	Own shares	Equity in total
Starting balance in the business period	12,587	6,699	(18)	4,872	(4,406)	(1)	19,733
Comprehensive income of the financial year after tax	0	0	44	0	2,411	0	2,455
Entry (pay-up) of new capital	4,222	0	0	0	(21)	0	4,201
Closing balance in the business period	16,809	6,699	26	4,872	(2,016)	(1)	26,389

2022 (In EUR '000)	Share capital	Capital reserves	Fair value reserve	Reserves from profit	Retained profit/loss	Own shares	Equity in total
Starting balance in the business period	11,364	6,699	(37)	4,872	(5,125)	(1)	17,772
Comprehensive income of the financial year after tax	0	0	19	0	711	0	730
Entry (pay-up) of new capital	1,223	0	0	0	8	0	1,231
Closing balance in the business period	12,587	6,699	(18)	4,872	(4,406)	(1)	19,733

Notes to the financial statements are their integral part and must be read together with the financial statements.

## 06 NOTES TO FINANCIAL STATEMENTS

### 6.1 STARTING POINTS FOR THE PRESENTATION OF FINANCIAL STATEMENTS

#### 6.1.1 REPORTING COMPANY

LON d.d., Kranj is a public limited company with its registered office at Žanova ulica 3, Kranj. LON operates on the market as an independent credit institution and is not part of a corporate group.

#### 6.1.2 PROCEDURE FOR ACCEPTING THE ANNUAL REPORT

The financial statements were approved by the Management Board on 21/03/2023.

The annual report is adopted by the LON's Management Board, which submits it to Audit Committee and Supervisory Board for acceptance. In accordance with the Companies Act (ZGD-1), the Management Board and the Supervisory Board decide on the use of net profit for the financial year. The General Meeting of LON decides on the distribution of balance-sheet profit.

#### 6.1.3 STATEMENT OF COMPLIANCE

LON draws up the financial statements for 2022 in accordance with IFRS, applicable regulations of the EU and the Bank of Slovenia and other regulatory provisions in force. In notes to financial statements, LON reasonably provides information prescribed by the Companies Act (ZGD-1), as well as other disclosures required under IFRS.

#### 6.1.4 BASIS FOR MEASURING

LON draws up financial statements while taking into account original values, except in the cases provided below, where it uses fair value:

- financial assets measured at the fair value through other comprehensive income;
- derivatives.

Methods used in measuring fair value are described below.

#### 6.1.5 USE OF ASSESSMENTS AND JUDGEMENTS

Preparation of financial statements in accordance with IFRS requires the use of judgements and assessments that affect the value of reported assets and liabilities, disclosure of potential assets and liabilities, reporting date, and amount of income and expense in the period then ended.

The most significant judgements refer to the classification of financial instruments into a relevant business model, and the judgements whether contractual cash flows of financial asset are solely payments of principal and interest. LON classifies financial instruments before the initial recognition of the financial instrument in accordance with the applicable internal policy.

LON applies these assessments for the following: impairments of financial assets, fair value of financial assets and liabilities, provisions for off-balance sheet risks, depreciation period of property, plant and equipment and intangible assets, potential tax items, provisions for liabilities to employees, and provisions for liabilities from legal disputes.

Changes of assessments regarding impairments have a very important impact on the financial position and operating result. These assessments may change in the future due to changed economic situation and clients' repayment capabilities, due to changed macroeconomic forecast used in assessing expected loss due to impairment, and due to change in the value of collateral for bad loans at their realisation. The most significant assessments in terms of impairment of financial assets refer to the assessment when the significant increase in credit risk occurs, to the inclusion of future-oriented information for calculating expected loss due to impairment and to key assumptions used in assessing future cash flows. These assessments are presented in detail in Chapter 8 – Credit risk.

#### 6.1.6 PRESENTATION CURRENCY

Items shown in financial statements are presented in EUR thousand, unless otherwise stated in individual disclosure. LON rounds up the figures according to the mathematical rule. Due to this, there may be rounding differences in tables.

#### 6.1.7 FOREIGN CURRENCY

In recalculations of balance-sheet values expressed in foreign currencies, LON uses adequate reference ECB rates applicable as at 31/12/2023.

### 6.2 CHANGES IN STANDARDS AND NOTES THAT APPLY IN THE ACCOUNTING PERIOD

#### 6.2.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Accounting policies used in drawing up financial statements are equal to those used in drawing up financial statements for previous financial year. An exception are revised standards and notes that LON adopted on 01/01/2023 and are described below:

In the current reporting period, there apply following amendments of existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU:

- Disclosures of accounting policies (Amendments to IAS 1 and IFRS – Practice statements 2). In 2021, IASB issued amendments to IAS 1 that change the requirements for disclosure with regard to accounting policies from “significant accounting policies” to “significant information on accounting policies”. The changes provide guidelines on when information on accounting policies is regarded significant. Amendments to IAS 1 apply for annual reporting periods beginning on 1 January 2023 or later, where early application is permitted. Since documents of IFRS – Practice statement are not mandatory, the date of IFRS – Practice statements 2 entering into force is not determined.
- Definition of accounting estimates (Amendments to IAS 8). The change introduces a definition of accounting estimate and other notes that can be used to differentiate between an accounting policy and an accounting estimate. The amendment explains that the effect of change in input data or measuring techniques is a change in accounting estimate, unless their result is a correction of an error from the previous period.
- IFRS 17 – Insurance Contracts (new standard) and amendments to IFRS 17 – Insurance Contracts. IFRS 17 supersedes IFRS 4 – Insurance Contracts. IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct insurance and reinsurance), regardless of the type of issuing entities, and lays down guarantees and financial instruments with functions of discretionary participation; several exceptions will apply. The general objective of IFRS 17 is to

provide a comprehensive accounting model for insurance contracts that is more useful and consistent for insurance companies and that comprises all significant accounting aspects. IFRS 17 is based on the general model supplemented by:

- ▶ A special adjustment for contracts with features of direct participation (Variable Fee Approach – VFA) and
  - ▶ A simplified approach (Premium Allocation Approach – PAA) particularly for short-term contracts.
- Deferred tax assets and deferred tax liabilities in individual transaction (Amendments to IAS 12 – Income taxes). In May 2021, IASB issued amendments to IAS 12. The amended standard explains whether, in initial recognition, the exception is applied in certain transactions recognised at the same time as an asset and as a liability (e.g. Lease under IFRS 16 – Leases). The amendment introduced an additional criterion for the initial use of the exception under IAS 12.15, where the exception is not applied in the first recognition of an asset or a liability that at the time of recognition causes the same taxable or deductible temporary differences.
- International tax reform – Model rules of Pillar 2 (Amendments to IAS 12):
- Amendments to IAS 12 have been introduced as a response to the OECD rules on base erosion and profit shifting (BEPS) of Pillar 2 and include:
- Mandatory temporary exceptions regarding recognition and disclosure of deferred taxes related to model rules of Pillar 2; and
- Disclosure requirements relating to the exposure to income tax from Pillar 2.

The adoption of these amendments to the existing standards and notes did not result in significant changes in accounting standards in LON.

## 6.2.2 STANDARDS NOT YET IN FORCE AND NOT ACCEPTED EARLY BY THE COMPANY

The standards and changes provided below enter into force for the reporting period beginning on 1 January 2024:

At the date of approval of these financial statements, the International Accounting Standards Board (IASB) issued the following new standards and amendments to existing standards adopted by EU and not yet entered into force.

The standards and changes provided below enter into force for the reporting period beginning on 1 January 2024:

- Amendments to IAS 1 – Presentation of financial statements
- ▶ Classification of liabilities as current and non-current. The amendment imposes the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period and must exist on the close date of the reporting period. The classification of liability shall not be changed due to the possibility that the entity will use its right to defer settlement of the liability for at least 12 months after the reporting date. The standard was subsequently amended again.
  - ▶ Non-current liabilities with commitments. If the right of an entity to defer settlement depends on whether the entity fulfils certain conditions, these conditions affect whether the right to deferral existed at the end of reporting period, if the entity is required to fulfil the conditions at or before the end of reporting period and not if the entity is required to fulfil the conditions after the end of reporting period. The amendment also contains an explanation of the term “settlement” for the purpose of classifying the liabilities as current or non-current.
- Amendments to IFRS 16 – Leases: Lease Liability in a Sale and Leaseback. The amendment specifies requirement for seller-lessee to determine the “payment of lease fees” or “changed

payment of lease fees” by not recognising profit or loss relating to the right of use that is retained by the seller-lessee.

LON assumes that introductions of these new standards and amendments to existing standards in the period of initial application will not have significant impact on financial statements.

Currently, IFRSs as adopted by the EU are not significantly different from regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following new standards and amendments to existing standards that enter into force for the reporting period beginning on 1 January 2024 or 1 January 2025 and have not been adopted by the EU yet:

- Amendment to IAS 7 – Cash flow statements and IFRS 7 – Financial Instruments: Disclosures (amendments). On 25 May 2023, IASB issued a document Supplier finance arrangements that amends IAS 7 – Cash flow statements and IFRS 7 – Financial Instruments: Disclosures (amendments). These changes emerged as a result of an application received by the International Accounting Standards Board (IASB) regarding requirement for presenting liabilities and associated cash flows arising from Supply Chain Finance Arrangements, and respective disclosures. In December 2020, IASB published a Decision on the work program for Supply Chain Finance Arrangements – reverse factoring that addressed this application on the basis of the then applicable requirements of accounting standards IFRS. During the procedure, the feedback of interested parties indicates the limitation of the respective requirements for addressing important information needs of users to understand the effects of Supplier Finance Arrangements on financial statements of companies and compared one company with another. As a response to the feedback, IASB started implementing a narrow scope of standards that led to amendments. The amendments require companies to provide some special disclosures (qualitative and quantitative) regarding the Supplier Finance Arrangements. The amendments also provide instructions on the features of Supplier Finance Arrangements.
- Amendment to IAS 21 – The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability.

LON assumes that introductions of these new standards and amendments to existing standards in the period of initial application will not have significant impact on financial statements.

## 6.3 IMPORTANT INFORMATION ON ACCOUNTING POLICIES

In producing financial statements, LON follows basic accounting assumptions of taking into account the occurrence of a business event and going concern basis and other quality features, such as comprehensibility, adequacy, reliability and comparability of accounting information which provides users of financial statements with true and fair information.

In accordance with IFRS, LON uses the concept of recognising components of financial statements as a procedure for integrating items into the Statement of Financial Position, Income Statement and Statement of the Comprehensive Income, while the concept of measuring components of financial statements as establishing quantities expressed in money, by which the elements are recognised in the Statement of Financial Position, Income Statement and Statement of Comprehensive Income.

LON used the adopted accounting policies consistently in both reporting periods presented in the respective financial statements.

### 6.3.1 CASH AND CASH EQUIVALENTS

In cash, LON includes cash in hand in domestic and foreign currency, assets on the account with the central bank (incl. the mandatory reserve available for daily operations), cash in transit, and balance on the LORO account with the commercial bank used by LON to carry out international payment transactions. In cash equivalents, LON includes also debt securities for providing liquidity with the original maturity up to three months.

### 6.3.2 FINANCIAL ASSETS

#### a) Classification of financial assets

At the initial recognition, the financial asset is classified in one of the following measurement categories: at amortised cost, at fair value through other comprehensive income (hereinafter also: FVTOCI) or at fair value through the Income Statement (hereinafter also: FVTIS).

LON measures a financial asset at amortised cost if it is not assigned to be measured at fair value through other comprehensive income and both of the following criteria are met:

- Financial asset is held to collect contractual cash flows; and
- Contractual cash flows are solely payments of principal and interest on the outstanding amount on specific dates.

The category of financial assets measured at the fair value through other comprehensive income comprises:

- Debt financing instruments that meet the criteria provided below and are not determined for measuring as per FVTIS.
- Financial asset is held to collect contractual cash flows and sale; and
- Contractual cash flows of the financial asset are solely repayments of principal and interest on the outstanding amount on specific dates.
- Investment in own funds instruments (non-monetary items) not intended for trading and for which the possibility of later changes in fair value of other comprehensive income is irrevocably selected at the initial recognition.

In the category of financial assets measured at fair value through profit or loss, LON classifies financial derivatives, where the acquisition of contractual cash flows is of secondary importance (trading, managing assets based on the fair value, maximising cash flows based on sale). In 2023, LON did not hold any financial derivatives.

#### ► Assessment of business models

A business model is a way used by LON to manage financial assets with the aim of creating cash flows (that may arise from receiving contractual cash flows or selling financial assets, or both). The selected business models arise from the LON's business strategy and defined risk appetite.

The business model does not depend on individual financial asset, and for this reason LON does not implement definitions for individual financial asset, but rather defines it at the level of group of financial assets. A group of financial assets comprises assets having comparable features and that are obtained with the aim of achieving business objectives of the same kind. The group of financial assets for the needs of defining a business model includes individual products that LON offers to its clients.

The definition of business model for the type of financial assets falls within the competence of

the expert working group. In defining the business model, LON takes into account the following elements:

- Policies and objectives for the portfolio of financial assets and functioning of these policy in practice;
- Method of evaluating the performance of the business model and financial assets that are managed in line with the respective model, and the way of reporting to the LON's Management;
- Risks affecting the performance of the business model (and financial assets that are managed in line with the respective model), and the way of managing the respective risks;
- Frequency, volume and timing of sales in past periods, reasons for sale and expectations regarding the future sales activities.

If a new acquired financial asset reflects the features of the existing portfolio, LON classifies it in the existing business model. Otherwise, LON defines a new business model for the same group of financial assets.

#### ► Assessment whether the contractual cash flows are solely payments of principal and interest

For the purpose of assessment, i.e. SPPI test, the principal is defined as a fair value of financial asset at initial recognition, while the interest is defined as a compensation for the time value of money, credit risk related to unpaid principal and other underlying credit risks and costs (liquidity risk and administrative cost) and profit margin.

In financial assets held to collect contractual cash flows and in financial assets held to collect contractual cash flows and sale, LON made an assessment whether the cash flows represent exclusive repayment of principal and interest on the principal amount outstanding. In that context, it verified whether it results from the contractual features of the financial instrument that its purpose is exclusively to collect contractual cash flows and interest on the principal amount outstanding. In assessing contractual provisions, LON took into account the following:

- Possible events that could change the time and amount of contractual cash flows;
- Possibility of early repayment or extending the period of repayment;
- Features that change the comprehension of time value of money (e.g. periodic adjustment of interest rates).

LON performed a comparative test for the contractual provision associated with repeated reading of the EURIBOR reference rate in loans. The change in the reference interest rate is conducted at fixed times twice a year, regardless of the date of signing of the contract, and therefore there is an accounting mismatch occurring in the period from the granting the credit to the first change. The result of the comparative test is within the tolerance range, which provides for managing operations at amortised cost.

#### b) Recognition, derecognition and change in the conditions of the existing financial asset

LON recognises purchases and sales of financial assets, except for loans and claims, at the trading day (day of concluding the contract). LON recognises loans and claims on the day of settlement. LON documents derecognition of financial asset upon the expiry or contractual rights to the cash flows or when the financial asset is transferred and the transfer complies with the criteria for derecognition (i.e. after all rights and risks from the financial asset have been transferred). If LON transfers a financial asset, but retains almost all risks and benefits, LON does not derecognise the financial asset.

In full derecognition of a financial asset, LON recognises the difference between the carrying amount of asset and the sum of compensations received (incl. new acquired asset less the new commitment) and the cumulative gain or loss recognised directly in other comprehensive

income in the Income Statement. This does not apply to shares and stocks measured at fair value through other comprehensive income, where LON does not recognise the difference between carrying amount of an asset and the sum of compensations received and cumulative gain or loss not recognised directly in other comprehensive income, in the Income Statement. If cash flows of the modified financial asset measured at amortised cost are not significantly different this change does not cause derecognition. In this case, LON again recalculates gross carrying amount of the respective financial asset by discounting changed cash flows using the effective interest rate. LON recognises the resulting difference in the Income Statement as net profit or loss upon changing the terms of repayment of financial assets. If there are changes in the terms due to financial issues of a counterparty, LON recognises resulting profit or loss under the losses due to impairment.

#### **c) Measurement of financial assets**

Financial assets, except for financial assets measured at fair value through income statement, are measured by LON at fair value increased by transaction costs.

Financial assets measured at the fair value through other comprehensive income are measured at fair value by LON upon the initial recognition. The fair value is based on the market price published on the reporting date which represents a closing rate.

LON measures derivative financial instruments at fair value which equals unrealised gains or losses from valuation at market prices or according to the contractual forward value.

LON measures financial assets measured at amortised cost using the effective interest rate method. They are demonstrated in the amount of unpaid principal increased by unpaid interest and compensation and reduced by impairment amount.

#### **d) Profits and losses**

Profits and losses arising from the change in fair value of debt finance measured at fair value through other comprehensive income are recognised by LON directly in other comprehensive income, except for losses due to impairment and profits or losses from foreign exchange, until LON does not derecognise the financial asset. In this case, LON recognises the cumulative profits or losses presented in other comprehensive income in the Income Statement.

LON recognises interest calculated by using the effective interest rate method directly in the Income Statement.

In terms of shares and stocks measured at fair value through other comprehensive income, LON recognises all profits and losses arising from the change in fair value in the statement of other comprehensive income, and the same applies for profits and losses upon disposal of financial asset. In terms of shares and stocks measured at fair value through other comprehensive income, LON recognises all profits and losses, including profits and losses upon disposal, in other comprehensive income, except for dividends, which LON recognises in the Income Statement.

LON recognises profits and losses arising from the change in fair value of financial assets measured at fair value through the Income Statement in profit or loss in the period when they emerge.

#### **e) Reclassification of financial assets**

After the initial recognition, LON usually does not reclassify financial assets, except in the event of a change in the business model under which the financial assets are classified according to their purpose.

#### **f) Impairment of financial assets**

LON arranges financial assets and liabilities into groups for the needs of creating impairments of financial assets in accordance with IFRS 9. LON recognised the impairments of expected credit loss for:

- financial assets measured at amortised cost (incl. operating receivables);
- financial assets measured at the fair value through other comprehensive income (debt financing instruments);
- lending commitments (if there is a current contractual commitment for drawing loan and if they are not measured at fair value through the profit and loss);
- financial guarantees (subject to IFRS 9 and not measured at fair value through profit and loss); and
- claims from lease.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. Credit loss is the difference between the discounted contractual cash flows and the discounted expected cash flows, where the effective interest rate is used as the discounting factor.

Credit loss is the present value of the difference between the contractual cash flows and the cash flows expected to be received. For undrawn loan commitments, the credit loss is the present value of the difference between the contractual cash flows that belong to the company if the holder of the loan commitment draws the loan, and the cash flows that LON expects to receive if the loan is drawn. The effective interest rate is used as a discounting factor.

The assessment of expected credit losses of a financial asset is carried out by LON upon recognition, otherwise once a month. It is based on a three-stage model that enables the financial asset to be transferred between groups, namely depending on the change in credit risk borne by the financial asset on the reporting date compared to the risk borne by the financial asset at initial recognition. If in the reporting periods following the period where lifelong credit losses were recognised, the credit values reflecting 12-month expected credit losses, the credit risk is significantly reduced, value adjustment are created again to reflect 12-month credit losses.

At the initial recognition, LON lists all financial assets (except at the initial recognition of purchased or originated credit impaired (POCI)) into "Group 1", for which it creates 12-month expected credit losses (representing the part of lifelong expected credit losses referring to the possibility of non-payment in the next 12 months after the reporting date). LON classifies a financial asset in Group 2 when it is assessed that credit risk has significantly increased, but the exposure has not yet been defined as a claim in the position of non-payment. The criteria for significant increase in credit risk are as follows:

- Comparison of the initial creditworthiness of a client and the credit rating on the reporting date,
- Significant delays in repayment (credit liability past due over 30 days);
- Change in repayment terms or restructuring;
- Data obtained from the EWS system as an indicator for deteriorating credit risk (suspensions of current accounts, financial data and indicators, payment of tax liabilities);
- Data that are obtained directly from the client or other.

LON classifies a financial asset in Group 3 after 90 days of delay and when criteria from the previous paragraph are met. If the criteria for the classification in Group 2 ceased to apply, the financial asset may be re-classified back in Group 1 after 3 months.

**Group 1 (Stage 1)** includes financial instruments the credit risk of which on the reporting date has not materially increased from the original recognition or they are transactions with low

credit risk on the reporting date. LON calculates interest rate for financial assets from Group 1 using the method of effective interest rate from gross carrying amount of the financial asset (i.e. without taking into account the expected credit losses) and recognises it in the Income Statement-

**Group 2 (Stage 2)** includes financial assets with regard to which there occurred material increase in credit risk compared to the credit risk the financial asset had at the initial recognition, and for this reason LON forms lifelong expected credit losses. These are expected credit losses resulting from any events of defaulting in the entire duration of the financial asset. LON calculates interest income using the method of effective interest rate from gross carrying amount of the financial asset and recognises it in the Income Statement.

**Group 3 (Stage 3)** includes financial assets, for which there are objective evidence of impairment. For them LON creates expected lifelong credit loss, whereby the possibility of realising collateral is also taken into account in expected cash flows. LON recognises interest income using the method of effective interest rate from net carrying amount of the financial asset (i.e. taking into account the value adjustments of expected credit losses).

Unrecognised interest from financial assets of Group 3 increase gross carrying amount of the respective assets and value adjustments due to impairments. Later, in the event of payment or reclassifying the exposure to a better group due to improved credit quality, LON does not recognise this interest in interest income, but rather releases value adjustments for the amount of this interest for credit losses or fair value adjustment due to credit risk, and recognises in income from impairment reversal or profits from financial assets measured exclusively at fair value through profit and loss not held for trading.

In the POCI group, LON includes financial assets (purchased or issued) that are already credit impaired at the initial recognition. For assets in this group, LON creates life-long expected credit losses, and recognises interest income using the method of effective interest rate from net carrying amount of the financial asset (i.e. taking into account the value adjustments due to expected credit losses).

Impairments of financial assets are described in detail in Sub-chapter 8 "Risk management – Credit risk."

#### **g) Impairment reversal**

If the future periods show that the amount of created impairment is decreasing and this can be associated with the event that happened after the impairment (e.g. substantial improvement of the borrower's creditworthiness), LON adjusts the respective impairment through the Income Statement (change in impairments due to credit losses).

### **6.3.3 WRITE-OFFS**

LON writes-off the financial asset measured at amortised cost in whole or part, when it finds in the recovery procedure or realisation of collateral that all permitted assets are exhausted to pay the claim and no realistic possibility for repayment exists. In terms of substance, the write-off means the derecognition of the financial asset.

Credit claims (incl. realised conditional off-balance sheet liabilities) and other debt financing instruments to individual debtors are written-off by LON in the balance sheet, when it estimates that the claim will not be settled and conditions are met for derecognition of the respective asset from the Statement of Financial Position. LON keeps the claim in the off-balance sheet record until the completion of legal proceedings.

LON performs the definitive write-offs after all actions are carried out in accordance with due diligence to achieve payment of the claim, or when LON estimates that further proceedings for recovery are not economically viable.

### **6.3.4 INTEREST INCOME AND EXPENSE**

LON recognises interest income and expense from all interest-bearing items in the Income Statement by using the effective interest rate method.

As indicated in disclosure 6.3.2., LON calculates interest income for financial assets from Group 1 and Group 2 using the method of effective interest rate from gross carrying amount of the financial asset (i.e. without taking into account the expected credit losses). LON recognises interest income for financial assets from Group 3 using the method of effective interest rate from net carrying amount of the financial asset (i.e. taking into account the value adjustments of expected credit losses). In the case of POCI assets, LON recognises interest income in the Income Statement based on the credit-adjusted effective interest rate from the net carrying amount of the financial asset.

In interest income, LON shows ordinary, default and accrued interest and pre-paid reimbursements for repayment costs in long-term credits granted to the public.

In interest expense, LON shows interest for liabilities from deposits, issued securities and credits taken, and other expense from financial liabilities.

### **6.3.5 INCOME AND EXPENSE FROM COMMISSIONS**

In income from commissions, LON includes commissions performed for clients, such as commissions from guarantees given, payment transactions, current account transactions and other services. LON charges commissions in line with the compensation tariff or in accordance with contractual provisions agreed between LON and the client. The expense from commissions includes amounts paid for services of others, such as commissions for performing payment transactions, brokerage and commissioning, for banking services abroad and other. LON charges these in accordance with the contracts between LON and the creditor.

LON recognises the expense in the Income Statement usually upon the performance of service, while the income is recognised after the control is transferred to the buyer and the performance obligation is met. The transfer of control may be executed in a specific moment or gradually in the specific period.

### a) Performance obligations and recognition of income from commissions

LON measures income from commissions on the basis of amounts defined in the contracts with clients (buyers). The group recognises the income after the control of the service is passed on to the client.

The table below shows information regarding the nature and time of performance of significant obligations from the contracts with clients and associated income recognition guidelines.

TYPE OF SERVICE	Nature and time of performance obligations	Method of recognising income pursuant to IFRS 15
Banking services for natural and legal persons	LON provides services of managing accounts, limits, foreign exchange and credit card transactions, etc. LON charges its clients commissions for account management on a monthly basis.	Income from account management is recognised in the period of the performance of services.
	LON charges commissions based on transactions in the case of foreign exchange transactions or the occurrence of limit use upon the realisation of transaction.	Income related to transactions are recognised at the moment a transaction is performed.

### 6.3.6 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE LONG-TERM ASSETS

Property, plant and equipment and intangible long-term asset is an asset owned and used in rendering services and is expected to be used in more than one accounting period. Intangible assets comprise investments in the long-term rights vested.

The consumption in development action, where the results are used in rendering services, is recognised by LON as an intangible fixed asset if the product or procedure is professionally and commercially viable, there is intention and capacity to complete the project, and to use or sell and expect economic benefits of the project, if the company disposes adequate sources to complete the development, and if it is possible to reliably measure costs during development. The recognised value of the consumption includes costs caused by its execution, and indirect costs that may be attributable, and is recognised by the market; this may also be borrowing costs related to their acquisition. In its Income Statement, LON recognises the residual consumption value that occurs as expense. The useful life equals the period of expected future sales associated with the project.

Throughout the year, LON presents cost of development arising during the financial year as expense in the period. At the end of the financial year, LON verifies whether one of development projects meets the conditions required to recognise intangible fixed asset.

The initial value of property, plant and equipment and intangible long-term assets is measured at cost that includes purchase price and all costs that are directly attributable to the asset.

LON regularly or upon the occurrence of the event that may cause the reduction in carrying amount of the property, plant and equipment, verifies the recoverable amount of the property, plant and equipment. The valuation is carried out by authorised real estate appraisers. If the

estimated recoverable value or value at use or fair value, less costs of sale, does not reach the demonstrated carrying amount, LON performs the impairment of the fixed asset.

Depreciable value of property, plant and equipment and intangible long-term assets equals their residual value.

Depreciation is calculated individually on a straight-line basis. The property, plant and equipment and intangible long-term assets begin to be depreciated on the first day of the next month after the fixed asset is available for use. Despite IAS 16 requiring that the fixed asset shall start to be depreciated the day after it has become available for use, LON establishes that the differences in depreciation due to a digress from the requirements in the standard are negligible. LON does not depreciate land and works of art.

Depreciation rates are determined so that the value is allocated to costs throughout the period of their useful life. LON applies the following depreciation rates that did not change in 2023 compared to the year before:

TYPE OF ASSET	Depreciation rate 2023	Depreciation rate 2022
Immovable property	from 2.20% to 5%	from 2.20% to 5%
Parts of construction works	6%	6%
Computer equipment	from 25% to 33%	from 25% to 33%
Other equipment	from 6.67% to 50%	from 6.67% to 50%
Passenger cars	20.00%	20.00%
Small tools	from 50% to 100%	from 50% to 100%
Computer programs	20%	20%
Office equipment, adaptations to foreign fixed assets	from 10% to 20%	from 10% to 20%
Right of use of the asset (lease of business premises)	from 10% to 75%	from 10% to 75%

LON verifies property, plant and equipment and intangible long-term assets for impairment, if the carrying amount will be impossible to recover in full due to event or changes of the circumstances. If the estimated recoverable value is less than its carrying amount, the carrying amount needs to be reduced at its recoverable value. The recoverable value is considered fair value less costs of sale, or the value at use, whichever is higher.

To depreciate the right of use the asset, LON uses depreciation rules as laid down in IAS 16 – Property, Plant and Equipment. The right of use is depreciated from the date of the start of lease to the end of the useful life or to the end of the lease, if earlier, if the ownership of the asset, which is subject of lease, is not transferred or it is not possible to be transferred.

LON determines profits and losses arising from the disposal of property, plant and equipment on the basis of the carrying amount of assets and whether they affect the operating profit in the Income Statement.

### 6.3.7 INVESTMENT PROPERTY

Investment properties are assets not used by LON directly to pursue its activity, but it rather holds them with the purpose of operating lease or resale. If there is a change in the purpose of use of the property, this is carried over to own funds used.

Upon acquisition, LON recognises investment properties at cost that includes expenses of procurement and other associated costs. LON regularly verifies investment property for impairment. For this purpose, LON regularly carries out estimates of recoverable value of the respective property. The recoverable value is considered fair value less costs of sale, or the value at use, whichever is higher. If the recoverable value significantly exceeds the carrying amount, LON makes an impairment of investment property.

LON calculates depreciation of investment property from the residual value. LON depreciates investment property at a 2.20% depreciation rate.

### 6.3.8 PROVISIONS

In provisions, LON shows provisions for jubilee benefits and retirement allowances in accordance with the legislation, and provisions for any losses from off-balance sheet liabilities. Provisions for off-balance sheet liabilities are recognised by LON on the basis of the client's level of risk and the transaction concluded. They are based on the similar estimates as the credit impairment assessments. LON creates provisions for jubilee benefits and retirement allowances on the basis of actuarial calculations of independent actuaries. In accordance with the IAS standard 19, the nominal long-term interest rate was estimated to 3.60% by the actuary. As at 30/11/2023, it was 3.48% for bonds with the maturity of 10 years. Since the average maturity in the company is 20.7 years, the actuary estimates the average interest rate to 3.60%.

LON recognises provisions at the level of employee by taking into account the cost of retirement allowance granted under the employment contract, and the cost of jubilee benefits for the total period of service until the retirement, whereby the period of service at LON is taken into account. The actuary estimated the expected long-term growth in the amount of jubilee benefits and non-taxable amounts in the calculation (for retirement allowances and jubilee benefits) to the amount of 1.0% per year. In the calculation, LON takes into account the employee turnover, for which it assumes that it depends in particular on the age of an employee (using the assumption of the employees up to 35 years of 7.00%, from 35 to 45 years of 3.00%, and over 45 years of 0.50%) and the growth of the average salary in the Republic of Slovenia (an assumption of future long-term salary growth of 4.0% per year). Provisions for LON employees are created and made in the Income Statement, except for the actuarial gains (losses) which are recognised in the Statement of the Comprehensive Income.

### 6.3.9 SHARE CAPITAL AND RESERVES

Capital consists of share capital, capital reserves, fair value reserve, reserves from profit, repurchased own shares and year-end profit.

LON presents nominal (share) capital in the nominal value, whereby it has been entered and paid-up by its owners. Capital reserves consist of share premium accounts. Fair value reserve is revaluation of financial instruments measured through other comprehensive income, and the actuarial gains and losses.

### 6.3.10 TAXES

LON accounts for corporate income tax on the basis of revenue and expenses in the Income Statement, and other increase or decrease in tax base. The corporate tax rate is 19% of the tax base.

LON presents deferred tax using the method of the obligation to show financial position for temporary differences that emerge between the carrying amount and tax values of assets and liabilities. LON determines deferred tax by using tax rates expected to be used upon realisation.

### 6.3.11 OFF-BALANCE SHEET CLAIMS AND LIABILITIES

Under off-balance sheet claims or liabilities, LON presents issued guarantees, undrawn granted credits, undrawn granted limits, guarantees against a mortgage, and other guarantees and securities pledged.

## 6.4 ADDITIONAL DISCLOSURES TO THE ITEMS OF THE STATEMENT OF FINANCIAL POSITION

### 6.4.1 CASH AND CASH BALANCES WITH CENTRAL BANKS

in EUR '000	31/12/2023	31/12/2022
Cash in hand in EUR	1,991	1,627
Cash in hand in foreign currencies	2	60
<b>Total cash in hand</b>	<b>1,993</b>	<b>1,687</b>
Settlement account with the Bank of Slovenia	10,422	8,750
Overnight deposits with the Central Bank	66,400	47,900
Other deposits with the Central Bank	184	169
<b>Cash at bank</b>	<b>77,006</b>	<b>56,819</b>
Sight deposits at banks	258	54
<b>Cash and cash balances with central banks</b>	<b>79,257</b>	<b>58,560</b>

Cash in hand (domestic and foreign currency) as at 31/12/2023 amounted to EUR 1,993 thousand and included cash in branches and in the safe deposit of the NKBM bank, where LON kept its domestic and foreign currency.

Cash on the settlement account with the Bank of Slovenia comprises all LON's assets on technical accounts MCA, TIPS, RTGS, and BIBS, which the bank needs to keep minimum reserves and provide daily liquidity.

On a daily basis, LON places all excess funds into the overnight deposit with the European Central Bank and receives interest of the deposit facility (as at 31/12/2023 the annual interest rate was 4.00%).

Other deposits with the Central Bank are imprest for the guarantee scheme to settle payment within the SEPA.

Sight deposits at banks are the balance on the LORO account with other commercial bank opened with the purpose to handle foreign payment transactions for clients.

#### 6.4.2 FINANCIAL ASSETS MEASURED AT THE FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

in EUR '000	31/12/2023	31/12/2022
Equity instruments	671	643
Debt securities	0	0
<b>Financial assets measured at the fair value through other comprehensive income</b>	<b>671</b>	<b>643</b>

The item Equity instruments is the investment into the Bank Resolution Fund in accordance with the Bank Resolution Authority and Fund Act.

#### A) BREAKDOWN OF FINANCIAL ASSETS MEASURED AT THE FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

in EUR '000	31/12/2023		31/12/2022	
	CARRYING AMOUNT	FAIR VALUE RESERVE	CARRYING AMOUNT	FAIR VALUE RESERVE
Equity instruments	671	3	643	30
Debt securities	0	0	0	0
Issued by governments and central bank	0	0	0	0
deferred tax	0	0	0	0
Issued by banks	0	0	0	0
deferred tax	0	0	0	0
<b>Financial assets measured at the fair value through other comprehensive income</b>	<b>671</b>	<b>3</b>	<b>643</b>	<b>30</b>

#### B) MOVEMENT OF FINANCIAL ASSETS MEASURED AT THE FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

In 2023

in EUR '000	BALANCE AS AT 01/01/2023	INCREASE	REDUCTION	BALANCE AS AT 31/12/2023
Equity instruments	643	28	0	671
New acquisitions and sales	0	0	0	0
Change in fair value	0	28	0	28
Debt securities	0	0	0	0
Issued by governments and central bank	0	0	0	0
- New acquisitions	0	0	0	0
- Sales and realisations	0	0	0	0
- Accrued interest	0	0	0	0
Change in fair value	0	0	0	0
<b>Financial assets measured at the fair value through other comprehensive income</b>	<b>643</b>	<b>28</b>	<b>0</b>	<b>671</b>

In 2022

in EUR '000	BALANCE AS AT 01/01/2022	INCREASE	REDUCTION	BALANCE AS AT 31/12/2022
Equity instruments	673	0	(30)	643
New acquisitions and sales	0	0	0	0
Change in fair value	0	0	(30)	(30)
Debt securities	3,730	0	(3,730)	0
Issued by governments and central bank	3,730	0	(3,730)	0
- New acquisitions	0	0	0	0
- Sales and realisations	0	0	(3,483)	(3,483)
- Accrued interest	0	0	(52)	(52)
Change in fair value	0	0	(195)	(195)
<b>Financial assets measured at the fair value through other comprehensive income</b>	<b>4,403</b>	<b>0</b>	<b>(3,760)</b>	<b>643</b>

Reduction in debt securities relates to the sale of bonds of the Republic of Slovenia.

### C) REVIEW OF THE BALANCE OF FINANCIAL ASSETS MEASURED AT THE FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ACCORDING TO RESIDUAL MATURITY

As at 31/12/2023

in EUR '000	UP TO 1 MONTH	FROM 1-3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS	TOTAL
Equity instruments	671	0	0	0	0	671
Debt securities	0	0	0	0	0	0
- Issued by governments and central bank	0	0	0	0	0	0
<b>Financial assets measured at the fair value through other comprehensive income</b>	<b>671</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>671</b>

As at 31/12/2022

in EUR '000	UP TO 1 MONTH	FROM 1-3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS	TOTAL
Equity instruments	643	0	0	0	0	643
Debt securities	0	0	0	0	0	0
- Issued by governments and central bank	0	0	0	0	0	0
<b>Financial assets measured at the fair value through other comprehensive income</b>	<b>643</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>643</b>

### D) REVIEW ACCORDING TO THE LISTING ON THE STOCK EXCHANGE MARKET

in EUR '000	31/12/2023		31/12/2022	
	VP, LISTED ON THE STOCK EXCHANGE MARKET	VP, NOT LISTED ON THE STOCK EXCHANGE MARKET	VP, LISTED ON THE STOCK EXCHANGE MARKET	VP, NOT LISTED ON THE STOCK EXCHANGE MARKET
Equity instruments	0	671	0	643
Debt securities	0	0	0	0
Issued by governments and central bank	0	0	0	0
<b>Financial assets measured at the fair value through other comprehensive income</b>	<b>0</b>	<b>671</b>	<b>0</b>	<b>643</b>

### E) BREAKDOWN OF FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, ACCORDING TO GROSS EXPOSURE, VALUE ADJUSTMENT AND SECTOR

As at 31/12/2023

in EUR '000	NON-FINANCIAL CORPORATIONS	PUBLIC SECTOR (GOVERNMENT)	OTHER FINANCIAL ORGANISATIONS	TOTAL
Gross values	0	671	0	671
Value adjustment	0	0	0	0
<b>Net values</b>	<b>0</b>	<b>671</b>	<b>0</b>	<b>671</b>

As at 31/12/2022

in EUR '000	NON-FINANCIAL CORPORATIONS	PUBLIC SECTOR (GOVERNMENT)	OTHER FINANCIAL ORGANISATIONS	TOTAL
Gross values	0	643	0	643
Value adjustment	0	0	0	0
<b>Net values</b>	<b>0</b>	<b>643</b>	<b>0</b>	<b>643</b>

### 6.4.3 FINANCIAL ASSETS MEASURED AT AMORTISED COST

in EUR '000	31/12/2023	31/12/2022
Debt securities	69,377	69,903
Credits to banks	1,502	0
Credits to non-banking sector	177,703	176,217
Other financial assets	148	460
<b>Financial assets measured at amortised cost</b>	<b>248,730</b>	<b>246,580</b>

Credits to non-banking sector amount to EUR 177,703, which is 71.4% of all financial assets measured at amortised cost, of which the credits to households amount to EUR 119,393 thousand, credits to non-financial corporations amount to EUR 53,122 thousand, and credits to other clients to EUR 5,188 thousand.

Debt securities issued by the Republic of Slovenia amount to EUR 37,573, securities of the Kingdom of Spain amount to EUR 29,795 thousand, and that of France amount to EUR 2,009 thousand.

As at 31/12/2023, LON presented credits to banks in the amount of EUR 1,502 thousand, which is a long-term deposit with Delavska hranilnica.

## A) BREAKDOWN OF FINANCIAL ASSETS MEASURED AT AMORTISED COST ACCORDING TO TYPES AND SECTORS

As at 31/12/2023

in EUR '000	DEBT SECURITIES	CREDITS TO BANKS	CREDITS TO NON-BANKING SECTOR	OTHER FINANCIAL ASSETS	TOTAL
Banks and savings banks	0	1,502	0	0	1,502
Non-financial corporations	0	0	53,122	26	53,148
Public sector	69,377	0	4,606	83	74,066
Other financial organisations	0	0	582	21	603
Households*	0	0	119,393	18	119,411
<b>Total</b>	<b>69,377</b>	<b>1,502</b>	<b>177,703</b>	<b>148</b>	<b>248,730</b>

\*The public and sole proprietors included

As at 31/12/2022

in EUR '000	DEBT SECURITIES	CREDITS TO BANKS	CREDITS TO NON-BANKING SECTOR	OTHER FINANCIAL ASSETS	TOTAL
Banks and savings banks	0.00	0.00	0.00	0.00	0.00
Non-financial corporations	0	0.00	56,350	18	56,368
Public sector	69,903	0.00	1,750	119	71,772
Other financial organisations	0	0.00	617	16	633
Households*	0	0.00	117,500	308	117,808
<b>Total</b>	<b>69,903</b>	<b>0.00</b>	<b>176,217</b>	<b>460</b>	<b>246,580</b>

\*The public and sole proprietors included

## B) BREAKDOWN OF FINANCIAL ASSETS MEASURED AT AMORTISED COST ACCORDING TO ORIGINAL MATURITY

As at 31/12/2023

in EUR '000	SHORT-TERM	LONG-TERM	TOTAL
Non-financial corporations	0	0	0
Public sector	0	69,377	69,377
<b>Debt securities</b>	<b>0</b>	<b>69,377</b>	<b>69,377</b>
Banks and savings banks	0	1,502	1,502
<b>Credits to banks</b>	<b>0</b>	<b>1,502</b>	<b>1,502</b>
Non-financial corporations	6,285	46,838	53,123
Public sector	167	4,439	4,606

Other financial organisations	1	581	582
Households*	4,062	115,331	119,393
<b>Credits to non-banking sector</b>	<b>10,515</b>	<b>167,189</b>	<b>177,704</b>
Non-financial corporations	25	0	25
Public sector	83	0	83
Other financial organisations	21	0	21
Households*	18	0	18
<b>Other financial assets</b>	<b>147</b>	<b>0</b>	<b>147</b>
<b>Total financial assets measured at amortised cost</b>	<b>10,662</b>	<b>238,068</b>	<b>248,730</b>

\*The public and sole proprietors included

As at 31/12/2022

in EUR '000	SHORT-TERM	LONG-TERM	TOTAL
Non-financial corporations	0	0	0
Public sector	0	69,903	69,903
<b>Debt securities</b>	<b>0</b>	<b>69,903</b>	<b>69,903</b>
Banks and savings banks	0	0	0
<b>Credits to banks</b>	<b>0</b>	<b>0</b>	<b>0</b>
Non-financial corporations	7,356	48,995	56,350
Public sector	2	1,748	1,750
Other financial organisations	2	615	617
Households*	4,042	113,458	117,500
<b>Credits to non-banking sector</b>	<b>11,401</b>	<b>164,816</b>	<b>176,217</b>
Non-financial corporations	18	0	18
Public sector	119	0	119
Other financial organisations	16	0	16
Households*	305	3	308
<b>Other financial assets</b>	<b>458</b>	<b>3</b>	<b>461</b>
<b>Total financial assets measured at amortised cost</b>	<b>11,859</b>	<b>234,722</b>	<b>246,580</b>

\* The public and sole proprietors included.

### C) BREAKDOWN OF FINANCIAL ASSETS MEASURED AT AMORTISED COST ACCORDING TO RESIDUAL MATURITY

As at 31/12/2023

in EUR '000	UP TO 1 MONTH	FROM 1-3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS	TOTAL
Non-financial corporations	0	0	0	0	0	0
Public sector	0	0	35,422	6,852	27,103	69,377
<b>Debt securities</b>	<b>0</b>	<b>0</b>	<b>35,422</b>	<b>6,852</b>	<b>27,103</b>	<b>69,377</b>
Banks and savings banks	0	0	0	1,502	0	1,502
<b>Credits to banks</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,502</b>	<b>0</b>	<b>1,502</b>
Non-financial corporations	4,693	1,938	1,015	8,838	36,639	53,123
Public sector	15	151	0	183	4,257	4,606
Other financial organisations	1	0	0	0	581	582
Households*	4,304	72	1,216	22,176	91,625	119,393
<b>Credits to non-banking sector</b>	<b>9,013</b>	<b>2,161</b>	<b>2,231</b>	<b>31,197</b>	<b>133,102</b>	<b>177,704</b>
Non-financial corporations	25	0	0	0	0	25
Public sector	83	0	0	0	0	83
Other financial organisations	21	0	0	0	0	21
Households*	18	0	0	0	0	18
<b>Other financial assets</b>	<b>147</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>147</b>
<b>Total financial assets measured at amortised cost</b>	<b>9,160</b>	<b>2,161</b>	<b>37,653</b>	<b>39,551</b>	<b>160,205</b>	<b>248,730</b>

\*The public and sole proprietors included

As at 31/12/2022

in EUR '000	UP TO 1 MONTH	FROM 1-3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS	TOTAL
Non-financial corporations	0	0	0	0	0	0
Public sector	0	0	0	42,610	27,293	69,903
<b>Debt securities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>42,610</b>	<b>27,293</b>	<b>69,903</b>
Non-financial corporations	0	0	0	0	0	0
<b>Public sector</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Banks and savings banks	2,922	1,502	4,735	8,654	38,537	56,350
<b>Credits to banks</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,748</b>	<b>1,750</b>
Other financial organisations	3	2	0	0	612	617
Households*	4,306	122	1,569	24,626	86,877	117,500
<b>Credits to non-banking sector</b>	<b>7,233</b>	<b>1,626</b>	<b>6,304</b>	<b>33,280</b>	<b>127,774</b>	<b>176,217</b>
Non-financial corporations	17	0	0	0	0	17
Public sector	119	0	0	0	0	119
Other financial organisations	16	0	0	0	0	16
Households*	308	0	0	0	0	308
<b>Other financial assets</b>	<b>460</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>460</b>
<b>Total financial assets measured at amortised cost</b>	<b>7,693</b>	<b>1,626</b>	<b>6,304</b>	<b>75,890</b>	<b>155,068</b>	<b>246,580</b>

\*The public and sole proprietors included

### D) BREAKDOWN OF FINANCIAL ASSETS MEASURED AT AMORTISED COST ACCORDING TO GROSS EXPOSURE AND VALUE ADJUSTMENT

As at 31/12/2023

in EUR '000	DEBT SECURITIES	CREDITS TO BANKS	CREDITS TO NON-BANKING SECTOR	OTHER FINANCIAL ASSETS	TOTAL
Gross values	69,398	1,502	181,381	209	252,490
Value adjustment	(21)	0	(3,678)	(61)	(3,760)
<b>Net values</b>	<b>69,377</b>	<b>1,502</b>	<b>177,703</b>	<b>148</b>	<b>248,730</b>

## DEBT SECURITIES ACCORDING TO SECTORS

in EUR '000	NON-FINANCIAL CORPORATIONS	PUBLIC SECTOR (GOVERNMENT)	TOTAL
Gross values	0	69,398	69,398
Value adjustment	0	(21)	(21)
<b>Net values</b>	<b>0</b>	<b>69,377</b>	<b>69,377</b>

## CREDITS TO BANKS

in EUR '000	BANKS AND SAVINGS BANKS	TOTAL
Gross values	1,502	1,502
Value adjustment	0	0
<b>Net values</b>	<b>1,502</b>	<b>1,502</b>

## CREDITS TO NON-BANKING SECTOR ACCORDING TO SECTORS

in EUR '000	NON-FINANCIAL CORPORATIONS	PUBLIC SECTOR	OTHER FINANCIAL ORGANISATIONS	HOUSEHOLDS*	TOTAL
Gross values	55,893	4,664	592	120,232	181,381
Value adjustment	(2,771)	(58)	(10)	(839)	(3,678)
<b>Net values</b>	<b>53,122</b>	<b>4,606</b>	<b>582</b>	<b>119,393</b>	<b>177,703</b>

\* The public and sole proprietors included.

## OTHER FINANCIAL ASSETS ACCORDING TO SECTORS

in EUR '000	NON-FINANCIAL CORPORATIONS	PUBLIC SECTOR	OTHER FINANCIAL ORGANISATIONS	HOUSEHOLDS*	TOTAL
Gross values	60	83	21	45	209
Value adjustment	(34)	0	0	(27)	(61)
<b>Net values</b>	<b>26</b>	<b>83</b>	<b>21</b>	<b>18</b>	<b>148</b>

\* The public and sole proprietors included.

As at 31/12/2022

in EUR '000	DEBT SECURITIES	CREDITS TO BANKS	CREDITS TO NON-BANKING SECTOR	OTHER FINANCIAL ASSETS	TOTAL
Gross values	69,924	0	178,907	551	249,382
Value adjustment	(21)	0	(2,690)	(91)	(2,802)
<b>Net values</b>	<b>69,903</b>	<b>0</b>	<b>176,217</b>	<b>460</b>	<b>246,580</b>

## DEBT SECURITIES ACCORDING TO SECTORS

in EUR '000	NON-FINANCIAL CORPORATIONS	PUBLIC SECTOR (GOVERNMENT)	TOTAL
Gross values	0	69,924	69,924
Value adjustment	0	(21)	(21)
<b>Net values</b>	<b>0</b>	<b>69,903</b>	<b>69,903</b>

## CREDITS TO BANKS

in EUR '000	BANKS AND SAVINGS BANKS	TOTAL
Gross values	0	0
Value adjustment	0	0
<b>Net values</b>	<b>0</b>	<b>0</b>

## CREDITS TO NON-BANKING SECTOR ACCORDING TO SECTORS

in EUR '000	NON-FINANCIAL CORPORATIONS	PUBLIC SECTOR	OTHER FINANCIAL ORGANISATIONS	HOUSEHOLDS*	TOTAL
Gross values	58,340	1,788	619	118,160	178,907
Value adjustment	(1,990)	(38)	(2)	(660)	(2,690)
<b>Net values</b>	<b>56,350</b>	<b>1,750</b>	<b>617</b>	<b>117,500</b>	<b>176,217</b>

\* The public and sole proprietors included.

## OTHER FINANCIAL ASSETS ACCORDING TO SECTORS

in EUR '000	NON-FINANCIAL CORPORATIONS	PUBLIC SECTOR	OTHER FINANCIAL ORGANISATIONS	HOUSEHOLDS*	TOTAL
Gross values	56	119	19	358	552
Value adjustment	(39)	0	(3)	(50)	(92)
<b>Net values</b>	<b>18</b>	<b>119</b>	<b>16</b>	<b>308</b>	<b>460</b>

\* The public and sole proprietors included.

## E) REVIEW ACCORDING TO THE LISTING ON THE STOCK EXCHANGE MARKET

in EUR '000	31/12/2023		31/12/2022	
	VP, LISTED ON THE STOCK EXCHANGE MARKET	VP, NOT LISTED ON THE STOCK EXCHANGE MARKET	VP, LISTED ON THE STOCK EXCHANGE MARKET	VP, NOT LISTED ON THE STOCK EXCHANGE MARKET
Non-financial corporations	0	0	0	0
Public sector	69,377	0	69,903	0
<b>Debt securities</b>	<b>69,377</b>	<b>0</b>	<b>69,903</b>	<b>0</b>

Bonds issued by the Republic of Slovenia (EUR 37,573 thousand; public sector) are traded at the Ljubljana Stock Exchange, while the bonds of the Republic of France are traded at the Paris Stock Exchange (EUR 2,009 thousand; public sector), and those of the Kingdom of Spain at the Madrid Stock Exchange (EUR 29,795 thousand; public sector).

#### F) DISCLOSURES RELATED TO ADVANCES AND CREDITS GRANTED BY LON TO THE MANAGEMENT MEMBERS, SUPERVISORY BOARD MEMBERS, AND EMPLOYEES UNDER THE TARIFF COMPONENT OF THE COLLECTIVE AGREEMENT

The basis to disclose advances and credits granted by LON to the Management members, Supervisory Board members, and employees under the tariff component of the collective agreement is the Companies Act (ZGD-1). Other disclosures of transactions concluded with related parties under IAS 24 are states in Disclosure 6.9.

#### CREDITS

in EUR '000	31/12/2023	31/12/2022
Management Board	0	0
Supervisory Board	353	0
Senior management	0	77
<b>Credits granted to Management Board and Supervisory Board members and employees under individual employment contract</b>	<b>353</b>	<b>77</b>

#### LIMITS

in EUR '00	31/12/2023		31/12/2022	
	GRANTED AMOUNT	WITHDRAWN AMOUNT	GRANTED AMOUNT	WITHDRAWN AMOUNT
Management Board members	1	0	12	4
Supervisory Board members	0	0	0	0
Employees under individual employment contract	5	2	12	1
<b>Limits granted to Management Board and Supervisory Board members and employees under individual employment contract</b>	<b>6</b>	<b>2</b>	<b>24</b>	<b>5</b>

Limits are remunerated at a fixed interest rate of 7.90%. LON did not grant advances to the respective groups.

#### G) OTHER DISCLOSURES RELATING TO CREDITS AND RESPECTIVE DEPOSITS

Interest rates of credits granted to non-financial corporations and households are calculated in accordance with a contract or an applicable internal decision on interest rates on the day of signing the contract.

As at the date of the Statement of Financial Position of 31/12/2023, the interest rates for non-purpose customer credits specified in the applicable decision on interest rate ranged between 5.90% and 6.90% or EURIBOR 6 months + 3.30% and 5.90% for short-term and long-term credits. Interest rates for residential loans were between 3.90% to 5.10% of EURIBOR 6 months + 0.95% and EURIBOR 6 months + 2.45%. Interest rate for overdraft limits on personal account was 9.90%. Interest rates for credits granted to associations of property owners or for energy refurbishment of large residential buildings ranged between 4.10% and 6.10%. Interest rates for LON credits were between 6.50% and 8.50%.

Interest rates for non-financial corporations specified in the applicable decision on interest rate ranged between 5.50% and 8.50% or EURIBOR 6 months + 2.00% and EURIBOR 6 months + 5.50% for short-term and long-term credits.

#### 6.4.4 TANGIBLE FIXED ASSETS

In accordance with the international accounting standards (IAS 36), at the balance date of 31/12/2023, LON verified whether there existed signals indicating a possible impairment of assets. Pursuant to IAS 36, the Management Board assessed the signals of impairment and established no signs that would require the impairment of fixed assets, investment property and rights of use.

The fair value of immovable property and land at the address Žanova 3, Kranj (investment and for own use) that in kind represent the office building at Žanova 3, and the associated land, stems from the appraisal report drawn up by an authorised real estate appraiser in 2023 and amounts to EUR 7,450 thousand (carrying amount at the date of appraisal, i.e. 31/05/2023 amounted to EUR 7,236 thousand). The fair value represents Level 3 of the fair value hierarchy.

#### A) CHANGES IN PROPERTY, PLANT AND EQUIPMENT IN 2023

v 1000 EUR	LAND	CON- STRUCTION WORKS	RIGHT OF USE OF CON- STRUCTION WORKS	INVEST- MENT IN PREPARA- TION	EQUIP- MENT AND SMALL TOOLS	CARDS	EQUIP- MENT IN OBTAINING	TOTAL
<b>COST OF PURCHASE/ ACQUISITION</b>								
Balance as at 01/01/2023	934	4,870	970	18	2,146	44	63	9,045
Increase	0		220	280			418	918
Transfer to use	0	290		(290)	469	6	(475)	0
Reductions	0	(54)	(180)		(311)	(7)		(552)
Impairment	0							0
Transfer	0	(147)		(7)			10	(144)
<b>Balance as at 31/12/2023</b>	<b>934</b>	<b>4,959</b>	<b>1,010</b>	<b>1</b>	<b>2,304</b>	<b>43</b>	<b>16</b>	<b>9,267</b>

VALUE ADJUSTMENT								
Balance as at 01/01/2023	0	(1,017)	(351)	0	(1,356)	(12)	0	(2,736)
Depreciation of the current year	0	(136)	(101)		(260)	(9)		(506)
Increase	0							0
Reductions	0	53	173		268			494
Transfer	0	24	62					86
Balance as at 31/12/2023	0	(1,076)	(217)	0	(1,348)	(21)	0	(2,662)
Net carrying amount	934	3,853	619	18	790	32	63	6,309
Balance as at 01/01/2023	934	3,883	793	1	956	22	16	6,605

## B) CHANGES IN PROPERTY, PLANT AND EQUIPMENT IN 2022

in EUR '000	LAND	CON- STRUCTION WORKS	RIGHT OF USE OF CON- STRUCTION WORKS	INVEST- MENT IN PREPARA- TION	EQUIP- MENT AND SMALL TOOLS	CARDS	EQUIP- MENT IN OBTAINING	TOTAL
<b>COST OF PURCHASE/ACQUISITION</b>								
Balance as at 01/01/2022	934	5,101	964	0	2,776	43	18	9,836
Increase	0	1	158	244	0	0	324	727
Transfer to use	0	226	0	(226)	273	5	(279)	(0)
Reductions	0	(458)	(152)	0	(902)	(4)	0	(1,516)
Impairment	0	0	0	0	0	0	0	0
Transfer	0	0	0	0	0	0	0	0
Balance as at 31/12/2022	934	4,870	970	18	2,146	44	63	9,045
<b>VALUE ADJUSTMENT</b>								
Balance as at 01/01/2022	0	(1,339)	(379)	0	(1,996)	(4)	0	(3,718)
Depreciation of the current year	0	(121)	(118)	0	(240)	(8)	0	(487)
Increase	0	0	0	0	0	0	0	0
Reductions	0	443	146	0	880	0	0	1,469
Transfer	0	0	0	0	0	0	0	0
Balance as at 31/12/2022	0	(1,017)	(351)	0	(1,356)	(12)	0	(2,736)

NET CARRYING AMOUNT								
Balance as at 01/01/2022	934	3,762	585	0	780	39	18	6,118
Balance as at 31/12/2022	934	3,853	619	18	790	32	63	6,309

The items Construction works and Right of use of construction works increased in 2022 due to the opening of a new branch in Maribor, while the old unit closed its doors.

## 6.4.5 INVESTMENT PROPERTY

### A) CHANGES IN INVESTMENT PROPERTY IN 2023

in EUR '000	LAND	CONSTRUCTION WORKS	INVESTMENT IN PREPARATION	TOTAL
<b>COST OF PURCHASE/ACQUISITION</b>				
Balance as at 01/01/2023	481	3,232	9	3,722
Increase	0	104	393	497
Transfer to use	0	409	(409)	0
Reductions	0	0	0	0
Impairment	0		0	0
Transfer	0	147	7	154
BALANCE AS AT 31/12/2023	481	3,892	0	4,373
<b>VALUE ADJUSTMENT</b>				
Balance as at 01/01/2023	0	(419)	0	(419)
Depreciation of the current year	0	(75)	0	(75)
Increase	0	0	0	0
Reductions	0	0	0	0
Transfer	0	(24)	0	(24)
Balance as at 31/12/2023	0	(518)	0	(518)
<b>NET CARRYING AMOUNT</b>				
Balance as at 01/01/2023	481	2,813	9	3,303
Balance as at 31/12/2023	481	3,374	0	3,855

## B) CHANGES IN INVESTMENT PROPERTY IN 2022

in EUR '000	LAND	CONSTRUCTION WORKS	INVESTMENT IN PREPARATION	TOTAL
<b>COST OF PURCHASE/ ACQUISITION</b>				
Balance as at 01/01/2022	481	3.206	0	3.688
Increase	0	26	97	123
Transfer to use	0	88	(88)	0
Reductions	0	(88)	0	(88)
Impairment	0	0	0	0
Transfer	0	0	0	0
Balance as at 31/12/2022	481	3.232	9	3.722
<b>VALUE ADJUSTMENT</b>				
Balance as at 01/01/2022	0	(369)	0	(369)
Depreciation of the current year	0	(70)	0	(70)
Increase	0	0	0	0
Reductions	0	20	0	20
Transfer	0	0	0	0
Balance as at 31/12/2022	0	(419)	0	(419)
<b>NET CARRYING AMOUNT</b>				
Balance as at 01/01/2022	481	2.837	0	3.319
Balance as at 31/12/2022	481	2.813	9	3.303

Income associated with leasing investment property is disclosed in the explanatory note 6.5.8.

## 6.4.6 INTANGIBLE LONG-TERM ASSETS

### A) CHANGES IN INTANGIBLE LONG-TERM ASSETS IN 2023

in EUR '000	PROPERTY RIGHTS	SOFTWARE	OTHER INTANGIBLE ASSETS	QUALIFYING INTANGIBLE ASSETS	INTERNALLY GENERATED INTANGIBLE LONG-TERM ASSETS (DEFERRED DEVELOPMENT COSTS)	TOTAL
<b>COST OF PURCHASE/ ACQUISITION</b>						
Balance as at 01/01/2023	21	525	6	0	0	552
Increase	0	0	0	79	28	107
Transfer to use	67	30	0	(69)	(28)	0
Reductions	0	(26)	0	(10)	0	(36)
Balance as at 31/12/2023	88	529	6	0	0	623
<b>VALUE ADJUSTMENT</b>						
Balance as at 01/01/2023	(11)	(216)	(6)	0	0	(233)
Depreciation of the current year	(6)	(78)	0	0	0	(84)
Increase	0	0	0	0	0	0
Reductions	0	25	0	0	0	25
Balance as at 31/12/2023	(17)	(269)	(6)	0	0	(292)
<b>NET CARRYING AMOUNT</b>						
Balance as at 01/01/2023	10	309	0	0	0	319
Balance as at 31/12/2023	71	260	0	0	0	331

## B) CHANGES IN INTANGIBLE LONG-TERM ASSETS IN 2022

in EUR '000	PROPERTY RIGHTS	SOFTWARE	OTHER INTANGIBLE ASSETS	QUALIFYING INTANGIBLE ASSETS	INTERNALLY GENERATED INTANGIBLE LONG-TERM ASSETS (DEFERRED DEVELOPMENT COSTS)	TOTAL
<b>COST OF PURCHASE/ACQUISITION</b>						
Balance as at 01/01/2022	62	349	6	0	104	521
Increase	0	0	0	37	139	176
Transfer to use	0	280	0	(37)	(243)	0
Reductions	(41)	(104)	0	0	0	(145)
Balance as at 31/12/2022	21	525	6	0	0	552
<b>VALUE ADJUSTMENT</b>						
Balance as at 01/01/2022	(50)	(269)	(6)	0	0	(325)
Depreciation of the current year	(2)	(50)	0	0	0	(52)
Increase	0	0	0	0	0	0
Reductions	41	103	0	0	0	144
Balance as at 31/12/2022	(11)	(216)	(6)	0	0	(233)
<b>NET CARRYING AMOUNT</b>						
Balance as at 01/01/2022	12	80	0	0	104	196
Balance as at 31/12/2022	10	309	0	0	0	319

Increase in the item Software refers to the costs in development activity (development of software for internal use).

## 6.4.7 CORPORATE INCOME TAX CLAIMS AND LIABILITIES

in EUR '000	31/12/2023	31/12/2022
Deferred tax assets	56	418
Corporate income tax claims	56	418
Tax liabilities	145	84
Corporate income tax liabilities	145	84

## A) DEFERRED TAXES

in EUR '000	31/12/2023	31/12/2022
Provisions for retirement allowances and jubilee benefits	19	15
Financial assets measured at the fair value through other comprehensive income	1	44
Impairment of securities	4	4
Gross fixed capital formation	3	0
Tax loss	29	393
<b>Deferred tax assets</b>	<b>56</b>	<b>456</b>
Tax liabilities	145	38
<b>Corporate income tax liabilities</b>	<b>145</b>	<b>38</b>

Deferred tax from items of the financial position is tax on long-term provisions for employees, financial assets measured at the fair value through other comprehensive income, and tax losses.

Deferred tax from unused tax losses is EUR 29 thousand. Unused tax loss, for which no deferred tax was formed as at 31/12/2023 is EUR 1,286 thousand (31/12/2022: EUR 1,940 thousand), thus the unrecognised deferred tax from tax loss is EUR 283 thousand (31/12/2022: EUR 367 thousand), while unused relief for investment amounts to EUR 173 thousand (31/12/2022: EUR 275 thousand). The use of tax losses in future periods assumes that LON will achieve taxable profit against which tax losses could be used, whereby the assumption is based on the LON's operational plan for the next three years.

## MOVEMENT OF DEFERRED TAXES IN 2023

in EUR '000	BALANCE 31/12/2022	EFFECT ON INCOME STATEMENT	EFFECT ON THE OTHER COMPREHENSIVE INCOME	BALANCE 31/12/2023
Provisions for retirement allowances and jubilee benefits	15	8	(4)	19
Financial assets measured at the fair value through other comprehensive income	44	(5)	(38)	1
Impairment of securities	4	0	0	4
Gross fixed capital formation	0	3	0	3
Tax loss	393	(364)	0	29
<b>Deferred tax assets</b>	<b>456</b>	<b>(358)</b>	<b>(42)</b>	<b>56</b>

## IN 2022

in EUR '000	BALANCE 31/12/2021	EFFECT ON INCOME STATEMENT	EFFECT ON THE OTHER COMPREHENSIVE INCOME	BALANCE 31/12/2022
Provisions for retirement allowances and jubilee benefits	38	(2)	(21)	15
Financial assets measured at the fair value through other comprehensive income	(37)	15	66	44
Impairment of securities	2	0	2	4
Tax loss	506	(113)	0	393
<b>Deferred tax assets</b>	<b>509</b>	<b>(100)</b>	<b>47</b>	<b>456</b>

## B) CORPORATION TAXES FROM CONTINUING OPERATIONS

in EUR '000	31/12/2023	31/12/2022
Tax liability	232	84
Deferred taxes	374	113
<b>Total income tax</b>	<b>586</b>	<b>197</b>
<b>Profit before tax</b>	<b>2,997</b>	<b>946</b>
Tax levied at 19% rate	569	180
Tax on reduction in revenue	0	(3)
Tax on increase in revenue	0	28
Tax on fiscally unrecognised expenditure	59	21
Tax on tax relief	(82)	(29)
Other	40	0
<b>Total income tax</b>	<b>586</b>	<b>197</b>
<b>Effective tax rate</b>	<b>19.55%</b>	<b>20.80%</b>

Liability for income tax amounts to EUR 232 thousand. The effective tax rate is 19.55%.

## 6.4.8 OTHER ASSETS

in EUR '000	31/12/2023	31/12/2022
Stocks	1	38
Claims for advances provided	43	35
Other claims	6	2
Accrued costs of operation	34	35
Accrued revenue	0	4
Long-term claims on government	245	349
<b>Other assets</b>	<b>329</b>	<b>463</b>

Stocks include the value of gold coins that LON offers to savers in special savings vehicles.

Claims for advances provided are a security for the payment of lease fee for business premises.

Accrued costs of operation include the value of prepaid cost of insurance premiums, deferred expenses of cost literature, membership fees, etc.

Long-term claims on government are value added tax registered in 2017 as a reduction of the purchase value of investment property. In 2023, the reduction is the value added tax shift to the purchase value of investment property for a part of leased premises where LON does not charge VAT for lease fees, and to the regularisation of tax LON claims from the government in a 20-year period.

## 6.4.9 FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

in EUR '000	31/12/2023	31/12/2022
Bank deposits	0	0
Deposits of clients other than banks	307,637	291,631
Credit facilities from banks and central banks	358	625
Other financial liabilities	4,106	3,701
<b>Financial liabilities at amortised cost</b>	<b>312,101</b>	<b>295,957</b>

**A) BREAKDOWN OF FINANCIAL LIABILITIES MEASURED AT AMORTISED COST ACCORDING TO ORIGINAL MATURITY**

in EUR '000	31/12/2023			31/12/2022		
	SHORT-TERM	LONG-TERM	TOTAL	SHORT-TERM	LONG-TERM	TOTAL
Bank deposits	0	0	0	0	0	0
Deposits of clients other than banks	255,624	52,013	307,637	255,157	36,474	291,631
Credit facilities from banks and central banks	0	358	358	0	625	625
Other financial liabilities	4,106	0	4,106	3,701	0	3,701
<b>Financial liabilities at amortised cost</b>	<b>259,730</b>	<b>52,371</b>	<b>312,101</b>	<b>258,858</b>	<b>37,099</b>	<b>295,957</b>

**B) BREAKDOWN OF FINANCIAL LIABILITIES ACCORDING TO TYPES OF DEPOSITS AND SECTORS**

As at 31/12/2023

in EUR '000	DEPOSITS	CREDITS	OTHER FINANCIAL LIABILITIES	TOTAL
Central bank	0	0	0	0
Banks and savings banks	0	358	0	358
Other financial organisations	942	0	2,383	3,325
Non-financial corporations	118,026	0	825	118,851
Public sector	4,313	0	0	4,313
Households*	184,356	0	898	185,254
<b>Financial liabilities at amortised cost</b>	<b>307,637</b>	<b>358</b>	<b>4,106</b>	<b>312,101</b>

\* The public and sole proprietors included

As at 31/12/2022

in EUR '000	DEPOSITS	CREDITS	OTHER FINANCIAL LIABILITIES	TOTAL
Central bank	0	0	0	0
Banks and savings banks	0	625	0	625
Other financial organisations	586	0	2,087	2,673
Non-financial corporations	72,306	0	650	72,956
Public sector	891	0	0	891
Households*	217,848	0	964	218,812
<b>Financial liabilities at amortised cost</b>	<b>291,631</b>	<b>625</b>	<b>3,701</b>	<b>295,957</b>

\* The public and sole proprietors included

**C) REVIEW OF THE STATE OF FINANCIAL LIABILITIES MEASURED AT AMORTISED COST ACCORDING TO THE RESIDUAL MATURITY**

As at 31/12/2023

in EUR '000	AT SIGHT	UP TO 1 MONTH	FROM 1-3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS	TOTAL
Central bank	0	0	0	0	0	0	0
Banks and savings banks	0	0	0	0	193	165	358
Other financial organisations	882	2383	0	0	60	0	3,325
Non-financial corporations	94,785	13,720	1,269	7,899	1,178	0	118,851
Public sector	868	3179	25	200	34	7	4,313
Households*	127,450	4,435	13,242	25,644	9,996	4,487	185,254
<b>Financial liabilities at amortised cost</b>	<b>223,985</b>	<b>23,717</b>	<b>14,536</b>	<b>33,743</b>	<b>11,461</b>	<b>4,659</b>	<b>312,101</b>

\* The public and sole proprietors included

na 31. 12. 2022

As at 31/12/2022	AT SIGHT	UP TO 1 MONTH	FROM 1-3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS	TOTAL
Central bank	0	0	0	0	0	0	0
Banks and savings banks	0	0	0	138	296	191	625
Other financial organisations	526	2086	0	0	61	0	2,673
Non-financial corporations	66,762	2,612	447	2,028	1,067	40	72,956
Public sector	615	22	0	0	254	0	891
Households*	170,857	7,693	14,968	7,167	13,525	4,602	218,812
<b>Financial liabilities at amortised cost</b>	<b>238,760</b>	<b>12,413</b>	<b>15,415</b>	<b>9,333</b>	<b>15,203</b>	<b>4,833</b>	<b>295,957</b>

\* The public and sole proprietors included

Liabilities to banks and savings banks are three active contracts with defined purpose of financing with SID – Slovenska izvozna in razvojna banka, d. d., in the total amount of EUR 358 thousand. The reduction in credit balance stems from the regular monthly repayments.

Deposits of clients other than banks are made at interest rates as laid down in the applicable LON's decision on the interest rate level and do not change during the term of contractual relationship.

#### D) OTHER FINANCIAL LIABILITIES

in EUR '000	31/12/2023	31/12/2022
Trade creditors	423	414
Liabilities in accounting and liabilities from unliquidated payment transactions	0	3
Liabilities for fixed assets received on lease	825	650
Accrued charges	634	482
Other liabilities	2,235	2,152
<b>Other financial liabilities</b>	<b>4,117</b>	<b>3,701</b>

Trade creditors are liabilities not yet due for payment as at 31/12/2023.

Liabilities for fixed assets received on lease are liabilities under the right of use of leased fixed assets. The amount of EUR 825 thousand includes the liabilities for lease fee payments (IFRS 16). The increase is a result of the increase in lease fees for leased business premises and changes/relocation of business premises in Velenje.

Accrued charges are costs related to costs of unused annual leave as at 31/12/2023 (EUR 37 thousand), performance bonuses rewarded to employees for 2023 (EUR 430 thousand), and other costs, for which LON has not yet received invoice and that relate to 2023 (audit of financial statements and annual report for 2023, cost of supervision by the Bank of Slovenia, etc.).

Other liabilities include liabilities arising out of payment cards (EUR 1,951 thousand), credit overpayments, liabilities from cleared savings products where savers failed to take over the respective assets despite repeated requests by LON, liabilities from card transactions, liabilities to natural and legal persons that have arisen upon closing of current accounts due to controversial operation in terms of the MLTFP requirements, but where clients have not yet provided their current account for executing transfer, and other liabilities.

#### E) REVIEW OF SUBORDINATED LIABILITIES

As at 31/12/2023, LON reports liabilities arising out of deposits that comply with the requirements referred to Article 62 of the CRR towards five clients, namely three natural and two legal persons. LON has obtained a permit by the Bank of Slovenia for all deposits to be included in the calculation of additional capital. The deposits are reported in the item Deposits of clients other than banks and Bank deposits.

Subordinated deposits made by natural persons comprise five contracts. The value of two contracts concluded in 2015 amounts to EUR 1,038 thousand. The deposits are remunerated at a nominal interest rate of 5.75%. The interest is paid once per year and upon the payment of deposit. The deposits have no maturity date determined. LON has discretion to call, buyout, pay or early repay deposits, but not before the expiry of five years and one day from the date of obtaining the permit of the Bank of Slovenia to include deposits in the calculation of capital and upon a prior consent by the Bank of Slovenia.

Other three contracts with their contractual amount of EUR 981 thousand are remunerated at an interest rate of 6.80% (a contract with the contractual value of EUR 277 thousand) or 7.00% (two contracts in the total amount of EUR 702 thousand). None of the respective contracts has a specified maturity date, and the call is possible after the expiry of five years and one day from the signing of the contract upon a prior consent of the Bank of Slovenia. The term of call is five years.

The subordinated deposits to two non-financial corporations in the total amount of EUR 514 thousand were acquired in 2015. Both deposits are remunerated at a fixed interest rate of 5.65%. The interest is paid once per year and upon the payment of deposit. The contracts fall due for payment on 01/09/2025. LON has discretion to call, buyout, pay or early repay deposits, but not before the expiry of five years and one day.

No financial instrument managed as a subordinated debt includes provisions for conversion to capital or any other liability.

All contracts managed as subordinated deposits are subordinated to other LON's liabilities. In accordance with the statutory provisions, the Bank of Slovenia may determine, as an additional measure used if it is established that LON could not settle its obligations with its assets, that eligible liabilities partially or entirely cease, or that LON's eligible liabilities are partially or wholly converted into new ordinary shares of LON based on the increase in the share capital through the payment of contributions in kind in the form of claims of creditors that represent eligible liabilities.

#### MOVEMENT OF SUBORDINATED DEPOSITS IN 2023

in EUR '000	BALANCE 31/12/2022	INCREASE	REDUCTION	BALANCE 31/12/2023
Banks and savings banks	0	0	0	0
Non-financial corporations	514	28	(28)	514
Natural persons	2,020	123	(123)	2,020
<b>Subordinated deposits</b>	<b>2,534</b>	<b>151</b>	<b>(151)</b>	<b>2,534</b>

## MOVEMENT OF SUBORDINATED DEPOSITS IN 2022

in EUR '000	BALANCE 31/12/2021	INCREASE	REDUCTION	BALANCE 31/12/2022
Banks and savings banks	205	8	(213)	0
Non-financial corporations	514	28	(28)	514
Natural persons	2,020	123	(123)	2,020
<b>Subordinated deposits</b>	<b>2,739</b>	<b>160</b>	<b>(365)</b>	<b>2,534</b>

The movement of the balance of subordinated deposits includes the calculation and payment of contractual interest. In 2023, LON did not enter into any new contracts featuring subordinated debt.

### 6.4.10 PROVISIONS

in EUR '000	31/12/2023	31/12/2022
Provisions for pensions and similar liabilities to employees	201	198
Provisions for lawsuits and penalties	99	0
Provisions for off-balance sheet liabilities	65	57
Other provisions	75	0
<b>Total provisions</b>	<b>440</b>	<b>255</b>

Provisions for pensions and similar liabilities to employees are provisions for retirement allowances and jubilee benefits of employees in accordance with IFRS 19.

LON establishes provisions for off-balance sheet liabilities for financial liabilities taken over in accordance with IFRS 9.

Provisions for lawsuits and penalties stem from provisions for potential penalties imposed by the Bank of Slovenia due to infringements detected in inspections performed by the Bank of Slovenia and the open action against LON from 2020.

Other provisions are provisions for a potential reimbursement of costs of early repayments of consumer credits.

#### A) PROVISIONS FOR PENSIONS AND SIMILAR LIABILITIES TO EMPLOYEES

in EUR '000	31/12/2023	31/12/2022
Provision for retirement allowances	169	172
Provisions for jubilee benefits	32	26
<b>Provisions for pensions and similar liabilities to employees</b>	<b>201</b>	<b>198</b>



### Sensitivity analysis from the actuarial report and assumptions used in the calculation

In accordance with the IAS 19, the nominal long-term interest rate is estimated to 3.60%. As at 30/11/2023, it was 3.48% for bonds with the maturity of 10 years. Since the average maturity in the company is 20.7 years, the average interest rate is estimated to 3.60%.

The expected long-term growth of jubilee benefits and non-taxable amounts in the calculation (retirement allowances and jubilee benefits) is estimated to 3.50% annually, whereby the non-taxable amount in the payment of retirement allowance is deemed to be the amount of 300% of the known average annual salary of employees in Slovenia according to the SORS data (EUR 2,023.92), calculated per month, and for jubilee benefits it is 30% (10 years), 45% (20 years), 60% (30 years) and 75% (40 years) of the last known average monthly salary of employees in Slovenia, but only upon the first jubilee payment. All amounts of retirement allowances, for which it is expected to exceed the foreseen threshold of exempted amount at foreseen salary growth, are additionally increased by 16.1% in accordance with the legislation of the Republic of Slovenia at the day of the calculation of the provision.

The calculation takes into account the expected mortality of employees in accordance with the Slovenian mortality tables of 2007, broken down by gender, and thus the replacement of older employees, if they retire, with the younger ones is indirectly taken into account.

in EUR '000	PROVISIONS FOR RETIREMENT ALLOWANCES	PROVISIONS FOR JUBILEE BENEFITS
Reduction of discounted rate by 0.5%	11	1
Increase of discounted rate by 0.5%	(10)	(1)
Increase of salary growth by 0.5% per year	9	0
Reduction of salary growth by 0.5% per year	(8)	0

### TABLE OF SUBSTANTIVE MOVEMENTS OF PROVISIONS FROM THE ACTUARIAL REPORT

in EUR '000	PROVISIONS FOR RETIREMENT ALLOWANCES	PROVISIONS FOR JUBILEE BENEFITS	TOTAL
<b>Balance as at 31/12/2022</b>	<b>173</b>	<b>26</b>	<b>198</b>
Interest cost (Income statement)	6	1	7
Past service cost (Income statement)	0	0	0
Current service cost (Income statement)	29	5	34
Benefit payments (-)	(14)	(1)	(15)
Actuarial gains/losses (Income statement)	/	1	1
Actuarial gains/losses (SCA)	(24)	/	(24)
<b>Balance as at 31/12/2023</b>	<b>169</b>	<b>32</b>	<b>201</b>

### MOVEMENT OF ACTUARIAL GAINS/LOSSES IN 2023

in EUR '000	31/12/2023
Opening balance as at 31/12/2022 (profit)	(7)
Reversal of actuarial gain/losses transferred to Income statement due to departures and retirements in 2023	1
Actuarial gains/losses for 2023	(24)
<b>Closing balance as at 31/12/2023</b>	<b>(31)</b>

### MOVEMENT OF PROVISIONS FOR PENSIONS AND SIMILAR LIABILITIES TO EMPLOYEES

#### IN 2023

in EUR '000	PROVISIONS FOR RETIREMENT ALLOWANCES	PROVISIONS FOR JUBILEE BENEFITS	TOTAL
<b>Balance as at 31/12/2022</b>	<b>172</b>	<b>26</b>	<b>198</b>
Increase	35	7	42
Reversal of provisions	(24)	0	(24)
Consumption	(14)	(1)	(15)
<b>Balance as at 31/12/2023</b>	<b>169</b>	<b>32</b>	<b>201</b>

#### IN 2022

in EUR '000	PROVISIONS FOR RETIREMENT ALLOWANCES	PROVISIONS FOR JUBILEE BENEFITS	TOTAL
<b>Balance as at 31/12/2021</b>	<b>363</b>	<b>36</b>	<b>399</b>
Increase	36	4	40
Reversal of provisions	(223)	(13)	(236)
Consumption	4	(1)	(5)
<b>Balance as at 31/12/2022</b>	<b>172</b>	<b>26</b>	<b>198</b>

In 2022, LON changed provisioning methods. Previously, LON made provisions from the first employment of the employee that grow according to their length of service regardless of any change in the employer (higher provisions). The current method supported also by the Society of Actuaries and the majority of auditors stems from the accounting principle of transaction. The effect of the change was within the scope of the changes in actuarial assumptions due to high fluctuations in LON in the past, where the effect is shown in the capital.

## B) PROVISIONS FOR OFF-BALANCE SHEET LIABILITIES

in EUR '000	31/12/2023	31/12/2022
Provisions for undrawn credits and limits	40	31
Provisions for undrawn limits by payment cards	15	15
Provisions for guarantees issued	10	11
<b>Provisions for off-balance sheet liabilities</b>	<b>65</b>	<b>57</b>

Movement of provisions for off-balance sheet liabilities is shown in Point 8.3.7 of the chapter Risk Management.

### 6.4.11 OTHER LIABILITIES

in EUR '000	31/12/2023	31/12/2022
Advances received	34	31
Short-term deferred revenue	67	65
Liabilities from employee salaries and contributions	441	307
Other liabilities	216	161
<b>Total other liabilities</b>	<b>759</b>	<b>564</b>

Advances received refer to prepaid costs of managing current accounts of legal persons and sole proprietors.

Short-term deferred revenue refers to the short-term deferred revenue from factoring and accrued revenue, i.e. quarterly calculation of the guarantee management fee.

Liabilities from employee salaries and contributions are liabilities for calculated (EUR 441 thousand) but not yet paid salaries for December 2023.

Other liabilities refer to the invoices received from suppliers not yet due.

### 6.4.12 SHARE CAPITAL

As at 31/12/2023, the share capital was divided to 224,125 shares at nominal value of EUR 75.00. The number of all subscribed shares bearing a code LONR in KDD as at 31/12/2023 was 167,732.

For 99 shares, LON reported partial rights from shares that were made in 2000 in the process of conversion of individual capital components into the share capital, where the nominal value of a share changed. By taking into account the statutory requirements with regard to the nominal value of a share, a part of new capital could not be converted to whole shares.

In 2023, LON completed recapitalisation. In the process of recapitalisation, it increased share

capital based on the authorised capital for 56,393 shares, namely at the nominal value of EUR 75 per share (value of issue of EUR 75 per share). The share capital thus increased from the existing 167,732 shares to 224,125 shares, or from EUR 12,587,325.00 to EUR 16,809,375.00.

Shares grant the following rights: one share grants one vote at the LON's general meeting, proportionate right to dividend; shares are attributed to the name and are transferable according to the Articles of Association or the Companies Act (ZGD-1).

All shares are subscribed and paid up.

As at 31/12/2023, there are 170 shareholders entered into the share register. LONR shares are issued in book-entry form, while the share register is managed by KDD in accordance with legislation.

In terms of geographical origin of owners, LON has 147,575 domestic (65.84%) and 76,451 foreign depositors (34.11) entered in the register.

In the last five years, LON issued shares eight times with the view to acquiring share capital. The table below shows general information of these issues.

ISSUE	NO. OF ISSUED SHARES	VALUE OF ISSUE	NOMINAL VALUE	SALES VALUE	SUBSCRIPTION	TYPE OF SHARE
15-1.	21,658	2,274,090.00	75.00	105.00	May 18	ordinary
15-2.	18,342	1,925,910.00	75.00	105.00	May 18	ordinary
16.	35,672	2,934,901.05	75.00	82.27	Jun 20	ordinary
17.	15	1125.00	75.00	75.00	Dec 21	ordinary
18.	16,288	1,221,600.00	75.00	75.00	Feb 22	ordinary
19.	56,294	4,222,050.00	75.00	75.00	Dec 23	ordinary

### 6.4.13 CAPITAL RESERVES

Capital reserves were created due to more paid-up capital, i.e. the difference between the commercial and nominal value of issue of shares and in disposal of own shares.

In 2023, LON did not create capital reserves.

### 6.4.14 FAIR VALUE RESERVE

in EUR '000	31/12/2023	31/12/2022
Fair value reserve in respect of financial assets measured through other comprehensive income	(2)	(25)
Fair value reserve from the changes in actuarial assumptions	28	6
<b>Fair value reserve</b>	<b>26</b>	<b>(18)</b>

The item Fair value reserve associated with financial assets measured through other comprehensive income refers to the change in fair value of individual financial instrument that is shown in other comprehensive income after the sale, i.e. in the item Fair value reserve.

Fair value reserve from other elements refers to capital investment in the reserve fund of the Bank of Slovenia that is valued at fair value. In 2023, the balance of fair value reserve increased by EUR 28 thousand. Due to the surplus indicating temporary differences, the deferred tax was released in the amount of EUR 6 thousand.

#### 6.4.15 RESERVES FROM PROFIT

in EUR '000	31/12/2023	31/12/2022
Legal reserves	79	79
Reserves for own shares	1	1
Other reserves from profit	4,792	4,792
<b>Total reserves from profit</b>	<b>4,872</b>	<b>4,872</b>

#### 6.4.16 RETAINED PROFIT (LOSS) INCLUDING NET PROFIT/LOSS OF THE FINANCIAL YEAR AND BALANCE SHEET PROFIT

in EUR '000	31/12/2023	31/12/2022
Net profit or loss for the financial year	2,411	749
Retained profit (loss)	(4,426)	(5,154)
<b>Total retained profit (loss)</b>	<b>(2,015)</b>	<b>(4,405)</b>

In accordance with the Companies Act (ZGD-1), the balance sheet profit or loss is the sum of the profit (loss) brought forward from the previous year and the net profit (loss) reduced by the additionally formed reserves from profit. As at 31/12/2023, LON showed balance sheet loss in the amount of EUR 2,015 thousand, including costs of issuing new shares in the amount of EUR 21 thousand.

The LON's Management Board submitted the Supervisory Board a proposal to use the total balance sheet profit for covering the loss of previous years brought forward, in accordance with the Companies Act (ZGD-1).

#### 6.4.17 OWN SHARES

As at 31/12/2023, LON had eight own shares. The situation equalled that of 31/12/2022.

#### 6.4.18 NET PROFIT OR LOSS FOR THE FINANCIAL YEAR

The net profit for the 2023 financial year in the amount of EUR 2,411 thousand was transferred to the profits (losses) retained at the end of the financial year.

in EUR '000	31/12/2023	31/12/2022
<b>Net profit or loss for the financial year</b>	<b>2,411</b>	<b>749</b>
Management deployment	0	0
Reduction in own share fund	0	0
<b>Total profit or loss for the financial year</b>	<b>2,411</b>	<b>749</b>

#### 6.4.19 CONTINGENT LIABILITIES

in EUR '000	31/12/2023	31/12/2022
Contingent liabilities from provided guarantees, letters of credit and other contingent liabilities (including assets pledged for client liabilities)	5,982	5,416
Other off-balance sheet liabilities	0	0

Contingent liabilities from provided guarantees, letters of credit and other contingent liabilities (including assets pledged for client liabilities) include the balance of guarantees issued and binding letters of issuing a guarantee. Financial guarantees refer to guarantees for the payment of rents and financial coverage.

in EUR '000	31/12/2023	31/12/2022
Performance guarantees	1,203	1,266
Guarantees for elimination of faults in guarantee period	2,247	1,543
Approved guarantee framework	808	1,598
Financial (payment) guarantees	1,724	1,009
<b>Contingent liabilities from provided guarantees, letters of credit and other contingent liabilities (including assets pledged for client liabilities)</b>	<b>5,982</b>	<b>5,416</b>

## 6.5 DISCLOSURES IN THE INCOME STATEMENT

### 6.5.1 INTEREST INCOME

#### A) BREAKDOWN BY TYPES OF ASSETS AND TYPES OF INTEREST INCOME

in EUR '000	2023			2022		
	ORDINARY	DEFAULT	TOTAL	ORDINARY	DEFAULT	TOTAL
Cash and cash balances with central banks	1,914	0	1,914	174	0	174
Financial assets measured at the fair value through other comprehensive income	0	0	0	38	0	38
Financial assets measured at amortised cost	10,555	55	10,610	7,732	42	7,774
- credits	9,366	55	9,421	6,650	42	6,691
- debt securities	1,189	0	1,189	1,082	0	1,082
Interest from other assets	60	0	60	228	0	228
<b>Interest income</b>	<b>12,528</b>	<b>55</b>	<b>12,583</b>	<b>8,173</b>	<b>42</b>	<b>8,214</b>

### 6.5.2 INTEREST EXPENSE

#### A) BREAKDOWN BY TYPES OF ASSETS AND TYPES OF INTEREST EXPENSE

V 1000 EUR	2023			2022		
	ORDINARY	DEFAULT	TOTAL	ORDINARY	DEFAULT	TOTAL
Financial liabilities to central banks	0	0	0	131	0	131
Derivatives held for hedging	0	0	0	0	0	0
Financial liabilities measured at amortised cost	925	0	925	723	0	723
- deposits	668	0	668	545	0	545
- credits	105	0	105	18	0	18
- subordinated liabilities	152	0	152	160	0	160
Investments in financial assets	670	0	670	709	0	709
Other	7	0	7	5	0	5
Interest from operating lease	36	0	36	22	0	22
<b>Interest expense</b>	<b>1,638</b>	<b>0</b>	<b>1,638</b>	<b>1,589</b>	<b>0</b>	<b>1,589</b>

### B) EXPENDITURE PAID FROM SUBORDINATED LIABILITIES

In 2023, LON calculated and paid EUR 152 thousand interest from the subordinated liabilities (EUR 160 thousand in 2022).

### 6.5.3 INCOME FROM RECEIVED COMMISSIONS

in EUR '000	2023	2022
Commissions from guarantees provided	74	74
Commissions from payment transactions in the country	2,383	2,057
Commissions from brokerage	61	16
Commissions from credit transactions	234	224
Commissions for administrative and other services	915	926
<b>Income from commissions</b>	<b>3,666</b>	<b>3,297</b>

### 6.5.4 EXPENDITURE FOR COMMISSIONS

in EUR '000	2023	2021
Commissions for banking services in the country	132	175
Commissions for performing foreign exchange transactions and brokerage business	170	131
Commissions for performing stock exchange transactions and other transactions with VP	16	12
Commissions for performing payment transactions	146	121
Commissions for other services	0	0
<b>Expenditure for commissions</b>	<b>464</b>	<b>438</b>

### 6.5.5 REALISED PROFITS AND LOSSES FROM FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT THE FAIR VALUE THROUGH THE INCOME STATEMENT

#### BREAKDOWN BY TYPES OF TRANSACTIONS AND ASSETS

in EUR '000	2023	2022
Profits from financial assets measured at the fair value through other comprehensive income	0	12
Profits from credits	88	19
Profits from financial assets measured at amortised cost	0	48
<b>Realised profits (collections)</b>	<b>88</b>	<b>80</b>
Losses from financial assets measured at the fair value through other comprehensive income	0	(15)
Losses from credits (also from finance lease)	(42)	(5)
<b>Realised losses (write-offs)</b>	<b>(42)</b>	<b>(20)</b>
<b>Realised profits and losses from financial assets and liabilities</b>	<b>46</b>	<b>60</b>

Realised profits from credits are repayments of credits written off in the amount of EUR 88 thousand, of which profits from the recognition of modification effect of granted moratoriums under the Act Determining the Intervention Measure of Deferred Payment of Borrowers' Liabilities (ZIUOPOK) amounting to EUR 2 thousand.

The losses from credits amounting to EUR 42 thousand refer to the recognition of the modification effect of granted moratoriums under the Act Determining the Intervention Measure of Deferred Payment of Borrowers' Liabilities (ZIUOPOK) amounting to EUR 10 thousand, and write-offs of uncollectable claims amounting to EUR 32 thousand.

### 6.5.6 NET PROFIT/LOSS FROM FINANCIAL ASSETS AND LIABILITIES FOR TRADING

in EUR '000	2023	2022
Net profits on purchasing and selling foreign currencies	0	8
<b>Net profit/loss from financial assets and liabilities for trading</b>	<b>0</b>	<b>8</b>

Net profits on purchasing and selling foreign currencies refer to operations with foreign currencies in exchange offices in the LON's business units.

### 6.5.7 NET PROFITS/LOSSES FROM DERECOGNITION WITHOUT NON-CURRENT ASSETS HELD FOR SALE

in EUR '000	2023	2022
Profits	0	109
Losses	(47)	(107)
<b>Net gains/losses from derecognition without non-current assets held for sale</b>	<b>(47)</b>	<b>2</b>

Realised gains from derecognition without non-current assets held for sale are gains realised in derecognising fixed assets (Note 6.4.4).

Realised loss from derecognition without non-current assets held for sale in the amount of EUR 47 thousand are carrying amounts of fixed assets eliminated from the fixed assets register upon inventory taking (Disclosure 6.4.4).

### 6.5.8 OTHER NET OPERATING INCOME/EXPENSE

in EUR '000	2023	2022
Other net operating income	509	381
Other net operating expense	(178)	(30)
<b>Other net operating profits/losses</b>	<b>332</b>	<b>351</b>

Other net operating profits in the amount of EUR 332 thousand include profit of EUR 509 thousand and refer to income from property lease (EUR 329 thousand), other income (EUR 37 thousand) and other extraordinary income (EUR 144 thousand).

### 6.5.9 ADMINISTRATIVE COST

in EUR '000	2023	2022
Labour costs	5,490	4,630
General and administrative cost	4,288	3,816
<b>Administrative cost</b>	<b>9,778</b>	<b>8,445</b>

## A) LABOUR COSTS

in EUR '000	2023	2022
Gross salaries	4,232	3,571
Social security costs	308	255
Pension insurance costs	376	348
Other duties depending on gross salaries	0	0
Other labour costs	574	456
· allowance for commuting	93	82
· meal allowance	164	111
· other labour costs, pay for annual leave	317	263
<b>Labour costs</b>	<b>5,490</b>	<b>4,630</b>

Gross salaries representing a large share of labour costs (77.08%) include bonuses paid for 2022 in 2023 amounting to EUR 391 thousand (provisions in 2022 were created in the amount of EUR 307 thousand) and planned bonuses (work and business performance) for 2023 and paid in 2024 in the amount of EUR 430 thousand.

In December 2023, LON also paid a business performance bonus to all employees (EUR 57 thousand).

## B) GENERAL AND ADMINISTRATIVE COST

in EUR '000	2023	2022
Cost of supervision, JAM IN SRB	576	471
Other costs	512	468
IT costs – hardware	41	45
IT costs – software	1,097	1,006
Personnel costs	83	94
Office costs	99	129
Travel expenses	43	26
Legal expenses	20	20
Representation expenses	60	36
Archive costs	28	28
Costs of banking transactions	632	571
Training and education costs	61	47
Marketing costs	131	98
Business premises costs	381	390
Costs of audit	58	70
Consultancy cost	246	131
Security costs	0	0
Maintenance	82	55
Insurance	36	34
Membership fees and other charges	105	96
<b>General and administrative cost</b>	<b>4,288</b>	<b>3,816</b>

In 2023, administrative costs were by EUR 473 thousand higher than in 2022. The largest increase was recorded in consultancy costs. Costs of supervision, JAM and SRB were higher mainly as a result of higher costs for deposit guarantees, which were partially neutralised with reduced costs from the supervision by the Bank of Slovenia. In particular costs in the IT field and cost of Supervisory Board had an impact on the increase of other costs.

Costs of establishing the scheme in accordance with the Deposit Guarantee Scheme Act shown under the item Cost of supervision, JAM and SRB, amounted to EUR 507 thousand in 2023 (in 2022: EUR 386 thousand).

Administrative costs also include direct costs related to immovable property that generate income amounting to EUR 80 thousand.

in EUR '000	2023	2022
Income from leasing immovable property	329	251
Administrative cost related to leasing immovable property	80	68
Depreciation of investment property	75	70
Net profit from leasing immovable property	174	113

## 6.5.10 DEPRECIATION

in EUR '000	2023	2022
Depreciation of property, plant and equipment	507	489
Depreciation of intangible fixed assets	85	53
Depreciation of investment property	75	70
<b>Depreciation</b>	<b>667</b>	<b>612</b>

## 6.5.11 PROVISIONS

in EUR '000	2023	2022
Provisions for off-balance sheet liabilities – invoices	10	10
Provisions for off-balance sheet liabilities – credits and credit lines	(10)	86
Provisions for off-balance sheet liabilities – guarantees and other warranties (cards)	2	23
Provisions for off-balance sheet liabilities – payment cards	(10)	(0)
Provisions for retirement allowances and jubilee benefits	(21)	(9)
Provisions for lawsuits and penalties	<b>(75)</b>	<b>0</b>
Other provisions	<b>(96)</b>	<b>0</b>
<b>Provisions</b>	<b>(200)</b>	<b>110</b>

## 6.5.12 IMPAIRMENTS

in EUR '000	2023	2022
Impairments	(3,601)	(3,580)
Impairment reversal	2,747	3,578
Credit impairments measured at amortized cost	(854)	(2)
Impairments	(0)	(19)
Impairment reversal	18	7
Impairments of financial assets measured at amortised cost	18	(12)
<b>Impairments of financial assets measured at amortised cost</b>	<b>(836)</b>	<b>(13)</b>
Impairments	0	(0)
Impairment reversal	0	1
<b>Impairments of financial assets measured through other comprehensive income</b>	<b>0</b>	<b>1</b>
Reversal of impairments of tangible fixed assets	0	0
Impairments of investment property	0	0
Impairment of non-financial assets	0	0
<b>Total impairments</b>	<b>(836)</b>	<b>(12)</b>

Impairments of financial assets measured through other comprehensive income are explained in the disclosure 6.4.2, while impairments of financial assets measured at amortised cost are explained in disclosure 6.4.9.

## 6.6 OPERATING LEASES

Status and movement of operating leases are shown as a right of use under property, plant and equipment, as explained in disclosure 6.4.4, while interest income calculated from operating leases are explained in disclosure 6.5.2.

### A) ASSETS ON LEASE

#### IN 2023

in EUR '000	BUSINESS PREMISES	OFFICE EQUIPMENT	OTHER
Depreciation costs	101	0	
Interest cost	36	0	0
Costs of low value lease	0	23	97
Leases paid	120	23	86
<b>Carrying amount of assets</b>	<b>793</b>	<b>0</b>	<b>0</b>

#### IN 2022

in EUR '000	BUSINESS PREMISES	OFFICE EQUIPMENT	OTHER
Depreciation costs	118	0	0
Interest cost	22	0	0
Costs of low value lease	0	37	39
Lease fees paid	143	0	0
<b>Carrying amount of assets</b>	<b>619</b>	<b>0</b>	<b>0</b>

### B) SUMMARY DASHBOARD

in EUR '000	2023	2022
STATEMENT OF FINANCIAL POSITION		
Assets	793	619
- Right of use	793	619
Liabilities	825	650
- Lease liabilities	825	650
- Short-term	90	100
- Long-term	735	550

INCOME STATEMENT		
Costs	257	216
Interest cost	36	22
Depreciation costs	101	118
Costs of low value lease	120	76
Expenditure	6	0
Revenue	20	0

in EUR '000	UP TO 1 MONTH	FROM 1 MONTH TO 3 MONTHS	FROM 3 MONTHS TO 12 MONTHS	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS	TOTAL
Liabilities for fixed assets received on lease 31/12/2023	7	15	68	399	336	825
Liabilities for fixed assets received on lease 31/12/2022	8	17	75	464	86	650

in EUR '000	UP TO 1 MONTH	FROM 1 MONTH TO 3 MONTHS	FROM 3 MONTHS TO 12 MONTHS	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS	TOTAL
Interest cost from lease 2023	4	7	30	114	39	194
Interest cost from lease 2022	2	4	17	59	1	83

## 6.7 CASH AND CASH EQUIVALENTS

in EUR '000	31/12/2023	31/12/2022
Cash and cash balances with central bank (Disclosure 6.5.1.)	79,257	58,560
<b>Total cash and cash equivalents</b>	<b>79,257</b>	<b>58,560</b>

## 6.8 BREAKDOWN OF THE STATEMENT OF FINANCIAL POSITION AT FAIR VALUE

in EUR '000	31/12/2023		31/12/2022	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
<b>ASSETS</b>				
Cash on hand	79,257	79,257	58,560	58,560
Financial assets measured at the fair value through comprehensive income	671	671	643	643
Financial assets measured at amortised cost	248,730	244,476	244,627	239,958
- debt securities	69,377	67,673	69,903	63,281
- credits to non-banking sector	177,703	175,153	174,264	176,217
- credits to banks	1,502	1,502	0	0
- other financial assets	148	148	460	460
Other assets	11,176	11,176	10,850	10,850
<b>Assets total</b>	<b>339,834</b>	<b>335,580</b>	<b>314,680</b>	<b>310,011</b>
<b>LIABILITIES</b>				
Financial liabilities measured at amortised cost	312,101	312,101	295,957	295,957
Derivatives held for hedging	0	0	0	0
Other liabilities and provisions	1,344	1,344	941	941
Equity	26,389	26,389	19,733	19,733
<b>Total liabilities</b>	<b>339,834</b>	<b>339,834</b>	<b>316,631</b>	<b>316,631</b>

Fair value of credits is calculated by using a discounted cash flow of an individual item at market rates for equivalent transactions at the day of Statement of Financial Position. The fair value of financial liabilities is assumed to be the same as the carrying amount.

### 6.8.1 ASSETS

The interest rate at which LON concluded this type of transactions at the day of Statement of Financial Position took into account the market rate to calculate fair value of assets.

#### FINANCIAL ASSETS MEASURED THROUGH OTHER COMPREHENSIVE INCOME

Financial assets measured through other comprehensive income shown hierarchically by levels of valuation.

in EUR '000	31/12/2023		31/12/2022	
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 2)	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 3)	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 2)	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 3)
Stocks and shares	0	671	0	643
Debt securities	0	0	0	0
- Issued by governments and central bank	0	0	0	0
- Issued by banks	0	0	0	0
<b>Financial assets measured through other comprehensive income</b>	<b>0</b>	<b>671</b>	<b>0</b>	<b>643</b>

In the item Financial assets measured through other comprehensive income, LON shows the investment into the Bank Resolution Fund.

The investment into the Bank Resolution Fund is valued at the fair value determined by the Bank of Slovenia in accordance with the Bank Resolution Authority and Fund Act (ZOSRB) (Official Gazette of the Republic of Slovenia, Nos 97/14, 91/15, 44/16 – ZRPPB, and 27/17). The fund was established on a legislative basis and has highly regulated investment strategy with the aim of providing safety, low risk and high liquidity of the fund.

In 2023, there were no transitions from Level 2 to Level 3 or vice versa. The total value of investment at Level 3 as at 31/12/2023 amounted to EUR 671 thousand. The sole item is the investment into the Bank Resolution Fund amounting to EUR 671 thousand. The fair value is determined on the basis of the notification of the Bank of Slovenia on the investment value. Investments at Level 3 fall under the non-market investments.

#### FINANCIAL ASSETS MEASURED AT AMORTISED COST

in EUR '000	31/12/2023		31/12/2022	
	AMORTISED COST	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 2)	AMORTISED COST	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 2)
- Issued by governments and central bank	69,377	67,673	69,903	63,281
- Issued by other issuers	0	0	0	0
Debt securities	69,377	67,673	69,903	63,281
<b>Financial assets measured at amortised cost</b>	<b>69,377</b>	<b>67,673</b>	<b>69,903</b>	<b>63,281</b>

Level 2 comprises financial assets (bonds) traded on the regulated domestic or foreign market and the fair value of which equals the market price according to the most recent applicable closing offer for individual security (issued in the Bloomberg system).

## 6.8.2 LIABILITIES

As the market rate to calculate fair value of financial liabilities, the applicable interest rate is used on the day of the balance sheet that LON would pay if it had acquired financial liabilities with the same maturity as the residual maturity of the liabilities.

#### FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

The fair value of financial liabilities measured at amortised cost is calculated on the basis of the market rate at the day of the balance sheet.

## 6.9 RELATED PARTIES' TRANSACTIONS

Pursuant to IAS 24, related parties include entities in a special relationship as defined in the Paragraph 2 of Article 169 of ZBan-3. For the requirements of this disclosure, the item "Other related parties" includes close family members of the Management Board members and Supervisory Board members, legal persons, of which the member of the Management Board, member of the Supervisory Board, authorised agent or member of senior management of LON is at the same time the member of management board of the said legal person, a member of the supervisory board or an authorised agent of the bank or their close family member, or any other person that the bank defines as a person in a special relationship with the bank due to the nature of relationship of the respective person with the bank or persons referred to in Points 1 through 9 of this paragraph, because there may be a conflict of interest in bank's business with the respective persons.

In disclosures of transactions with related parties, all changes are included that have occurred during a year. Each individual related party is taken into account from the date they have been entered into the register of related parties until the date of exit or the end of the year.

The definition by the management and supervision bodies is provided in the Presentation of LON in Chapter 5 (Management Bodies).

### 6.9.1 BREAKDOWN OF CLAIMS

in EUR '000	31/12/2023	31/12/2022
Management Board	12	4
Senior management	88	77
Other related parties	1,099	728
<b>Claims on related parties</b>	<b>1,199</b>	<b>809</b>

As at 31/12/2023, LON demonstrates claims to Management Board members (limits on the current account) and to related parties of the Management Board members (limits on the current account and long-term credits). Claims to employees defined as senior management and to persons in a special relationship refer to the granted credits and limits on the current account.

## 6.9.2 BREAKDOWN OF LIABILITIES

in EUR '000	31/12/2023	31/12/2022
Management Board	80	1
Supervisory Board	114	113
Senior management	182	66
Other related parties	3,320	3,148
<b>Liabilities to related parties</b>	<b>3,696</b>	<b>3,328</b>

As at 31/12/2023, LON demonstrated liabilities to the Management Board members, Supervisory Board members, related parties and senior management (sight deposits, short-term and long-term deposits).

## 6.9.3 BREAKDOWN OF PAYMENTS MADE FOR SERVICES RENDERED

Interest paid on deposits, savings and balances on current accounts of related parties amounted to less than EUR 1 thousand in 2023 and 2022.

## 6.9.4 BREAKDOWN OF PAYMENTS RECEIVED

in EUR '000	31/12/2023	31/12/2022
Management Board	0	0
Supervisory Board	10	0
Senior management	2	0
Other related parties	46	2
<b>Received payments by related parties</b>	<b>58</b>	<b>2</b>

The received payments refer to the interest from credit agreements taken and commissions for managing current accounts and payment services rendered. LON did not receive other payments from related parties.

## 6.9.5 DISCLOSURE OF EARNINGS AND SHARES OF THE PROFIT OF THE MANAGEMENT BOARD MEMBERS

### MANAGEMENT BOARD

in EUR '000	2023				31. 12. 2022			
	SALARY AND ANNUAL HOLIDAY PAYMENT	BONUS	BENEFITS	TOTAL	SALARY AND ANNUAL HOLIDAY PAYMENT	BONUS	BENEFITS	TOTAL
dr. Imre Balogh	194	51	23	268	182	15	21	218
Igo Gruden	176	51	0	227	163	13	0	176
<b>Total</b>	<b>370</b>	<b>102</b>	<b>23</b>	<b>495</b>	<b>345</b>	<b>28</b>	<b>21</b>	<b>394</b>

Benefits are calculated for the use of official car for private purposes and the payment of rental for housing and the payment of premium for liability insurance.

### SUPERVISORY BOARD

in EUR '000	GROSS RECEIPTS 2023	GROSS RECEIPTS 2022
Christoph Geymayer	29	29
Uroš Vidović, MA	21	20
Milan Zaletel	20	19
Saša Jazbec, MA	0	8
Dejan Kaisersberger	23	22
Jure Mikuž, MA	8	0
<b>Total</b>	<b>101</b>	<b>98</b>

## 6.9.6 DISCLOSURE OF THE REMUNERATION OF EMPLOYEES UNDER INDIVIDUAL CONTRACTS

in EUR '000	31/12/2023				31/12/2022			
	SALARY AND ANNUAL HOLIDAY PAYMENT	BONUS	BENEFITS	TOTAL	SALARY AND ANNUAL HOLIDAY PAYMENT	BONUS	BENEFITS	TOTAL
Other employees under individual contract	660	117	5	782	566	52	5	623
<b>Total</b>	<b>660</b>	<b>117</b>	<b>5</b>	<b>782</b>	<b>566</b>	<b>52</b>	<b>5</b>	<b>623</b>

As at 31/12/2023, LON employed nine persons who signed an individual contract of employment, i.e.: heads of division (5) and control functions (4).

## 6.9.7 DISCLOSURES OF SIGNIFICANT BUSINESS

Except for the transactions disclosed in the previous point of the respective disclosure, LON is not familiarised with other information on direct or indirect significant business relationships between the members of the Management Board or the Supervisory Board or their immediate family members and LON that LON would be obliged to disclose.

## 6.10 SIGNIFICANT BUSINESS EVENTS THAT OCCURRED AFTER THE END OF THE FINANCIAL YEAR

### 6.10.1 SUPERVISORY LETTER AND SUPERVISORY REVIEW AND EVALUATION

Within the scope of SREP process, the Bank of Slovenia reduced the capital adequacy ratios for 2023, which LON has to meet from 01/01/2024, namely:

- Additional own funds requirement of 3.50%, which is 0.25 percentage point less than at 31/12/2023
- Guidance on additional own funds to 1.25%, which is 0.25 percentage point less than at 31/12/2023

### 6.10.2 APPOINTMENT OF A NEW SUPERVISORY BOARD MEMBER

On 12 March 2024, at the request of a shareholder Dr. Otmar Zorno, the 45th General meeting was convened at the LON registered office in Kranj, where a new member of LON's Supervisory Board was appointed, i.e. Dr. Mejra Festić.

In accordance with the Banking Act, the decision of appointment takes effect under a suspensive condition to obtain a permit by the Bank of Slovenia.

## RISK MANAGEMENT

The objective of risk management in LON is to provide a stable and safe operation, compliance with the risk management standards, and to maintain high quality of investment. The efficient risk management is reflected in long-term stable operations, financial soundness and appropriate risk management culture of all employees. In LON, risk management is carried out in accordance with the established internal policies and procedures that comply with the requirements of the European banking legislation, other provisions of the Bank of Slovenia and the current EBA guidelines. LON continuously integrates new development approaches in its risk management system according to good business practices in the banking system and changing regulatory environment.

## 07 CONCISE RISK STATEMENT APPROVED BY THE MANAGEMENT BODY

LON has established a comprehensive risk management system that includes detection and assessment of all material types of risk, timely responses and reduction of the exposure to certain types of risk. In LON, risk management is carried out in accordance with the established internal policies and procedures that comply with the requirements and guidelines of the European and Slovenian banking legislation.

LON is aware of all types of risk that occur in operations, both in terms of internal processes, systems and people as well as risks that emerge from the external environment. It places a special emphasis on the continual improvement of the risk management system with the aim of providing appropriate monitoring and management of risks relevant at a given moment. The major risk for LON is credit risk, followed by profitability risk and operational risk that are actively managed. LON also focuses on the strategic and capital risk, interest rate and liquidity risk, which it includes in the process of the Internal Capital Adequacy Assessment (i.e. ICAAP). The inclination (appetite) to assume the respective risks is set at a conservative level and defines the types of risks and tolerance to individual types of risks that LON is willing and capable to take in order to achieve the business objectives set.

### OBJECTIVE OF THE RISK MANAGEMENT

The LON's objective of the risk management is to prudently take risks in line with the approved business strategy and provide long-term profitability of operations according to the risks taken, while meeting all regulatory requirements.

LON identifies itself as a non-complex institution with a balanced investment policy oriented towards traditional banking operations and with low to moderate risk appetite. The key part of business activities is the provision of stable sources of financing and the management and diversification of credit portfolio. The LON's strategy lays down strategic guidance and objectives and is considered a starting point to define key operating indicators and inclination to risk-taking. In establishing a business model and guidelines, LON takes into account the results of the risk profile assessment, future trends and strategic direction. In achieving operating objectives, it pursues safety and provision of capital adequacy.

## RISK MANAGEMENT PROCESS

Key steps of the risk management process are identification, monitoring, assessment and management of risks encountered by LON in its operation, and reporting to relevant authorities. Risk management is based on the defined business strategy and, consequently on the LON's appetite for taking risks, the limits set and regulatory requirements.

The process of efficient risk management is based on the following principles:

- Clear demarcation of key responsibilities for risk management – Supervisory Board, Management Board, lower management levels and committees;
- Active participation of all management bodies and senior management in managing risks;
- Process of identification and management of risks, and measurement and monitoring of risk exposure are a continuous and recurring process;
- Risks should be measured, monitored and reported through a coordinated and clearly defined risk management process;
- Appropriately set risk limits that are based on the inclination to take risks and strategic initiatives to provide for the coherence between risks, profitability and capital;
- Introduction of the ICAAP process and strategies of taking and managing risks into the framework or business planning, and laying down the business strategy in order to provide adequate coherence between LON's business objectives, strategies and policies;
- Incorporation of risk management processes in all business processes at all levels of operation;
- A model approach, which is regularly validated or verified and tested, is used to quantifying material risks;
- Standardised approaches, data from regulatory body and expert assessments are used to less significant risks;
- Setting clear rules for managing individual types of risks with accompanying procedures to manage each individual type of risk with clearly defined objectives;
- Collecting complete, timely and accurate data important for risk management and providing technology and information sources for data security and processes; and
- An established independent control system to prevent, as much as possible, errors, embezzlement and irregularities, and eliminate conflicts of interest.

## APPETITE (INCLINATION) FOR RISK-TAKING

Willingness to take risk is demonstrated by the level of risks that LON is willing to take while taking into account its capacity to take risks with the aim of achieving strategic goals. The defined willingness of risk-taking is an integral part of the planning process that is reflected in the planned volume and structure of investments and sources. For clear definition and transparent monitoring, LON has defined the most significant criteria of risk appetite in a set of key indicators in the fields of the most significant types of risks for LON.

In its operation, LON takes different risks, the level of which depends on the willingness to take risks and on the availability of capital, within the scope of which the risk can be taken.

The LON's appetite for risk-taking is a part of business strategy and is based on the key operating indicators.

The LON's attitude to risk-taking is defined within the internal limit system, where different indicators represent limit and target values of exposure to individual risks taken within the framework of its operation. Limit values are set in accordance with LON's objectives and business

strategy as well as its capacity to take individual risks. LON annually verifies the respective indicators and limit values and updates them if necessary.

LON has both limit (threshold) and target values determined for these indicators. Limits are set to comply with the regulatory requirements while also providing for risk-taking in the amounts ensuring safe and profitable business. The efficient risk management that includes regular monitoring and reporting on the indicators provides timely actions before the cap is reached.

LON's inclination to risk-taking stems from the set strategy and is based on the following key operating indicators:

- Overall capital ratio (OCR+P2G);
- Return on equity after taxation (ROE);
- Non-performing exposures ratio (NPE);
- Non-performing loans ratio (NPL);
- Coverage of gross non-performing exposures with impairments;
- Share of net non-interest income in operating costs;
- Liquidity coverage ratio (LCR);
- Net Stable Funding Ratio (NSFR);
- Operating costs in net income of Cost-to-Income Ratio (CIR);
- Weight percentage for calculating risk-adjusted assets for credit risk (RWA)
- Sum of the net loss of negative loss events from operations in the current year
- and
- Aggregate risk assessment of critical information assets, resources and processes

Risks difficult to measure, such as reputational risk, strategic risk and certain sub-types of operational risk (compliance risk, outsourcing risk, legal risk, IT risk, business continuity risk, money laundering and terrorist financing risk and risk of other unethical business practices) are managed by LON through quality risk management measures or internal control mechanisms.

It has set internal rules and controls of the implementation of organisational, business and working procedures, while independent functions provide for additional control. Within the process of Internal Capital Adequacy Assessment (ICAAP), LON also calculates the own funds requirement for the respective risks based on the established internal methodology and assesses the exposure to the said risks.

Due to changes in the business environment and increasing implementation of transactions on-line, cyber risk is increasing. LON actively approaches the management of the respective risks, namely by recognising a necessary increased volume of investment, both in the field of staff and technology.

## DEVELOPMENT OF RISK MANAGEMENT

LON places a special emphasis on constant improvement of risk management system with the aim to providing appropriate monitoring, assessment and management of risks. Activities pursued in risk management are in particular aimed at:

- Updating and developing methodologies to calculate expected credit losses pursuant to IFRS 9;
- Preparing validation methodologies and implementing model validations in the field of credit risk;
- Automating processes in determining credit ratings of clients;
- Providing compliance with constantly evolving regulatory requirements;
- Providing adequate staffing of control functions;
- Efficient control of the limits set to risks;
- Establishing efficient cooperation, communication and exchange of data between individual services that are included in monitoring, assessment and management of risks;
- Upgrading clear and timely reporting on the type and level of risk;
- Implementing and upgrading the Internal Capital Adequacy Assessment Process (ICAAP) and the Individual Liquidity Adequacy Assessment Process (ILAAP);
- Constant improving of the internal control system;
- Supplementing key IT tools to support risk management.

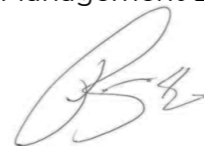
Relevant risk culture is very important for efficient risk management since it determines norms, attitude and behaviour of LON and its employees regarding the risk awareness, risk-taking and management, which has an impact on the risk-associated decisions.

In 2023, LON regularly updated and complemented internal rules in the field of risk with the regulations in force. Future activities will continue to be deployed to providing compliance with the regulatory requirements because the regulatory environment keeps evolving. Additionally, the focus will be mainly on the improvement of processes in terms of better response and efficiency.

**Christoph Geymayer, MA**  
President of the Supervisory  
Board



**dr. Imre Balogh**  
President of the  
Management Board



## 08 CREDIT RISK

Credit risk is the highest risk in banking operations and means a risk of losses due to debtors' inability to pay overdue debts. It is associated with the incapacity or unwillingness of a debtor to fulfil its obligation in the contractual period. LON is exposed to credit risk of the credit portfolio that represents loans and investments in securities and off-balance sheet liabilities, such as guarantees, other securities and loan facilities. Essential objectives of credit risk management are providing a stable and safe operation and achieving or maintaining high quality of credit portfolio. In the procedure to grant a credit, LON assesses what is the likelihood that a debtor will be able to repay the money within the contractual period and under the agreed conditions. Credit risk management is monitoring debtors during the term of credit relationship and ongoing verification of the debtor's capacity to fulfil contractual obligations.

In the crediting procedure, LON has delimited tasks and competences between the business network (the Marker Division) and expert field of treasury that represent commercial function, and the support services, such as Risk Management Division and other back-office services (Accounting and Finance, Legal Service, etc.). Credits are granted only to creditworthy entities, whereby taking into account also other aspects, such as concentration of investments, maturity and insurance compliance, exposure to related parties and large exposures. Creditworthiness and other aspects are verified by the rapporteur while drawing up a credit proposal, while the departments of benefits and collateral within the Risk Management Division also provide their opinion.

Monitoring debtors (payment of liabilities, collateral, contractual commitments, collection, etc.) is adequately divided between the Risk Management Division and other back-office services, so that all risks are timely identified, assessed and managed. In order to detect an increase in credit risk in a timely manner, LON uses a set of warnings (early warning system – EWS) and indicators of increased credit risk.

LON classifies debtors in groups according to their characteristics in accordance with the IFRS 9, whereby it duly takes into account their capacity to settle the commitments towards LON. According to the group, to which a debtor is classified, and the relevant variables (PD, LGD and EAD), impairments and provisions are calculated. Debtors with a total exposure over EUR 50 thousand classified in Group 3 (non-performing exposures or NPE) are assessed individually and impairments are formed according to the expected cash flow of the debtor and quality of collateral. The minimum value of impairment with these debtors is 20%.

In the procedure of monitoring debtors, LON verifies financial situation of the debtor and its compliance with the contractual obligations and adequacy of collateral. The Risk Management Division monitors the exposure to credit risk and assesses the adequacy of impairment and provisions formed, and defines the level of necessary collective impairments. It draws up reports on risk management intended for credit committee, balance sheet management committee (ALR) and the Management Board and Supervisory Board.

## 8.1 CREDIT POLICY AND PROCEDURES

### A) DRAWING UP A CREDIT PROPOSAL

Creditworthiness of natural persons is assessed by a credit clerk upon drawing up a credit proposal, which is additionally verified by the department of benefits for natural persons within the Risk Management Division. Creditworthiness of legal persons and sole proprietors is additionally verified by the department of benefits within the Risk Management Division. In managing credit risks, LON takes into account banking regulations and their associated rules and the prescribed maximum exposure level to one client.

### B) APPROVING INVESTMENTS

In approving investments, LON follows regulatory restrictions, meaning that the exposure of granted credits, guarantees and other claims to one borrower or a group of related parties must not exceed 25% of CET-1 capital of LON. When the exposure to individual person or group of related parties exceeds 10% of CET-1 capital of LON (large exposure), a prior consent by the Supervisory Board is required. The consent is also required if the credit is granted to a person or a group of related parties having a function of person in special relationship with LON, if LON's exposure to the respective person or group of related parties exceeds or will exceed EUR 100 thousand under the respective transaction. Some restrictions are also stated in the Articles of Association of the Savings Bank.

Investments are approved at one of the four decision-making levels. Within the authorisations and criteria there are transactions bearing credit risk and other transactions where the approval is required by the decision-making authority or other competent person within the Market Division (DTRG) or Risk Management Division (DUT). Decision-making powers of an individual level are mainly determined according to the type of investment (product), maturity, purpose, credit rating of the client and total gross exposure with the respective investment at the level of a group of related parties. The credit committee represents the highest decision-making level, i.e. Level 4.

### C) CREDIT MONITORING AND RECOVERY

Credits are monitored by the Operational Management Division (DOP). Its tasks include the following:

- Preparing calculations of interest, allocating costs of granting and managing guarantees and calculating management costs and all other types of costs in accordance with contracts;
- Activating direct debit systems for repayments of credits debited to current accounts opened with LON, and executing direct SEPA debits debited to current accounts opened with other banks and saving banks;
- Monitoring contractual commitments and calculating contractual penalties in case of infringements;
- Monitoring announcements on the introduction of insolvency proceedings; and
- Prompt reporting to the Bad Debt Management Committee (KOST).

The recovery of credits is carried out by the Risk Management Division (expert department of bad debt and recovery), which includes:

- Extrajudicial credit recovery (identifying unpaid claims overdue, oral and written reminders in the case of established default, filing of compensation claims with the insurance company);
- Judicial recovery (realisation of different forms of collateral, such as repayment from deposit, management of the recovery procedure against the guarantor, cooperation with the legal service in case of other forms of collateral);

- Preparation of proposals on restructuring liabilities and starting recovery proceedings and continuous reporting to the Bad Debt Management Committee (KOST) and implementing their decisions.

The Risk Management Division performs monitoring of adequacy and valuation of collateral (expert department of credit insurance) together with the Operational Management Division. Based on the Early Warning System (EWS) managed by the Risk Management Division (expert department for risk management), a record of debtors is established with the detected early warnings on potential delinquency. If a criterion of problematic issues is detected within the complete process of monitoring, the assessment of a debtor is sent to Bad Debt Management Committee to be reviewed and the criterion confirmed or rejected.

The Bad Debt Management Committee makes decisions on the procedures of further recovery, write-offs and restructuring of problematic exposures and other claims of LON that occurred during ordinary operations (conducting banking operations) until the complete recovery of the individual claim. The Committee convenes on a weekly basis, and also on a monthly basis in its extended form.

The Division of Corporate Services and Administration (law office) is responsible for preparing a legal opinion or review, analysing legal information and consulting on litigation procedures with a debtor, namely all on the basis of the requirement by the Risk Management Division, account manager or claim manager.

## 8.2 CREDIT RISK MANAGEMENT

LON is exposed to credit risk through credit portfolio and, to a lesser degree, through guarantees and other balance sheet and off-balance sheet items. The management of credit risk is carried out in several phases – identification, assessment, and measurement and management.

The process of identifying credit risks comprises defining the current exposure to credit risks based on the historical data, and the exposure to credit risk that can arise during the period of return or repayment of investment, namely in both cases at macroeconomic and microeconomic level which is characteristic only for the party in the case. The initial identification of credit risk is conducted by the Market Division (DTRG), and is later upgraded by Risk Management Division, KO and control function in the process of approving investments.

Assessment and measurement of credit risk is performed on the basis of quantitative and qualitative criteria and models. This is crucial for calculating the price of the investment, determining the amount of investment (determining concentration, higher level of debt or type of investment), determining adequate collateral and calculating the expected loss in accordance with IFRS 9. The assessment of credit risk differs depending on whether these are credits to business operators or natural persons – consumers. In addition, measurement of credit risk for individual clients or investments and the measurement of credit risk of LON's portfolio are separated.

Credit risk assessment is carried out during the processing of deposit for an individual type of investment, requirement to change the conditions of an individual investment, during monitoring the investment/client and during regular annual review of client's operation. Development of methodologies used to assess and measure the credit risk exposure and draw up the reports falls under the responsibility of Risk Management Division.

Credit risk management includes measures and rules on implementing these measures that are related to reduction, diversification, transfer of risks. With the aim of keeping risk at the acceptable level, LON uses techniques for mitigating credit risks at the level of individual investments, and takes into account the internally set limits, investment diversification, internal controls and acquisition of adequate collateral.

## 8.3 PROVISIONING POLICY

In accordance with IFRS 9, LON uses the concept of expected credit losses that provides for impartial and, by taking into account macroeconomic risk scenarios, weighted assessment of credit losses. In this way, LON recognises also losses, which are expected to occur in the future given the structure and type of financial assets owned at the date of drawing up the balance sheet.

### 8.3.1 CLASSIFICATION OF FINANCIAL ASSETS

#### A) SPECIFYING THE GROUPS

To assess credit losses, the financial assets measured at the fair value (credits, lease receivables), and debt finance measures at the fair value through other comprehensive income, and off-balance sheet exposures from credit liabilities taken and financial guarantee contracts, for which the requirements relating to impairment apply, are classified in one of three groups at each reporting date. The classification into groups is done in several steps, each one verifying individual criteria defined in the internal acts of the Savings Bank.

##### Group 1

Group 1 includes financial instruments the credit risk of which on the reporting date has not materially increased from the original recognition or transactions with low credit risk on the reporting date. Value adjustment is made for this kind of financial instruments that equals the expected credit losses in a 12-month period.

##### Group 2

Group 2 comprises financial instruments the credit risk of which materially increased in the period from the original recognition to the reporting date, and for which the value adjustments are measured on the basis of the expected credit losses in the whole duration of the credit.

##### Group 3

Group 3 consists of financial instruments the credit quality (creditworthiness) of which significantly deteriorated. The value adjustment is made on the basis of the expected lifelong loss, whereby the possibility of realising collateral is especially taken into account in expected cash flows. It is the exposure in the position of default.

#### Purchased or originated credit impaired (POCI)

Lifelong expected credit losses are always calculated for purchased or issued financial assets that already have deteriorated credit quality at the initial recognition, also if the financial asset is transferred from non-performing to performing exposures.

As at 31/12/2023, LON did not have POCI assets in its portfolio.

#### B) TRANSITIONS BETWEEN GROUPS

In legal persons and sole proprietors, the changes of credit rating of debtors are deemed a basic factor of transition between groups, while the days of delay are the basic factor of transitions between groups in the general public group. The respective factors for both groups of clients are accompanied by indicators from the internal EWS system (payment discipline, change in income, financial data and indicators, fulfilling tax liabilities, insolvency proceedings, etc.). Irrespective of all other criteria, a financial asset is classified in Group 2 after 30 days of delay and

in Group 3 after 90 days of delay.

Each financial asset is classified in Group 1 at the recognition. The exception is POCI financial assets and Non-performing exposures (NPE).

#### C) CLASSIFICATION OF INDIVIDUAL FINANCIAL INSTRUMENTS INTO GROUPS AND TRANSITIONS BETWEEN GROUPS

Ne glede na vse preostale kriterije finančno sredstvo razvrsti v Skupino 2 po zamudi 30 dni in v skupino 3 po zamudi 90 dni.

- The following criteria are taken into account:
- Comparison of the existing internal creditworthiness of a client and the credit rating on the reporting date;
- Registered delays in repaying liabilities to bank, and registered suspensions of current account;
- Change in repayment terms or restructuring;
- Data that LON has obtained from the EWS system as an indicator for deteriorating credit risk (suspensions of current accounts, financial data and indicators, payment of tax liabilities);
- Data that is obtained directly from the client or other sources;
- Irrespective of all other criteria, a financial asset is classified in Group 2 after 30 days of delay and in Group 3 after 90 days of delay.

### 8.3.2 SIGNIFICANT INCREASE IN CREDIT RISK

The criteria for significant increase in credit risk are as follows:

- Registered significant credit liability past due over 30 days;
- Registered suspensions of current accounts;
- Significant deterioration of internal credit rating;
- Changes in repayment conditions due to inability to repay the debt under the originally agreed conditions (restructuring the financial asset);
- Delays in the payment of tax liabilities;
- Infringement of contractual commitments under the credit agreement;
- Other important information obtained from the clients or other sources (e.g. media or databases).

A financial asset is classified in Group 2 when it is assessed that credit risk has significantly increased, but the exposure has not yet been defined as a claim in the position of non-payment.

### 8.3.3 CALCULATION OF EXPECTED CREDIT LOSSES

#### A) SEGMENTATION OF CLIENTS

The policy on the classification of financial assets into groups presupposes segmentation according to the type of borrower, whereby the exposures with comparable characteristics of credit risk are grouped. For the needs of calculating the expected credit losses, clients are segmented according to the following groups:

- Legal persons: companies;
- Sole proprietors and private operators;
- Natural persons: the public;
- Government: units of central governments and central banks, unit of regional governments or local authorities and public sector entities.

## B) BASIS FOR CALCULATING EXPECTED CREDIT LOSSES

The model provides for the calculation of two values:

- 12-month expected credit loss or ECL (Group 1) used for all financial assets where no deterioration of credit quality has yet been detected.
- Lifelong expected credit loss or ECL (Groups 2 and 3) used for all financial assets where deterioration of credit quality has been detected at individual or group level.

As an alternative to the general approach in creating impairments for trade receivables, claims on current accounts, disputed debt and claims for subsidies, a simplified approach is used, under which the financial assets are impaired according to the days of delay.

## C) CALCULATION OF EXPECTED CREDIT LOSS OR ECL

The expected loss of exposure is calculated as a difference between the carrying amount of an asset and the estimated future cash flow discounted at original effective interest rate of the financial asset. The expected cash flows are estimated on the basis of the type of scenario, namely whether the approach of going concern or the approach of non-going concern is used or the realisation of collateral or cash flows not arising from the realisation of the collateral apply.

ECL is calculated at a monthly level according to the actual maturity of a transaction as: product of default (PD) transformed to a monthly level, loss given default (LGD), exposure at default (EAD), discount factor (DF) calculated from the effective interest rate and credit conversion factor (CCF).

The expected credit loss is calculated as a weighted average of expected loss in accordance with the baseline, optimistic and pessimistic scenario. Expectations about the future are included in PD calculations based on the forecast of selected macroeconomic variable (GDP growth). The weight of individual scenario is determined based on the errors made in past projections of the macroeconomic variable used. The maximum weight is assigned to the baseline scenario, followed by the pessimistic and optimistic scenario.

## D) FORECASTS OF MACROECONOMIC VARIABLES IN THE CALCULATION OF ECL

V %	2023	2024	2025
GDP GROWTH – SLOVENIA			
- Baseline scenario	1.3	2.2	2.3
- Optimistic scenario	4.2	5.1	(5.2)
- Pessimistic scenario	(1.6)	(0.7)	(0.6)

Forecasts of macroeconomic variables are based on the spring forecast by IMAD for 2023, 2024 and 2025. Determination of optimistic and pessimistic scenario is additionally based on the internal methodology. In 2023, the economy managed to maintain positive growth despite deterioration of economic factors due to turbulent geopolitical situation, high interest rates and inflation rates, which started to decrease in the second half of the year.

## E) PROBABILITY OF DEFAULT OR PD

The PD values for legal persons and sole proprietors stem from transitional matrices of the entire banking system for the 2009-2020 period. The reasons why the data of the entire banking system is used are small portfolio at the beginning of the observed period and insufficient time series. The PD values for natural persons are based on the use of the logistic regression method. The PD values for exposures to governments are based on the use of the Pluto-Tasche method to calculate PD for portfolios with low rate of non-payments.

For the public portfolio, the model of calculating the level of non-payment is used on the basis of logistic regression based on the internal default statistics for the period from 2011 on. The influence of macroeconomic factors is included by using the z-shift method. Data of the entire banking system is used for legal persons and sole proprietors. The reasons why the data of the entire banking system is used are (i) very small portfolio of legal persons and sole proprietors in years at the beginning of the observed period and (ii) short nature of time series. To model the likelihood of default of the portfolio of legal persons and sole proprietors, the data from previous matrices of the banking system for the 2009-2021 period was included.

## F) LOSS GIVEN DEFAULT OR LGD

The values of LGD parameter are calculated according to the segments of clients (legal persons, sole proprietors, and natural persons). To calculate LGD, the relevant market values of collateral (immovable property, other collateral) with observed deductions are taken into account. The market value in all collateral takes into account any prior charges associated to the collateral and any subordination of the collateral. An average repayment rate is used for each of the segments upon the transition into the default status, namely by discounting inflows of actual payments not arising from collateral at the date of the occurrence of the default event or transition of the payer among non-payers.

To calculate expected credit losses for exposures to governments, LGD values specified in accordance with the CRR Regulation are used. As CFF, the regulatory-defined CFF from the CRR Regulation is applied that meets the off-balance sheet item according to the classification into the risk category, or a more stringent value is used (limits on current accounts, delayed debit cards).

## G) BACKWARD PREDICTION TESTING AND MODEL VALIDATION

The correctness of the calculation of expected credit losses is verified once a year. Tests are conducted as back-testing of all parameters included in the calculation. If the back-testing of predicted parameters establishes statistically significant deviations compared to the realised values, the calculation of individual parameter not meeting the criteria is adequately upgraded.

Risk parameter models are validated every 3 years also with assistance of an external provider. LON carried out the validation of the model with the assistance of external provider in 2022. Upon review, the external provider performed the validation of PD, LGD, ECL, CCF parameters. Within the framework of the annual validation, all data integrity tests, tests of adequacy of transition between individual groups and compliance with the IFRS 9 standard were conducted. The assessment of validity and adequacy of models and all processes associated with the development and implementation of the model into the IT system were performed, as well as the adequacy of the methods and data used, and the adequacy of the predictive power of models in terms of quality.

### 8.3.4 DETERMINING THE METHOD OF IMPAIRMENT

Financial instruments assigned to Groups 1, 2 and 3 are impaired collectively. Financial instruments in Group 3 with the exposure over EUR 50,000 are impaired individually.

#### Group assessment of expected credit loss

For the purposes of calculating the expected credit loss, the financial instruments are joined into segments (legal persons, sole proprietors, public, government) based on the common characteristics of the credit risk. Group assessment of credit risk parameters is carried out according to the type of collateral and the type of client.

#### Individual assessment of expected credit loss

Expected credit losses for exposures defined as non-performing, i.e. exposures in respect of which it is considered that there has been non-payment in accordance with Article 178 of the CRR, and exposures for which it was established that they were impaired in accordance with the applicable accounting standard, are assessed individually. Impairment of financial asset is a difference between the carrying amount and the recoverable amount. As recoverable amount, IFRS standards define the present value (discounted value) of expected future cash flows while using the original effective interest rate. The calculation takes into account expected cash flows from the realisation of collateral (in particular immovable property) that are assessed by taking into account the time of realisation of an individual form of collateral and expected costs of realisation, and if relevant, discounted future cash flows from operation (in the event of operating companies). The final calculation of individual impairments is based on the weighted value of two calculated scenarios.

### 8.3.5 MOVEMENT OF FINANCIAL ASSETS MEASURED THROUGH OTHER COMPREHENSIVE INCOME

#### A) GROSS VALUE OF FINANCIAL ASSETS MEASURED AT THE FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

in EUR '000	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
Equity instruments	671	0	0	671	643	0	0	643
Debt securities	0	0	0	0	0	0	0	0
<b>Gross value of financial assets measured at the fair value through other comprehensive income</b>	<b>671</b>	<b>0</b>	<b>0</b>	<b>671</b>	<b>643</b>	<b>0</b>	<b>0</b>	<b>643</b>

V 1000 EUR	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
Balance as at 01/ 01/	643	0	0	643	643	0	0	643
Transitions	0	0	0	0	0	0	0	0
Derecognition of a financial asset (excl. write-offs)	0	0	0	0	0	0	0	0
Change in fair value	0	0	0	0	0	0	0	0
Changes due to accrued interest	0	0	0	0	0	0	0	0
Changes due to new financial assets	28	0	0	28	0	0	0	0
Balance as at 31/ 12/	671	0	0	671	643	0	0	643

#### B) ADJUSTMENTS OF THE VALUE OF FINANCIAL ASSETS MEASURED AT THE FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

V 1000 EUR	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
Equity instruments	0	0	0	0	0	0	0	0
Debt securities	0	0	0	0	0	0	0	0
<b>Adjustment of the value of financial assets measured at the fair value through other comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

### 8.3.6 MOVEMENT OF FINANCIAL ASSETS MEASURED AT AMORTISED COST

#### A) GROSS VALUES OF FINANCIAL ASSETS MEASURED AT AMORTISED COST

In EUR '000	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
Debt securities	69,398	0	0	69,398	69,924	0	0	69,924
Credits to banks	1,502	0	0	1,502	0	0	0	0
Credits to non-banking sector	154,779	20,344	6,257	181,381	154,999	20,765	3,143	178,907
Other financial assets	129	9	71	209	442	11	99	552
<b>Gross values of financial assets measured at amortised cost</b>	<b>225,809</b>	<b>20,353</b>	<b>6,328</b>	<b>252,490</b>	<b>225,366</b>	<b>20,776</b>	<b>3,242</b>	<b>249,383</b>

#### DEBT SECURITIES

in EUR '000	2022				2021			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
Non-financial corporations	0	0	0	0	0	0	0	0
Public sector	69,398	0	0	69,398	69,924	0	0	69,924
Other financial organisations	0	0	0	0	0	0	0	0
<b>Gross value of debt securities</b>	<b>69,398</b>	<b>0</b>	<b>0</b>	<b>69,398</b>	<b>69,924</b>	<b>0</b>	<b>0</b>	<b>69,924</b>

#### - PUBLIC SECTOR

in EUR '000	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
Balance as at 01/01/	69,924	0	0	69,924	30,606	0	0	30,606
Transitions	0	0	0	0	0	0	0	0
Derecognition of a financial asset (excl. write-offs)	(526)	0	0	(526)	(19,655)	0	0	(19,655)
Changes due to accrued interest	(1)	0	0	(1)	0	0	0	0
Changes due to new financial assets	0	0	0	0	58,973	0	0	58,973
<b>Balance as at 31/12/</b>	<b>69,398</b>	<b>0</b>	<b>0</b>	<b>69,398</b>	<b>69,924</b>	<b>0</b>	<b>0</b>	<b>69,924</b>

#### CREDITS TO BANKS

in EUR '000	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
Credit institutions	1,502	0	0	1,502	0	0	0	0
<b>Gross value of debt securities</b>	<b>1,502</b>	<b>0</b>	<b>0</b>	<b>1,502</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

#### - CREDIT INSTITUTIONS

in EUR '000	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
Balance as at 01/01/	0	0	0	0	0	0	0	0
Transitions	0	0	0	0	0	0	0	0
Derecognition of a financial asset (excl. write-offs)	0	0	0	0	0	0	0	0
Changes due to accrued interest	0	0	0	0	0	0	0	0
Changes due to new financial assets	1,502	0	0	1,502	0	0	0	0
<b>Balance as at 31/12/</b>	<b>1,502</b>	<b>0</b>	<b>0</b>	<b>1,502</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

#### CREDITS TO NON-BANKING SECTOR

in EUR '000	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
Non-financial corporations	37,164	14,136	4,593	55,892	40,498	16,041	1,801	58,340
Public sector	4,635	0	29	4,664	1,761	0	27	1,787
Other financial organisations	0	592	0	592	618	0	1	619
Households*	112,980	5,616	1,636	120,232	112,123	4,724	1,314	118,160
<b>Gross value of credits to non-banking sector</b>	<b>154,779</b>	<b>20,344</b>	<b>6,257</b>	<b>181,381</b>	<b>154,999</b>	<b>20,765</b>	<b>3,143</b>	<b>178,907</b>

\* The public and sole proprietors included

- NON-FINANCIAL CORPORATIONS

in EUR '000	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
Balance as at 01/01/	40,498	16,041	1,801	58,340	41,981	7,175	2,115	51,271
TRANSITIONS								
- Transition from S1 to S2	(3,655)	3,655	0	0	(6,186)	6,186	0	0
- Transition from S1 to S3	0	0	0	0	(5)	0	5	0
- Transition from S2 to S1	971	(971)	0	0	343	(343)	0	0
- Transition from S2 to S3	0	(2,985)	2,985	0	0	(75)	75	0
- Transition from S3 to S1	0	0	0	0	0	0	0	0
- Transition from S3 to S2	0	0	0	0	0	0	0	0
Derecognition of a financial asset (excl. write-offs)	(11,257)	(2,681)	(271)	(14,210)	(6,587)	(2,035)	(287)	(8,909)
Changed financial assets (modification)	0	108	61	169	(103)	(4)	10	(97)
Write-offs	0	0	17	17	0	0	(117)	(117)
Changes due to new financial assets	10,607	969	0	11,576	11,054	5,137	0	16,191
<b>Balance as at 31/12/</b>	<b>37,164</b>	<b>14,136</b>	<b>4,593</b>	<b>55,892</b>	<b>40,498</b>	<b>16,041</b>	<b>1,801</b>	<b>58,340</b>

- PUBLIC SECTOR

in EUR '000	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
Balance as at 01/01/	1,761	0	26	1,787	2,536	0	26	2,562
Transitions								
- Transition from S1 to S2	0	0	0	0	0	0	0	0
- Transition from S1 to S3	0	0	0	0	0	0	0	0
- Transition from S2 to S1	0	0	0	0	0	0	0	0
- Transition from S2 to S3	0	0	0	0	0	0	0	0
- Transition from S3 to S1	0	0	0	0	0	0	0	0
- Transition from S3 to S2	0	0	0	0	0	0	0	0
Derecognition of a financial asset (excl. write-offs)	(135)	0	3	(132)	(776)	0		(776)
Changes due to new financial assets	3,010	0	0	3,010	0	0	0	0
<b>Balance as at 31/12/</b>	<b>4,636</b>	<b>0</b>	<b>29</b>	<b>4,664</b>	<b>1,761</b>	<b>0</b>	<b>26</b>	<b>1,787</b>

- OTHER FINANCIAL ORGANISATIONS

in EUR '000	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
Balance as at 01/01/	618	0	1	619	674	0	2	676
TRANSITIONS								
- Transition from S1 to S2	(618)	618	0	0	0	0	0	0
- Transition from S1 to S3	0	0	0	0	0	0	0	0
- Transition from S2 to S1	0	0	0	0	0	0	0	0
- Transition from S2 to S3	0	0	0	0	0	0	0	0
- Transition from S3 to S1	0	0	0	0	0	0	0	0
- Transition from S3 to S2	0	0	0	0	0	0	0	0
Derecognition of a financial asset (excl. write-offs)	0	(26)	(1)	(26)	(56)	0	(1)	(57)
Changes due to new financial assets	0	0	0	0	0	0	0	0
<b>Balance as at 31/12/</b>	<b>0</b>	<b>592</b>	<b>0</b>	<b>592</b>	<b>618</b>	<b>0</b>	<b>1</b>	<b>619</b>

- HOUSEHOLDS

V 1000 EUR	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
Balance as at 01/ 01/	112,123	4,724	1,314	118,161	97,564	4,577	1,344	103,484
TRANSITIONS								
- Transition from S1 to S2	(2,731)	2,731	0	0	(2,231)	2,231	0	0
- Transition from S1 to S3	(707)	0	707	0	(292)	0	292	0
- Transition from S2 to S1	1,560	(1,560)	0	0	1,692	(1,692)	0	0
- Transition from S2 to S3	0	(95)	95	0	0	(166)	166	0
- Transition from S3 to S1	4	0	(4)	0	5	0	(5)	0
- Transition from S3 to S2	0	1	(1)	0	0	24	(24)	0
Derecognition of a financial asset (excl. write-offs)	(21,302)	(898)	(439)	(22,638)	(23,011)	(1,413)	(512)	(24,936)
Changed financial assets (modification)	0	(4)	15	11	0	0	0	0
Write-offs	0	0	(100)	(100)	0	0	0	0
Changes due to new financial assets	24,031	717	49	24,798	38,396	1,163	52	39,612
Balance as at 31/12/	112,980	5,616	1,636	120,232	112,123	4,724	1,314	118,160

**OTHER FINANCIAL ASSETS**

in EUR '000	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
Non-financial corporations	15	0	44	59	9	0	47	56
Credit institutions	7	7	0	14	0	7	0	7
Public sector	83	0	0	83	119	0	0	119
Other financial organisations	8	0	0	8	9	0	3	12
Households*	17	2	26	46	305	4	49	358
Gross value of other financial assets	129	9	71	209	442	11	99	552

\* The public and sole proprietors included

in EUR '000	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
Balance as at 01/ 01/	442	11	99	552	150	0	61	211
Transitions								
- Transition from S1 to S2	0	0	0	0	(6)	6	0	0
- Transition from S1 to S3	(1)		1		(1)	0	1	0
- Transition from S2 to S1	0	0	0	0	0	0	0	0
- Transition from S2 to S3	0	0	0	0	0	0	0	0
- Transition from S3 to S1	1		(1)		0	0	0	0
- Transition from S3 to S2	0	0	0	0	0	0	0	0
Derecognition of a financial asset (excl. write-offs)	(351)	(4)	(56)	(411)	(28)	0	(7)	(35)
Changes due to new financial assets	38	2	28	68	328	4	44	376
Balance as at 31/12/	129	9	71	209	442	11	99	552

**B) ADJUSTMENT OF VALUES OF FINANCIAL ASSETS MEASURED AT AMORTISED COST**

in EUR '000	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
Debt securities	(21)	0	0	(21)	(21)	0	0	(21)
Credits to banks	0	0	0	0	0	0	0	0
Credits to non-banking sector	(326)	(633)	(2,718)	(3,677)	(463)	(759)	(1,469)	(2,690)
Other financial assets	()	(2)	(59)	(62)	0	(4)	(87)	(91)
Gross values of financial assets measured at amortised cost	(347)	(636)	(2,778)	(3,760)	(484)	(762)	(1,556)	(2,802)

## DEBT SECURITIES

in EUR '000	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
Non-financial corporations	0	0	0	0	0	0	0	0
Public sector	(21)	0	0	(21)	(21)	0	0	(21)
Other financial organisations	0	0	0	0	0	0	0	0
<b>Gross value of debt securities</b>	<b>(21)</b>	<b>0</b>	<b>0</b>	<b>(21)</b>	<b>(21)</b>	<b>0</b>	<b>0</b>	<b>(21)</b>

## - PUBLIC SECTOR

in EUR '000	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
Balance as at 01/01/	(21)	0	0	(21)	(9)	0	0	(9)
Transitions	0	0	0	0	0	0	0	0
Derecognition of a financial asset (excl. write-offs)	0	0	0	0	6	0	0	6
Changes due to accrued interest	0	0	0	0	0	0	0	0
Changes due to new financial assets	0	0	0	0	(18)	0	0	(18)
<b>Balance as at 31/12/</b>	<b>(21)</b>	<b>0</b>	<b>0</b>	<b>(21)</b>	<b>(21)</b>	<b>0</b>	<b>0</b>	<b>(21)</b>

## CREDITS TO BANKS

in EUR '000	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
Credit institutions	0	0	0	0	0	0	0	0
<b>Gross value of credits to banks</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## - CREDIT INSTITUTIONS

V 1000 EUR	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
Balance as at 01/01/	0	0	0	0	0	0	0	0
Transitions	0	0	0	0	0	0	0	0
Derecognition of a financial asset (excl. write-offs)	0	0	0	0	0	0	0	0
Changes due to accrued interest	0	0	0	0	0	0	0	0
Changes due to new financial assets	0	0	0	0	0	0	0	0
<b>Balance as at 31/12/</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## CREDITS TO NON-BANKING SECTOR

V 1000 EUR	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
Non-financial corporations	(155)	(515)	(2,099)	(2,770)	(246)	(669)	(1,075)	(1,990)
Public sector	(29)	0	(29)	(58)	(11)	0	(27)	(38)
Other financial organisations	0	(11)	0	(11)	(2)	0	(1)	(3)
Households*	(141)	(107)	(590)	(838)	(204)	(90)	(367)	(660)
<b>Value adjustments for credits to non-banking sector</b>	<b>(326)</b>	<b>(633)</b>	<b>(2,718)</b>	<b>(3,677)</b>	<b>(463)</b>	<b>(759)</b>	<b>(1,469)</b>	<b>(2,690)</b>

\* The public and sole proprietors included

- NON-FINANCIAL CORPORATIONS

in EUR '000	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
Balance as at 01/01/	(246)	(669)	(1,075)	(1,990)	(438)	(384)	(1,100)	(1,922)
Transitions								
- Transition from S1 to S2	170	(170)	0	0	163	(163)	0	0
- Transition from S1 to S3	0	0	0	0	3	0	(3)	0
- Transition from S2 to S1	(2)	2	0	0	(11)	11	0	0
- Transition from S2 to S3	0	287	(287)	0	0	20	(20)	0
- Transition from S3 to S1	0	0	0	0	0	0	0	0
- Transition from S3 to S2	0	0	0	0	0	0	0	0
Derecognition of a financial asset (excl. write-offs)	28	33	39	100	48	31	26	105
Changed financial assets (modification)	0	(3)	(123)	(126)	0	28	(7)	21
Write-offs	0	0	17	17	0	0	0	0
Changes due to changes of credit risk (PD, LGD) due to regular parameter adjustments	60	95	(670)	(515)	140	82	33	255
Effect of the change in demonstrating interest on financial assets in S3	0	0	0	0	0	0	(4)	(4)
Changes due to new financial assets	(166)	(90)	0	(256)	(151)	(294)	0	(445)
Changes due to exchange rate differences	0	0	0	0	0	0	0	0
<b>Balance as at 31/12/</b>	<b>(155)</b>	<b>(515)</b>	<b>(2,099)</b>	<b>(2,770)</b>	<b>(246)</b>	<b>(669)</b>	<b>(1,075)</b>	<b>(1,990)</b>

- PUBLIC SECTOR

in EUR '000	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
Balance as at 01/01/	(11)	0	(27)	(38)	(26)	0	(26)	(51)
Transitions								
- Transition from S1 to S2	0	0	0	0	0	0	0	0
- Transition from S1 to S3	0	0	0	0	0	0	0	0
- Transition from S2 to S1	0	0	0	0	0	0	0	0
- Transition from S2 to S3	0	0	0	0	0	0	0	0
- Transition from S3 to S1	0	0	0	0	0	0	0	0
- Transition from S3 to S2	0	0	0	0	0	0	0	0
Derecognition of a financial asset (excl. write-offs)	0	0	0	0	0	0	(1)	(1)
Changes due to new financial assets	(22)	0	0	(22)	0	0	0	0
Changes due to changes of credit risk (PD, LGD) due to regular parameter adjustments	4	0	(2)	2	14	0	0	14
<b>Balance as at 31/12/</b>	<b>(29)</b>	<b>0</b>	<b>(29)</b>	<b>(58)</b>	<b>(11)</b>	<b>0</b>	<b>(27)</b>	<b>(38)</b>

- OTHER FINANCIAL ORGANISATIONS

in EUR '000	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
Balance as at 01/01/	(2)	0	(1)	(3)	(19)	0	(26)	(45)
Transitions					0	0	0	0
- Transition from S1 to S2	11	(11)	0	0	0	0	0	0
- Transition from S1 to S3	0	0	0	0	0	0	0	0
- Transition from S2 to S1	0	0	0	0	0	0	0	0
- Transition from S2 to S3	0	0	0	0	0	0	0	0
- Transition from S3 to S1	0	0	0	0	0	0	0	0
- Transition from S3 to S2	0	0	0	0	0	0	0	0
Derecognition of a financial asset (excl. write-offs)	(9)	0	1	(8)	0	0	25	25
Write-offs	0	0	0	0	0	0	0	0
Changes due to changes of credit risk (PD, LGD) due to regular parameter adjustments	0	0	0	0	17	0	0	17
Changes due to new financial assets	0	0	0	0	0	0	0	0
<b>Balance as at 31/12/</b>	<b>0</b>	<b>(11)</b>	<b>0</b>	<b>(11)</b>	<b>(2)</b>	<b>0</b>	<b>(1)</b>	<b>(3)</b>

- HOUSEHOLDS

in EUR '000	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
Balance as at 01/01/	(204)	(90)	(367)	(660)	(227)	(136)	(399)	(762)
Transitions					0	0	0	0
- Transition from S1 to S2	46	(46)	0	0	12	(12)	0	0
- Transition from S1 to S3	23	0	(23)	0	78	0	(78)	0
- Transition from S2 to S1	(6)	6	0	0	(23)	23	0	0
- Transition from S2 to S3	0	22	(22)	0	0	37	(37)	0
- Transition from S3 to S1	0	0	0	0	0	0	0	0
- Transition from S3 to S2	0	0	0	0	0	2	(2)	0
Derecognition of a financial asset (excl. write-offs)	10	5	92	108	27	15	151	193
Changed financial assets (modification)	0	(4)	(43)	(47)	0	1	0	1
Write-offs	0	0	66	66	0	0	0	0
Changes due to changes of credit risk (PD, LGD) due to regular parameter adjustments	10	12	(287)	(266)	54	43	1	99
Effect of the change in demonstrating interest on financial assets in S3	0	0	0	0	0	0	(2)	(2)
Changes due to new financial assets	(20)	(13)	(6)	(39)	(124)	(62)	(1)	(188)
<b>Balance as at 31/12/</b>	<b>(141)</b>	<b>(107)</b>	<b>(590)</b>	<b>(838)</b>	<b>(204)</b>	<b>(90)</b>	<b>(367)</b>	<b>(660)</b>

## OTHER FINANCIAL ASSETS

in EUR '000	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
Non-financial corporations	0	0	(34)	(34)	0	0	(38)	(38)
Public sector	0	0	0	0	0	0	0	0
Credit institutions	0	0	0	0	0	0	0	0
Other financial organisations	0	0	0	0	0	0	(3)	(3)
Households*	0	(2)	(25)	(27)	0	(4)	(46)	(50)
<b>Value adjustment of other financial assets</b>	<b>0</b>	<b>(2)</b>	<b>(59)</b>	<b>(61)</b>	<b>0</b>	<b>(4)</b>	<b>(87)</b>	<b>(91)</b>

\* The public and sole proprietors included

in EUR '000	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
Balance as at 01/01/	0	(4)	(87)	(91)	0	0	(58)	(58)
Transitions								
- Transition from S1 to S2	0	0	0	0	0	0	0	0
- Transition from S1 to S3	0	0	0	0	0	0	0	0
- Transition from S2 to S1	0	0	0	0	0	0	0	0
- Transition from S2 to S3	0	0	0	0	0	0	0	0
- Transition from S3 to S1	0	0	0	0	0	0	0	0
- Transition from S3 to S2	0	0	0	0	0	0	0	0
Derecognition of a financial asset (excl. write-offs)	0	4	44	48	0	0	7	7
Effect of the change in demonstrating interest on financial assets in S3	0	0	1	1	0	0	0	0
Changes due to new financial assets	0	(2)	(17)	(19)	0	(4)	(35)	(39)
<b>Balance as at 31/12/</b>	<b>0</b>	<b>(2)</b>	<b>(59)</b>	<b>(61)</b>	<b>0</b>	<b>(4)</b>	<b>(87)</b>	<b>(91)</b>

## 8.3.7 MOVEMENT OF PROVISIONS FOR OFF-BALANCE SHEET LIABILITIES BY GROUPS

in EUR '000	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
Provisions for undrawn credits and limits	13	13	1	27	9	16	1	25
Provisions for undrawn limits by payment cards	21	7	2	30	11	4	3	18
Provisions for guarantees issued	7	2	0	9	7	1	3	12
<b>Provisions for off-balance sheet liabilities</b>	<b>41</b>	<b>21</b>	<b>3</b>	<b>65</b>	<b>27</b>	<b>21</b>	<b>7</b>	<b>55</b>

## 8.4 DEFINITION OF PAST DUE, UNPAID AND IMPAIRED ITEMS FOR ACCOUNTING PURPOSES

As items past due, LON addresses exposures where a debtor fails to settle its obligations within the contractually agreed period and in accordance with the contractual agreed conditions. The claim due is a claim, where a debtor is in default by one day or more. Accordingly, LON classifies past due items into respective groups according to IFRS 9, and impairs them properly.

In accordance with the banking regulations for calculating the own fund requirement for credit risk, the category of unpaid exposures comprises exposures where a debtor is late in paying the total exposure or its part. The materiality threshold of the amount past due comprises the absolute and relative component. The absolute component is a sum of all amounts already fallen due and which a debtor owes to the bank, its parent or any of its subsidiaries and amounts to EUR 100 for retail exposures and EUR 500 for non-retail exposures. The relative component equals the share represented by the amount of credit liability in default in the total amount of all balance sheet exposures of the bank, its parent or any of subsidiaries to the respective debtor, except the exposures of equity instruments, and is 1%.

## 8.5 CREDIT PROTECTION

LON collateralises the granted credits in accordance with the Policy on collateralising monetary claims. The types of collateral are selected according to the collateral available. The type of collateral is selected that presents the highest level of protection of claims for LON according to the risk level of a transaction. If necessary, several available types of collateral can be selected.

The main types of collateral accepted by LON are as follows:

- Bills of exchange;
- Insurance with the insurance company (including also SID);
- Pledging of immovable property (including the pledge of the right to build);
- Pledging movable property (including stocks);
- Guarantee of the Republic of Slovenia;
- Guarantee of other legal or natural person;
- Pledging assets (pledge of assets on accounts opened with LON);

- Transfer of claim (fiduciary assignment);
- Pledge of securities;
- Guarantee of the Slovenian Enterprise Fund or other state institutions;
- Pledge of the business share;
- Pledge of precious metals;
- Bank guarantee.

LON pursues the objective that investments are secured by adequate collateral to a maximum possible extent. Consumer credits and credits to persons pursuing an activity are mainly insured with the insurance company or by registration of a mortgage (consumer mortgage) and with guarantors, the residential loans mainly by registration of mortgage, credits to legal persons by registration of mortgage, guarantees of other legal or natural persons, bank deposits and transfer agreements.

The table below shows appropriate forms of collateral that can be realised by LON in the event of default by the debtor. The respective forms of collateral meet the criteria of appropriateness under the Regulation CRR, except for the category Other forms of collateral.

in EUR '000	31/12/2023		31/12/2022	
	VALUE OF CLAIMS	VALUE OF COLLATERAL	VALUE OF CLAIMS	VALUE OF COLLATERAL
Claims collateralised with bank deposits	736	295	2,035	1,287
Claims collateralised with pledges of immovable property	113,760	277,848	116,084	273,808
Claims collateralised with insurance policies	27,165	29,439	25,398	27,569
Claims collateralised with securities	0	0	0	0
Other forms of collateral	9,452	6,226	10,642	7,161
Non-collateralised	37,455	0	24,748	0
<b>Total</b>	<b>188,567</b>	<b>313,808</b>	<b>178,907</b>	<b>309,824</b>

Other forms of collateral are mainly guarantees from creditworthy guarantors, transfer agreements concluded with partners having an adequate credit rating, and are taken into account only if the claim is not collateralised by one of the listed collateral. Uncollateralised are demonstrated claims collateralised with bill of exchange, joint and several liability, the credit rating of which is questionable, by registration of mortgage on the immovable property the fair value of which is not established on the way provided below, claims to residents of multi-apartment communities collateralised with inflows on the reserve fund accounts, purchase of claims from residents of multi-apartment buildings and claims charged with the own risk premium.

The quality of collateral is verified by the Risk Management Division when the credit is granted, and in case of the pledge of immovable property, also the legal opinion is obtained. Then, the adequacy of collateral is regularly monitored, the fair value of the collateral is verified against the balance of the outstanding debt, and the appropriateness of the collateral is checked in terms of collectability.

The volume of credits (consumer credits, residential loans and loans to sole proprietors) insured with the insurance company increased by 7% compared to the previous period and as at 31/12/2023

amounted to 14% of the balance of all credits. The respective credits refer to the insurance with one insurance company.

In 2023, the balance of credits collateralised with commercial and residential immovable property was 60% of all credits, i.e. 2% less than in 2022.

LON establishes the fair value of the collateral:

- In the amount of secured claim in the case of insurance with the insurance company, insurance with the adequate guarantee by a financial institution, insurance from the creditworthy guarantor, or in the case of the concluded debt acquisition agreement;
- In the amount of the deposit balance in the case of the collateral with the pledge of bank deposit;
- In the amount of the conservative market valuation drawn up by a certified real estate appraiser or a certified movable property appraiser entered in the register with the Slovenian Institute of Auditors.

The fair value of collateral for an immovable property usually exceeds the amount of the secured claim, and in the event of material negative fluctuations of fair value, LON may require additional collateral from the debtor.

In calculating the capital own fund requirement for credit risk, LON deems proper collateralisation the following types of collateral if all documentation required under the CRR Regulation is provided:

- Collateral with residential and commercial immovable property;
- Insurance policy and guarantees of relevant financial institutions;
- Security in rem with financial assets:
  - ▶ Bank deposits with LON or cash assimilated instruments held by LON (deposits with the same or longer maturity than the maturity of credit exposure);
  - ▶ Debt securities issued by the units of central governments or central banks;
  - ▶ Gold.

In practice, LON does not use the gold pledging collateral. In 2023 and 2022, LON received no debt security for collateralisation that would meet the criteria for the recognition of the eligible financial collateral in accordance with the CRR.

#### A) EXPOSURE VALUE COVERING ELIGIBLE FINANCIAL COLLATERAL AND OTHER ELIGIBLE COLLATERAL

The table below shows the total value of exposures by individual exposure classes covered by the eligible financial collateral. This is collateral by bank deposits.

in EUR '000	COLLATERALISATION WITH FINANCIAL ASSETS	
	31/12/2023	31/12/2022
EXPOSURES TO CENTRAL GOVERNMENTS AND CENTRAL BANK	0	0
Exposures to regional governments and local authorities	0	0
Exposures to public sector entities	0	0
Exposure to institutions	0	0
Exposures to corporates	0	40

Exposures to retail banking	1,165	289
Exposures in default	0	21
Equity	0	0
Other exposures	0	0
<b>Total all exposure classes</b>	<b>1,165</b>	<b>350</b>

## B) VALUE OF EXPOSURES COVERED BY GUARANTEES

The table below shows the total value of exposures by individual exposure classes in terms of insurance with guarantees.

in EUR '000	INSURANCE WITH GUARANTEES	
	31/12/2023	31/12/2022
<b>EXPOSURE CLASS</b>		
Exposures to central governments and central bank	0	0
Exposures to regional governments and local authorities	0	0
Exposures to public sector entities	0	0
Exposure to institutions	0	0
Exposures to corporates	1,226	1,014
Exposures to retail banking	14,257	22,037
Exposures in default	644	314
Equity	0	0
Other exposures	20	24
<b>Total all exposure classes</b>	<b>16,147</b>	<b>23,390</b>

## 8.6 UNPAID OVERDUE LOANS AND INTEREST BY SECTORS

LON forms impairment of balance sheet claims and provisions for off-balance sheet liabilities in accordance with IFRS 9 and the internal methodology. Financial assets classified in the group Credit to non-banking sector are assessed and impaired in accordance with the note in Point 2.3 of this chapter and Point 6.3.3 of the Financial Report. Claims to banks and savings banks are evaluated on an individual basis.

LON considers an unpaid or overdue claim to be any claim (in accordance with Point 2.4) where a client is defaulted on payment and the delayed payment exceeds EUR 100 for retail exposures and EUR 500 for non-retail exposures or 1%.

### A) REVIEW OF UNPAID CLAIMS BY SECTORS

in EUR '000	31/12/2023			31/12/2022		
	PART NOT YET DUE	PART DUE	TOTAL	PART NOT YET DUE	PART DUE	TOTAL
Non-financial corporations	53,453	2,439	55,892	65,100	1,468	66,568
Public sector	4,635	29	4,664	1,969	27	1996
Other financial organisations	592	0	592	676	1	677
Households*	119,562	670	120,232	123,399	452	123,851
<b>Unpaid claims</b>	<b>178,243</b>	<b>3,138</b>	<b>181,381</b>	<b>191,144</b>	<b>1,948</b>	<b>193,092</b>

\* The public and sole proprietors and other providers to households included

### B) REVIEW OF UNPAID CLAIMS BY DELAY AND SECTORS

As at 31/12/2023

in EUR '000	UP TO 15 DAYS	UP TO 30 DAYS	UP TO 90 DAYS	UP TO 360 DAYS	OVER 360 DAYS	TOTAL
Non-financial corporations	13	1	311	709	1,406	2,439
Other financial organisations	0	0	0	0	0	0
Public sector	0	0	0	0	29	29
Households*	64	298	106	52	148	670
<b>Unpaid claims due</b>	<b>77</b>	<b>300</b>	<b>417</b>	<b>761</b>	<b>1,583</b>	<b>3,138</b>

\* The public and sole proprietors and other providers to households included

As at 31/12/2022

in EUR '000	UP TO 15 DAYS	UP TO 30 DAYS	UP TO 90 DAYS	UP TO 360 DAYS	OVER 360 DAYS	TOTAL
Non-financial corporations	19	0	7	86	1,371	1,482
Other financial organisations	0	0	0	0	2	2
Public sector	1	0	0	0	27	27
Households*	45	8	61	70	453	638
<b>Unpaid claims due</b>	<b>64</b>	<b>8</b>	<b>68</b>	<b>156</b>	<b>1,852</b>	<b>2,149</b>

\*The public and sole proprietors and other providers to households included

### C) REVIEW OF UNPAID CLAIMS BY COLLATERAL AND CREATED IMPAIRMENTS AND PROVISIONS

V 1000 EUR	31/12/2023			31/12/2022		
	AMOUNT OF CLAIMS DUE	AMOUNT OF COLLATERAL	AMOUNT OF IMPAIRMENTS AND PROVISIONS	AMOUNT OF CLAIMS DUE	AMOUNT OF COLLATERAL	AMOUNT OF IMPAIRMENTS AND PROVISIONS
Bank deposits	0	5	(0)	3	25	(3)
Insurance company	67	2,342	(30)	80	1,948	(24)
Mortgages	1,423	14,437	(839)	952	21,134	(455)
Other	709	481	(255)	7	142	(46)
Non-collateralised	938	0	(1,328)	1,107	0	(945)
<b>Total</b>	<b>3,138</b>	<b>17,265</b>	<b>(2,452)</b>	<b>2,149</b>	<b>23,250</b>	<b>(1,472)</b>

## 8.7 CREDIT RISK EXPOSURE BY RATING GRADES AND PRUDENTIAL GROUPS

The credit quality of non-financial corporations is determined by the expert department for credit standing within the Risk Management Division based on financial statements and other financial and non-financial data, while the credit quality of the public is determined with respect of debtor's capacity to pay its liabilities (the amount of income or inflows). Debtors of exposure to the public, who entered into the agreement on the change in crediting terms (moratorium, extension of repayment period, etc.), are covered in groups from C through E. The credit rating of the debtor is verified upon every new transaction or at least once per year for debtors having no new transactions in the current year.

### A) DEBT SECURITIES MEASURED AT THE FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

in EUR '000	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
A credit rating	671	0	0	0	643	0	0	0
B credit rating	0	0	0	0	0	0	0	0
C credit rating	0	0	0	0	0	0	0	0
D credit rating	0	0	0	0	0	0	0	0
E credit rating	0	0	0	0	0	0	0	0
<b>Gross amount</b>	<b>671</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>643</b>	<b>0</b>	<b>0</b>	<b>0</b>
Value adjustment	0	0	0	0	0	0	0	0
<b>Net amount</b>	<b>671</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>643</b>	<b>0</b>	<b>0</b>	<b>0</b>

### B) DEBT SECURITIES MEASURED AT AMORTISED COST

in EUR '000	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
A credit rating	69,398	0	0	69,398	69,924	0	0	69,924
B credit rating	0	0	0	0	0	0	0	0
C credit rating	0	0	0	0	0	0	0	0
D credit rating	0	0	0	0	0	0	0	0
E credit rating	0	0	0	0	0	0	0	0
<b>Gross amount</b>	<b>69,398</b>	<b>0</b>	<b>0</b>	<b>69,398</b>	<b>69,924</b>	<b>0</b>	<b>0</b>	<b>69,924</b>
Value adjustment	(21)	0	0	(21)	(21)	0	0	(21)
<b>Net amount</b>	<b>69,377</b>	<b>0</b>	<b>0</b>	<b>69,377</b>	<b>69,903</b>	<b>0</b>	<b>0</b>	<b>69,903</b>

### C) CREDITS TO BANKS

in EUR '000	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
A credit rating	1,502	0	0	1,502	0	0	0	0
B credit rating	0	0	0	0	0	0	0	0
C credit rating	0	0	0	0	0	0	0	0
D credit rating	0	0	0	0	0	0	0	0
E credit rating	0	0	0	0	0	0	0	0
<b>Gross amount</b>	<b>1,502</b>	<b>0</b>	<b>0</b>	<b>1,502</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Value adjustment	0	0	0	0	0	0	0	0
<b>Net amount</b>	<b>1,502</b>	<b>0</b>	<b>0</b>	<b>1,502</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

### D) CREDITS TO NON-BANKING SECTOR

in EUR '000	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
A credit rating	123,013	3,332	0	126,345	120,100	3,174	0	123,273
B credit rating	30,111	4,627	0	34,738	33,620	3,672	0	37,292
C credit rating	1,655	12,385	0	14,040	1,280	13,919	0	15,199
D credit rating	0	0	5,224	5,224	()	0	2,028	2,028
E credit rating	0	0	1,033	1,033	0	0	1,115	1,115
<b>Gross amount</b>	<b>154,779</b>	<b>20,344</b>	<b>6,257</b>	<b>181,381</b>	<b>154,999</b>	<b>20,765</b>	<b>3,143</b>	<b>178,907</b>
Value adjustment	(326)	(633)	(2,718)	(3,677)	(463)	(759)	(1,469)	(2,690)
<b>Net amount</b>	<b>154,453</b>	<b>19,711</b>	<b>3,539</b>	<b>177,704</b>	<b>154,537</b>	<b>20,006</b>	<b>1,674</b>	<b>176,217</b>

### E) OTHER FINANCIAL ASSETS

in EUR '000	2023				2022			
	S1	S2	S3	TOTAL	S1	S2	S3	TOTAL
A credit rating	124	0	0	124	435	0	0	435
B credit rating	2	0	0	2	2	0	0	2
C credit rating	3	9	0	12	5	11	10	26
D credit rating	0	0	62	62	0	0	74	74
E credit rating	0	0	8	8	0	0	14	14
<b>Gross amount</b>	<b>129</b>	<b>9</b>	<b>71</b>	<b>209</b>	<b>442</b>	<b>11</b>	<b>99</b>	<b>552</b>
Value adjustment	0	(2)	(59)	(62)	0	(4)	(87)	(91)
<b>Net amount</b>	<b>129</b>	<b>7</b>	<b>11</b>	<b>148</b>	<b>442</b>	<b>7</b>	<b>12</b>	<b>461</b>

### 8.8 REVIEW OF FINANCIAL ASSETS IN RELATION TO WHICH A NEW AGREEMENT WAS REACHED

In 2023, 8 claims from the credits to legal persons were restructured, the exposure of which as at 31/12/2023 amounted to EUR 2,409 thousand. In terms of credits to natural persons, the exposure of which as at 31/12/2023 was EUR 463 thousand, 9 claims were restructured in 2023. The total balance of the restructured claims as at 31/12/2023 was EUR 2,871 thousand, while the impairment demonstrated on the respective claims amounted to EUR 444 thousand.

### 8.9 REVIEW OF THE SITUATION OF RESTRUCTURED CLAIMS

in EUR '000	31/12/2023		31/12/2022	
	CLAIMS	IMPAIRMENTS	CLAIMS	IMPAIRMENTS
Public	463	(65)	0	0
Legal persons and sole proprietors	2,409	(379)	1,267	(271)
<b>Total</b>	<b>2,871</b>	<b>(444)</b>	<b>1,267</b>	<b>(271)</b>

## 8.10 CREDIT RISK CONCENTRATION

LON grants credits in accordance with the ZBan-3 and regulations on large exposure of banks and saving banks (Articles 395 through 403 of the CRR). The exposure to individual borrower or groups of interconnected borrowers is limited to a maximum of 25% of LON capital. After the exposure to individual borrower or a group of interconnected borrowers exceeds 10% of the capital, LON must obtain a consent of the Supervisory Board to approve the exposure.

Exposures to government, central bank and banks, or exposures collateralised by the guarantees of the government or central bank are converted, for the purpose of large exposure, in accordance with Article 400 of the CRR governing exemptions from the provision on the large exposure.

As at 31/12/2023, LON had exposures to the Republic of Slovenia, banks and non-financial corporations that were considered large exposures. After taking into account all exemptions, the large exposures amounted to EUR 10,364 thousand or 44.5% of capital.

The concentration in relation to industries measured with the Herfindahl–Hirschman Index was 1,153, meaning low concentration (values under 1,800). The largest share was represented by manufacturing, namely 16.7%. This was followed by trade (16.5%), construction (14.2%) and real estate activities (13.2%).

## 09 LIQUIDITY RISK

Liquidity risk (funding risk) is a risk of loss, where LON would no longer be able to settle all liabilities due, or would be forced to use the sources of assets with significantly higher costs than the average market costs. Within the scope of the liquidity risk management, LON mainly takes care of the compliance of cash flows arising from the way of operation of LON and clients, appropriate volume, structure and stability of sources of funding and appropriate volume and quality of liquidity buffers.

LON constantly maintains a diversified composition of liquidity assets that are free from encumbrances and available at any time. Liquidity assets are in the form of cash and highly liquid securities (government bonds) that can be rapidly and without any loss converted into cash. LON reconciles any discrepancies between inflows and outflows without any problems by also using liquidity buffers and instruments of the Central Bank.

LON manages its liquidity situation by:

- Monitoring liquidity metrics;
- Monitoring the amount of liquidity assets;
- Monitoring liquidity buffers;
- Harmonising maturity of assets and liabilities;
- Analysing liquidity gaps;
- Monitoring the achievement of set limits;
- Monitoring the concentration of deposits;
- Performing liquidity stress tests;
- Monitoring the stability of sight deposits;
- Maintaining the required liquidity and providing an adequate amount of liquidity ratios as laid down by the regulatory requirements.

LON pays special attention to the compliance with the liquidity legislation (Directive CRR/CRD), including monitoring and reporting the Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and Additional Liquidity Monitoring Metrics (ALMM).

Analyses and measurement of liquidity risk are conducted by the Risk Management Division in cooperation with the expert field of treasury. The Committee for managing balance sheet and risks (ALR Committee) is informed of the exposure to liquidity risk on a monthly basis, while the NS Risk Committee addresses the exposure to liquidity risk on a quarterly basis. The expert field of treasury monitors financial flows on a daily basis and manages liquidity assets in accordance with the rules, limits and guidelines laid down by the ALR Committee. In addition, it prepares all kinds of scenario depending on the likelihood of the envisaged events and analyses of investment possibilities according to the market situation and LON's liquidity position.

In 2023, LON throughout the period provided an adequate volume of liquidity buffer estimated according to the stress scenario for the period of 1 week and 1 month. At all times, it provided adequate value of LCR and NSFR indicators.

## 9.1 OVERVIEW OF LIQUIDITY GAPS

As at 31/12/2023

in EUR '000	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS	TOTAL
<b>ASSETS</b>						
Cash on hand	79,257	0	0	0	0	79,257
Financial assets measured at the fair value through comprehensive income	671	0	0	0	0	671
Financial assets measured at amortised cost	9,161	2,161	37,653	39,550	160,205	248,730
- Debt securities	0	0	35,422	6,852	27,103	69,377
- Credits to non-banking sector	9,014	2,161	2,231	31,196	133,101	177,704
- Other financial assets	148	0	0	0	0	148
- Credits to banks	0	0	0	1,502	0	1,502
Other assets	329	0	0	0	0	329
<b>Assets total</b>	<b>89,418</b>	<b>2,161</b>	<b>37,653</b>	<b>39,550</b>	<b>160,205</b>	<b>328,987</b>

<b>LIABILITIES</b>						
Financial liabilities measured at amortised cost	247,701	14,536	33,743	11,461	4,660	312,101
- Deposits from banks and central banks	0	0	0	0	0	0
- Deposits of clients other than banks	243,596	14,536	33,743	10,754	2,474	305,103
- Credit facilities from banks and central banks	0	0	0	193	166	359
- Other financial liabilities	4,106	0	0	0	0	4,106
- Subordinated debt	0	0	0	514	2,020	2,534
Other liabilities	759	0	0	0	0	759
<b>Total liabilities</b>	<b>248,460</b>	<b>14,536</b>	<b>33,743</b>	<b>11,461</b>	<b>4,660</b>	<b>312,860</b>
<b>Gap by maturities</b>	<b>(159,042)</b>	<b>(12,375)</b>	<b>3,911</b>	<b>28,089</b>	<b>155,545</b>	

As at 31/12/2022

in EUR '000	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS	TOTAL
<b>ASSETS</b>						
Cash on hand	58,560	0	0	0	0	58,560
Financial assets measured at the fair value through comprehensive income	643	0	0	0	0	643
Financial assets measured at amortised cost	7,692	1,627	6,304	75,890	155,068	246,581
- Debt securities	0	0	0	42,610	27,293	69,903

- Credits to non-banking sector	7,232	1,627	6,304	33,280	127,775	176,218
- Other financial assets	460	0	0	0	0	460
Other assets	463	0	0	0	0	463
<b>Assets total</b>	<b>67,358</b>	<b>1,627</b>	<b>6,304</b>	<b>75,890</b>	<b>155,068</b>	<b>306,247</b>

<b>LIABILITIES</b>						
Financial liabilities measured at amortised cost	251,174	15,415	9,333	15,201	4,833	295,956
- Deposits from banks and central banks	0	0	0	0	0	0
- Deposits of clients other than banks	247,474	15,415	9,195	14,391	2,622	289,097
- Credit facilities from banks and central banks	0	0	138	296	191	625
- Other financial liabilities	3,700	0	0	0	0	3,700
- Subordinated debt	0	0	0	514	2,020	2,534
Other liabilities	561	0	0	0	0	561
<b>Total liabilities</b>	<b>251,735</b>	<b>15,415</b>	<b>9,333</b>	<b>15,201</b>	<b>4,833</b>	<b>296,517</b>
<b>Gap by maturities</b>	<b>(184,377)</b>	<b>(13,788)</b>	<b>(3,029)</b>	<b>60,689</b>	<b>150,235</b>	
<b>Cumulative gap</b>	<b>(184,377)</b>	<b>(198,165)</b>	<b>(201,194)</b>	<b>(140,505)</b>	<b>9,730</b>	

The tables above show non-derivative financial assets and liabilities with the aim of managing liquidity risks after the remaining due dates for payment. Values in the table include the envisaged cash flows, gaps by individual time periods, as well as the cumulative gap.

LON maintains a diversified portfolio of highly liquid investments to provide adequate assets for settling its liabilities. Liquid assets allocated to managing liquidity risk present cash in hand, balance in different safe deposits and on the LON accounts with the Bank of Slovenia, sovereign debt eligible for pledging with the Bank of Slovenia. LON has an established fund of eligible assets. The maximum pledge is entered on the securities that are included on the single list of eligible assets of ECB for the benefit of the Bank of Slovenia. Based on the pledge, LON is enabled to use a set of ECB instruments, namely for the absorption of ECB assets through the ECB monetary policy operations, and the use of credit line and marginal lending facility. After repaying a long-term liquidity facility according to TLTRO operations in 2022 amounting to EUR 25 million, LON did not use the liquidity facility any more. Thus, LON has unused pledged securities available for ECB operations.

## 9.2 LIQUIDITY RATIOS

**LCR** or liquidity coverage ratio measures the capacity of a credit institution to cover its short-term liabilities with highly liquid assets in the stress period of 30 days. The ratio shows the coverage of net liquidity outflows in the period up to 30 days with high-quality available liquidity buffers. In 2023, LON continuously provided the adequate value of the indicator – as at 31/12/2023, the LCR value was 332%, whereas at 31/12/2022 it was 339%.

in EUR '000	31/03/2023	30/06/2023	30/09/2023	31/12/2023
Liquidity buffer	120,149	114,175	125,613	141,423
Net liquidity outflows	30,935	35,071	40,584	42,564
Liquidity coverage ratio or LCR (%)	388%	326%	310%	332%
Net stable funding ratio or NSFR (%)	214%	220%	221%	230%

**NSFR** or net stable funding ratio is liquidity ratio measuring mainly a long-term liquidity structure. By monitoring liquidity risk in the long term, a more adequately harmonised maturity is provided, as well as an adequate amount of long-term stable funding and reduced dependence on short-term and less stable funding. The NSFR is defined as a proportion between the available stable funding and the required stable funding. The proportion must be more than 100% at all times, or the available stable funding must always exceed the required stable funding. In 2023, LON continuously provided the adequate value of the indicator – as at 31/12/2023, the NSFR value was 230%, whereas at 31/12/2022 it was 205%.

### 9.3 CONCENTRATION OF DEPOSITS

Concentration of deposits is an important element of managing liquidity risks, since clients' deposits are the most important source of finance of LON. The aim of the deposit concentration indicator is to measure the risk or the impact of an individual depositor on the LON's liquidity risk. Deposits concentration indicator shows the spread of deposits according to the sector, differentiating between the deposits from the public and the deposits from the legal persons.

The table below shows the share of 30 major depositors in total deposits. The share is somewhat higher compared to 2022, but the increase is not material since LON has deposits well spread and stable. They mainly consist of the large number of current accounts of the public and small companies.

The change of the share of deposits by 30 major depositors according to the previous year is in the total amount of deposits that increased by EUR 16 million (balance as at 31/12/2023 compared to the balance as at 31/12/2022). The structure of deposits changed as well since the share of deposits from the public decreased, while the share of deposits from legal entities increased.

#### REVIEW OF THE CONCENTRATION OF DEPOSITS FROM NON-BANKS

in EUR '000	DEPOSITS FROM THE PUBLIC		DEPOSITS OF LEGAL PERSONS*		30 MAJOR DEPOSITORS**		TOTAL
	AMOUNT	IN % OF DEPOSITS	AMOUNT	IN % OF DEPOSITS	AMOUNT	IN % OF DEPOSITS	ZNESEK
2023	182,336	60%	122,766	40%	56,658	19%	305,103
2022	215,827	75%	73,270	25%	47,973	17%	289,097

\* Deposits from legal persons, regardless of their organisational form, such as non-financial corporations, other financial organisations, public sector entities, etc.

\*\* 30 major depositors according to term deposits



## 10 INTEREST RATE RISK

Interest rate risk arising from non-trading book activities is defined as a current or future risk of negative impacts on the economic value of equity (EVE) or net interest income (NII) of the institution, while taking into account changes in market value due to adverse movements in interest rates affecting the interest-rate sensitive instruments, including risk of gap, basis risk and option risk.

The consequences may arise especially due to the mismatch between the asset and liability maturity or due to mismatch of the type of interest rate or period where the interest rate is re-established. Changes in interest rate have a significant impact on interest income and expenses of LON. They also affect the balance sheet value and, as a result, the economic value of capital, carrying amount of capital and regulatory capital of LON.

Exposure to interest rate risk means an impact of change in interest rate on the amount of new interest income (short-term) and/or market value of its assets (long-term) and, consequently, the capital. To manage interest rate risk efficiently, it is important to review the monetary policy and monitor the movements of market interest rates.

### 10.1 INTEREST RATE RISK MANAGEMENT WORKFLOW

The interest rate risk is managed and reduced in accordance with the Interest Rate Risk Management Policy. LON regularly monitors, analyses and addresses the exposure to interest rate risk on a monthly basis at the meetings of the Committee for the management of balance sheet and risks (ALR). If necessary and by taking into account the situation on the market, it adjusts maturity, scope and type of the product given the type of interest rate to the investment or liabilities. The Internal Audit Service regularly monitors interest rate risks, reports at ALR meetings and provides compliance with regulations. The management of interest rate risk is supervised by LON's Risk Committee of the Supervisory Board, which usually convenes on a quarterly basis.

The Interest Rate Risk Management Policy defines limits, responsibilities and powers of functions and bodies for quality interest rate risk management, and the system of internal control of procedures and data bases. In the field of interest rate risk, LON has a system of limits for changing net interest income according to the total net interest income and for changing the economic value of capital according to the total and Tier 1 capital. In 2023, no derivatives were used to manage interest rate risk.

### 10.2 FREQUENCY OF CALCULATING IRRBB RATIOS

The interest rates are evaluated on a monthly basis and in accordance with the standardised methodology referred to in Article 84(1) of Directive 2013/36/EU. To evaluate changes in economic value of equity and net interest income, LON does not apply special risk measures.

### 10.3 DESCRIPTION OF ITEMS AND MEANING OF IRRBB RATIOS

To measure the exposure to interest rate risk, LON uses the interest rate gap method, by which it establishes the interest rate spread according to individual time strata. The interest rate gap method is prepared on the basis of the data on envisaged cash flows of individual interest-rate sensitive items, both principals and the interest involved. In establishing the interest rate risk, LON also takes into account behavioural assumptions, e.g. early repayments of credits, early withdrawal of deposits and embedded options, such as Zero Interest Floor in reference interest rates, non-performing loans and off-balance-sheet items.

LON uses two aspects to measure the exposure to interest rate:

- Income aspect that examines the impact of changes in interest rate on interest income and as a result on the amount of interest margin (i.e. net interest income – NII) and is focused on short-term period (up to 12 months). NII is therefore a future-oriented projection of interest income (and expenses) in the predetermined time period of one year.
- Economic aspect deals with the impact of changes in market interest rates on the economic value of equity (EVE) and is long-term oriented (all maturities). The economic value is a discounted sum of all future cash flows under the assumption of the static balance sheet scenario.

Envisaged or estimated cash flows upon re-evaluation (payments of interest or amounts of principal of the instruments having fixed interest rate falling due, or amount of principal of the instruments having floating interest rate that are re-evaluated) are discounted to the present in EVE, while, in NII, they are projected until the end of the NII period.

All credits with floating interest rate are denominated in euro and bound to EURIBOR six months that is newly assigned to all credits on the first day of every semester. The above-stated is taken into account in managing interest rate risk.

LON uses statistical models to determine the stable part of NMD according to the applicable segments and to distinguish between the stable part of NMD to stable and non-stable section. NMDs are classified in strata for re-evaluation in accordance with the Methodology for calculating stable and main part of deposits payable on demand.

The main part of stable deposits is classified in strata proportionally in accordance with the recommended restrictions of Basel standards for managing interest rate risk according to the maximum weighted maturities for individual type of stable deposits. Stable deposits are estimated on the basis of the VaR method, while the main deposits are estimated on the basis of the regulatory determined shares. The main part of stable deposits on current accounts of the public and sole proprietors is classified as to achieve (not exceed) the weighted average maturity of 5 years, on the business current account 4 years, and on non-current accounts of the public 4.5 years. Non-stable deposits and non-main part of the stable deposits are classified in the overnight class. At the same time, LON maintains a conservation reserve according to the EBA cap for the weighted average maturity of main deposits. Specifically, the lambda parameter is estimated for each segment in a way that the weighted average maturity of main deposits does not exceed 90% of the EBA cap. The hedge fund for optimising lambda is therefore 10%.

The report on interest rate gaps and the modified duration method are used to monitor the sensitivity of the economic value of capital, and the sensitivity of net interest income to different regulatory defined and internal stress scenarios of the change in interest rates. The impacts of the regulatory defined scenarios on the change of economic value of equity and change in net interest income are indicated in the EU IRRBB1 template as at the balance at the end of the year.

## 10.4 OTHER INFORMATION REGARDING THE MEASURES IN THE EU IRRBBI TEMPLATE IN ACCORDANCE WITH THE PROVISION IN POINT (I) OF THE EU IRRBBA TEMPLATE

The Net Interest Income Sensitivity methodology enables to assess the impact of the envisaged change of the market yield curve on the amount of future net interest income of LON. To assess the impact of the change in interest income on the income, the parallel shift of the yield curve of 200 basis points is used. The impact of the change on the income is studied for the following classes: up to 1 month, from 1 to 3 months, from 3 to 6 months, from 6 to 9 months, from 9 to 12 months. In this way, LON draws up an estimate of impact of the change in the yield curve of AAA-rated bonds in the eurozone on the future operational result in the period of one year.

By using the changes in the respective yield curve and by taking into account the standardised shocks, also the amount of risk is assessed on the basis of the change in the economic value of interest-rate sensitive items compared to the capital. For stress-testing, the following shocks are used:

- parallel shock up (+ 200 bps);
- parallel shock down (- 200 bps);
- steeper curve shock (short-term interest rates down (- 250 bps) and long-term interest rates up (+ 100 bps);
- flattened curve shock (short-term interest rates up (+ 250 bps) and long-term interest rate down (-100 bps));
- shock of short-term interest rates up (+ 250 bps); and
- shock of short-term interest rate down (- 250 bps).

## 10.5 CREDIT SPREAD RISK – CSRBB

The Credit Spread Risk in the Banking Book (CSRBB) is defined as a risk caused by the changes in the market price of the credit and liquidity risk and any other features of instruments bearing credit risk that are not included in the other existing credit assessment framework, such as IRRBB or expected risk of credit/(rampant) default.

CSRBB covers the risk of changing instrument spread under assumption of the same level of the creditworthiness, i.e. how the credit spread moves in a specific credit rating range/PD. In accordance with the EBA guidelines, LON started the calculation of CSRBB on 31/12/2023.

The EBA guidelines [EBA/GL/2022/14] include the guidelines on high level of the Credit Spread Risk in the Banking Book (CSRBB). Contrary to the approaches described to measure IRRBB, the development of methodological framework for CSRBB is carried out internally by institutions, while taking into account regulatory guidelines.

Measuring of CSRBB includes the measurement of the economic value and the net interest income rate and the changes in market values used within the framework of sensitivity to the changes in market credit/liquidity spreads.

## 11 OPERATIONAL RISK

Operational risk means a risk of loss resulting from inadequate or failed implementation of internal processes, actions of people and operation of systems or from external events, including events that may occur rarely but result in material consequences for LON. Operational risk is divided into several sub-categories of risks, namely compliance risk and due diligence risk, legal risk, ICT risk, outsourcing risk, product management risk, risk of fraud, model risk, risk of money laundering and terrorist financing (PMLFT), business continuity risk, payment transactions risk, risk of employee errors, information security risk. Within individual sub-risks, LON also assesses the exposure to ESG risks. In managing operational risk, LON also takes into account the impact of reputation that has an important role in operations.

The system and applicable elements of the process for identifying, measuring, assessing and managing operational risks, to which LON is exposed in its operations, are defined in detail in the Operational Risk Management Policy and the Operational Risk Management Methodology. Both documents are updated annually.

LON has an operational risk management system in place which includes:

- Systematic collection and reporting loss events and their management;
- List of potential risks with the aim of establishing additional measures and control activities;
- Monitoring key risk indicators that warn of possible occurrence of certain risk in advance, and monitoring measures required for managing risks;
- Reporting on operational risks with the relevant management bodies, where additional measures for managing risk are take if necessary (the Management Board, the Asset, Liability and Risk (ALR) Committee, the Risk Committee with NS).

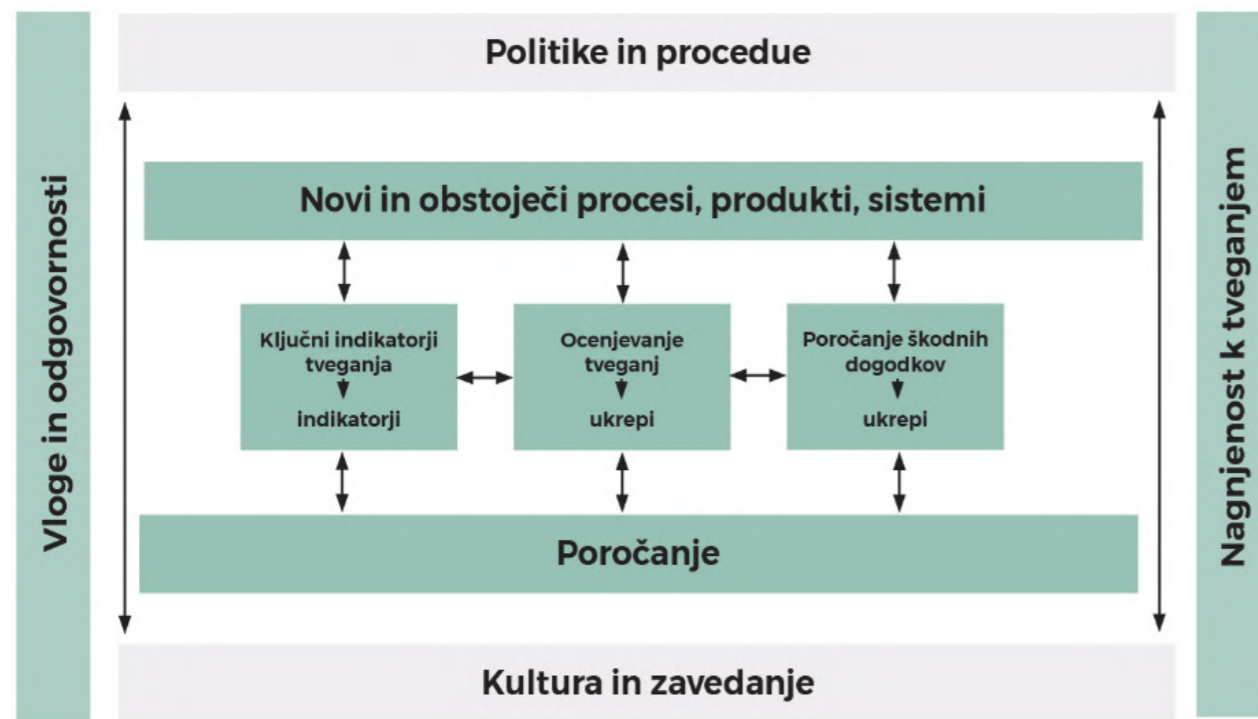
The responsibility for efficient operational risk management lies with all organisational units or their managers that are operational risk owners since they are the most familiarised with the risks they are faced with in the operations, and who also provide for their management. The Management is responsible for efficient and integrated operational risk management at LON as a whole and provides organisational and responsibility structure.

The focus is on monitoring and reporting loss events and the measures for their management. With the aim of providing appropriate and prompt processing of the most important loss events, LON has established a specific escalation limit in terms of reporting loss events to the Management Board. LON also pays attention to reporting potential loss events with the aim of improving internal controls and preventing and reducing the likelihood of the occurrence of loss events.

In its Policy on the integral limit system, LON has defined the maximum threshold of tolerance setting out also the acceptable limit of net loss from negative loss events from operational risk. It also has a defined indicator that is reflected in a percentage of the sum of net loss according to the own funds requirement for the entire operational risk. In exceeding the critical limit, LON carries out procedures, as laid down in the Policy on the integral limit system, and assesses the possible increase of the own funds requirements for operational risk. LON determines limit values for operational risk on the basis of the ICAAP assessment and according to the capital adequacy ratios. LON has set a zero tolerance for activities in the field of internal crime, fraud and other harmful behaviour and submitting information to unauthorised persons. It does not allow these activities in its operations.

The volume of the realised net loss events was low in 2023, i.e. 2.9% of own funds requirement (own funds requirement for operational risk amounted to EUR 1,603.282), which was higher than in 2022, when it amounted to 0.47%, but it was still in the range of target value according to the integral limit system.

<sup>1</sup> PMLFT – Prevention of Money Laundering and Terrorist Financing <sup>2</sup> ESG – Environmental, Social and Governance



## 12 TVEGANJE DOBIČKONOSNOSTI

Profitability risk refers to the insufficient amount, composition and diversification of revenue and expenditure or incapacity to provide the sufficient profitability level. Profitability does not only define profit as a result of the Income Statement, but also the quality and stability of revenue and the moderation and structure of costs. Profit enables LON to grow, maintain or increase its competitiveness and strengthen the capital base. Profitability is the first safeguard against risks and the first line of defence against decrease in capital due to reduction in the value of assets. Losses endanger capital and liquidity and may tarnish the reputation, thus reducing public trust.

There are internal and external factors having impact on the profitability:

- Internal factors are the structure of business activities, revenue outturn (interest revenue, non-interest revenue, profits from trading transactions, interest margin), quality of investment (volume of impairments) and costs;
- External factors are monetary policy (e.g. general level of interest rates), regulatory requirements, general economic situation and changes in competitive environment, where LON operates.

LON has no influence on external factors; however, it can assess and anticipate them and rapidly respond to any changes in the economic environment by appropriately adjusting its operational plans.

LON manages profitability risk by:

- monitoring the operation and analysing results of operations according to different areas;
- monitoring movements and stability of the interest margin;
- actively managing operating costs;
- monitoring monetary and fiscal policy and activities in the banking system;
- preparing stress scenarios that also include the calculation of impact in profitability.

## 13 FOREIGN EXCHANGE RISK

LON does not operate in foreign currencies, and for this reason the foreign exchange sub-balance only includes foreign cash in exchange office and safe deposit at two commercial banks. The total cash balance of foreign currency as at 31/12/2023 was EUR 2 thousand. The exposure to foreign exchange risk is negligible.

## 14 OTHER BANKING RISKS

LON assesses other material risks within the ICAAP process, which is presented in the Summary to the Internal Capital Adequacy Assessment Process (ICAAP) for supporting existing and future activities.

## 15 CAPITAL

The capital management is an ongoing process of providing and maintaining adequate volume and quality of the capital. Given the types and scope of its services and according to risks, to which it is exposed in rendering these services, LON must provide an adequate amount of capital at all times. It must operate to ensure that risks to which LON is exposed in performing a transaction and quantity of transactions do not exceed the limits laid down by ZBan-3 and associated regulations issued, CRD IV and CRR. CRD IV and CRR transpose the content of the Basel III into the banking legislation, and are considered an important step towards the implementation of uniform rules in the field of banking.

LON calculates the capital on a monthly bases, and submits the data to the Bank of Slovenia every quarter within the prescribed reporting schedule.

### 15.1 RECONCILIATION OF THE ITEMS OF THE STATEMENT OF FINANCIAL POSITION AND THE CAPITAL FOR THE PURPOSE OF CAPITAL ADEQUACY

The basis for calculating regulatory capital and capital ratios is the Statement of Financial Position. The capital consists of elements of capital, the statement of financial position and subordinated debt, while it is additionally reduced by deductions. The calculation includes only times, for which the Bank of Slovenia has issued a permit in accordance with Article 27 of the CRR.

According to the conditions that must be met by an individual capital category, LON's capital is divided to Tier 1 capital and Tier 2 capital.

Tier 1 capital comprises Common Equity Tier 1 capital represented by paid up ordinary shares minus own shares, capital reserves, revenue reserves, retained earnings.

Tier 2 capital includes subordinated deposits acceptable to be included into the capital calculation (see Note 6.5.9 of the Financial Report). These are nominal amounts of deposits that meet the conditions under CRD IV and CRR to include the subordinated deposits into the capital calculation, and for which LON has obtained a consent by the Bank of Slovenia.

in EUR '000	31/12/2023	31/12/2022
Tier 1 capital	23,528	18,599
Tier 2 capital	2,117	2,217
<b>Total capital as per CRR</b>	<b>25,645</b>	<b>20,815</b>

in EUR '000	31/12/2023	31/12/2022
<b>Total capital (accounting)</b>	<b>26,361</b>	<b>19,733</b>
(-) Preference share subject to transitional rules	0	0
(-) Balance sheet profit not acceptable	(2,411)	(749)
(-) Adjustments to Common Equity Tier 1 capital due to prudential filters	(1)	(1)
(-) Intangible assets	(331)	(319)
(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	(29)	(393)
(-) Excess of deduction from AT1 items	0	0
(-) Other transitional adjustments to Common Equity Tier 1 capital	93	328
(-) Additional deduction of Common Equity Tier capital in line with the CRR, Article 3	0	0
(-) Issued shares not yet authorised by the Bank of Slovenia	0	0
(-) Share premium account not yet authorised by the Bank of Slovenia	0	0
(-) Profit retained (cost associated with the acquisition of capital)	0	0
(-) CET1 capital elements or deductions - other	(154)	0
<b>Common Equity Tier 1 capital</b>	<b>23,528</b>	<b>18,599</b>

#### ADDITIONAL TIER 1 CAPITAL

- Transitional adjustments due to grandfathered T2 Capital instruments and subordinated loans	0	0
- Excess of deduction from AT1 items over AT1 Capital (deducted in CET1)	0	0
- Additional deductions of AT1 Capital due to Article 3 of CRR	0	0
<b>Financial liabilities measured at amortized cost – subordinated debt</b>	<b>2,534</b>	<b>2,347</b>
Interest ratio as at 31/12/	(82)	(82)
Reduction based on Article 64 of CRR	(335)	(235)
<b>Tier 2 capital</b>	<b>2,117</b>	<b>2,217</b>

## 15.2 TIER 1 CAPITAL

V 1000 EUR	ARTICLE CRR	31/12/2023	31/12/2022
<b>Tier 1 capita</b>		<b>23,528</b>	<b>18,599</b>
<b>Common Equity Tier 1 capital</b>		<b>23,528</b>	<b>18,599</b>
Capital instruments eligible as CET1 Capital		23,506	19,284
- paid up capital instruments	26 (1)	16,809	12,587
- share premium accounts	26 (1)	6,698	6,698
- (-) own CET1 instruments	26 (1f)	(1)	(1)
Retained earnings		(4,426)	(5,154)
Accumulated other comprehensive income	26 (1d)	(2)	(25)
Other reserves		4,872	4,872
- legal reserves		79	79
- other reserves from profit	26 (1)	4,791	4,791
- reserves for own shares	26 (1)	1	1
Adjustments to CET1 due to prudential filters	26 (1)	(1)	(1)
- adjustments due to prudential valuation requirements	33 (1)	0	(1)
Other intangible assets	36 (1b)	(331)	(319)
(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities		(29)	(393)
Excess of deduction from AT1 items over AT1 Capital	36 (1j)	0	0
Other transitional adjustments to CET1 Capital over AT1 Capital	469, 472, 478, 481	93	333
CET1 capital elements or deductions - other		(154)	0
<b>Additional Tier 1 capital</b>	<b>61</b>	<b>0</b>	<b>0</b>
- Transitional adjustments due to grandfathered T2 Capital instruments and subordinated loans	483 (4, 5), 484, 487, 489, 491	0	0
- Excess of deduction from AT1 items over AT1 Capital (deducted in CET1)	474, 475, 478, 481	0	0
- Additional deductions of AT1 Capital due to Article 3 of CRR	36 (1j)	0	0

## DESCRIPTION OF MAIN FEATURES OF THE CE1 CAPITAL

1	Issuer	Hranilnica LON d.d., Kranj
2	Unique code (ISIN code)	SI0021200454
3	Legislation governing the instrument	ZBook-Entry Securities Act Banking Act Companies Act
<b>Regulatory treatment</b>		
4	Rules of the Regulation on capital requirements in the transitional period	Common Equity Tier 1 capital
5	Rules of the Regulation on capital requirements after the transitional period	Common Equity Tier 1 capital
6	Acceptable on an individual basis	Acceptable on an individual basis
7	Type of instrument (types are determined by an individual jurisdiction)	Common Equity Tier 1 capital as is published on the EBA list; Article 26(3)
8	Amount recognised in regulatory capital (currency in million at the last reporting date)	EUR 23,528 million
9	Nominal amount of instrument	EUR 75.00
9a	Issue price	EUR 105.00
9b	Repurchase price	EUR 105.00
10	Accounting classification	Equity
11	Original issue date	26/01/1992
12	Fixed or with specified maturity	Fixed without maturity
13	Original maturity date	n. r.
14	Issuer's call based on priori supervisory approval	n. r.
15	Any date of call, conditional date of call and purchased amount	n. r.
16	Subsequent date of call, if required	n. r.
<b>Coupon rates/dividends</b>		
17	Fixed or variable dividend/coupon rate	Variable dividend
18	Coupon rate and all associated indexes	n. r.
19	Possibility of non-payment of distributions	Yes
20a	Full discretion, partial discretion or mandatory (according to the time schedule)	Partial discretion
20b	Full discretion, partial discretion or mandatory (according to the amount)	Partial discretion
21	Possibility to increase or other incentives to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, which are conversion triggering events	n. r.
25	If convertible, are they fully or partial	n. r.
26	If convertible, what is the conversion rate	n. r.
27	If convertible, is conversion mandatory or optional	n. r.
28	If convertible, indicate the type of the instrument to which they are converted	n. r.

29	If convertible, indicate the issuer of the instrument to which they are converted	n. r.
30	Write-off features	No
31	In case of write-off, which are triggering events	n. r.
32	In case of write-off, is it full or partial	n. r.
33	In case of write-off, is it permanent or temporary	n. r.
34	In case of temporary write-off, description of the value increasing mechanism	n. r.
35	Position in the subordination hierarchy in liquidation (indicate the type of instrument just ahead of the respective instrument)	n. r.
36	Inconsistent modified features	No
37	If there are inconsistent features, please indicate	n. r.

## 15.3 TIER 2 CAPITAL

in EUR '000	ARTICLE CRR	31/12/2023	31/12/2022
Capital instruments and subordinated loans eligible as T2 Capital	71	2,117	2,217
<b>Tier 2 capital</b>		<b>2,117</b>	<b>2,217</b>

## DESCRIPTION OF MAIN FEATURES OF TIER 2 CAPITAL

In its Statement of Financial Position, LON indicates the balance of subordinated liabilities in the total amount of EUR 2,534 thousand. The balance refers to seven deposits, of which two are deposits of non-financial corporations, and five are deposits of natural persons.

Features	DEPOSITOR						
	Non-financial corporation			Natural person			
Legislation governing the instrument							
Date of issue	26/ 05/ 2015	26/ 05/ 2015	30/ 04/ 2008	10/ 04/ 2012	18/ 06/ 2014	21/ 05/ 2015	21/ 05/ 2015
Date of authorisation by the Bank of Slovenia	21/ 07/ 2015	21/ 07/ 2015	09/ 06/ 2008	04/ 09/ 2012	21/ 04/ 2015	25/ 08/ 2015	25/ 08/ 2015
Regulatory treatment	CRR						
Fulfilment the requirements referred to in Part 2 of the CRR Regulation	Tier 2 capital						
Accounting classification	Subordinated liabilities						
Classification for determining balance sheet insolvency	Subordinated liabilities						
Nominal amount of the instrument (in EUR thousand)	250	250	473	277	200	500	500
Amount recognised in regulatory capital (in EUR thousand)	250	250	473	277	200	500	500
Instruments are allocated and fully paid-up	YES						
Instruments are assigned or paid-up by the Savings Bank or its subsidiaries or companies, where the Savings Bank has over 20% share	NO						
The purchase of instruments is financed by the Savings Bank	NO						
Due Date	1/ 9/ 25		1/ 9/ 25			At call	
Issuer call with the prior approval of the supervisor <sup>3</sup>	1	1	2	2	3	3	3
Conditional call date	1/ 1., 1/ 4., 1/ 7., 1/ 10.			9/ 8/ 2019		1/ 1., 1/ 4., 1/ 7., 1/ 10.	
Coupon rate/dividend	5.65%	5.65%	7.00%	6.89%	7.00%	5.75%	5.75%
Instrument collateralisation	It does not exist						
Existence of preferential treatment of distribution of payments in terms of the order	Subordinated to all non-subordinated creditors						
Existence of the incentive to redeem	It does not exist						
Instrument collateralisation	It does not exist						
Any arrangement, contractual or otherwise, that enhances the seniority of claims under the instruments in insolvency or liquidation	It does not exist						

<sup>3</sup>1 = quarterly first after 5 year and 1 day from the approval of the permit by the Bank of Slovenia. Discretion is exercised with a prior 30-day notice.

2 = quarterly, first after 5 years and 1 day from the signing of the annex to the contract redeemable at notice of 5 years.

3 = quarterly, first after 5 years and 1 day from the acquisition of the permit by the Bank of Slovenia. Discretion is exercised with a prior 30-day notice.

# 06

## DISCLOSURES UNDER THE CRR

Capital Requirements  
Capital buffers  
Remuneration policy  
Other disclosures in accordance with the CRR

## 01 CAPITAL REQUIREMENTS

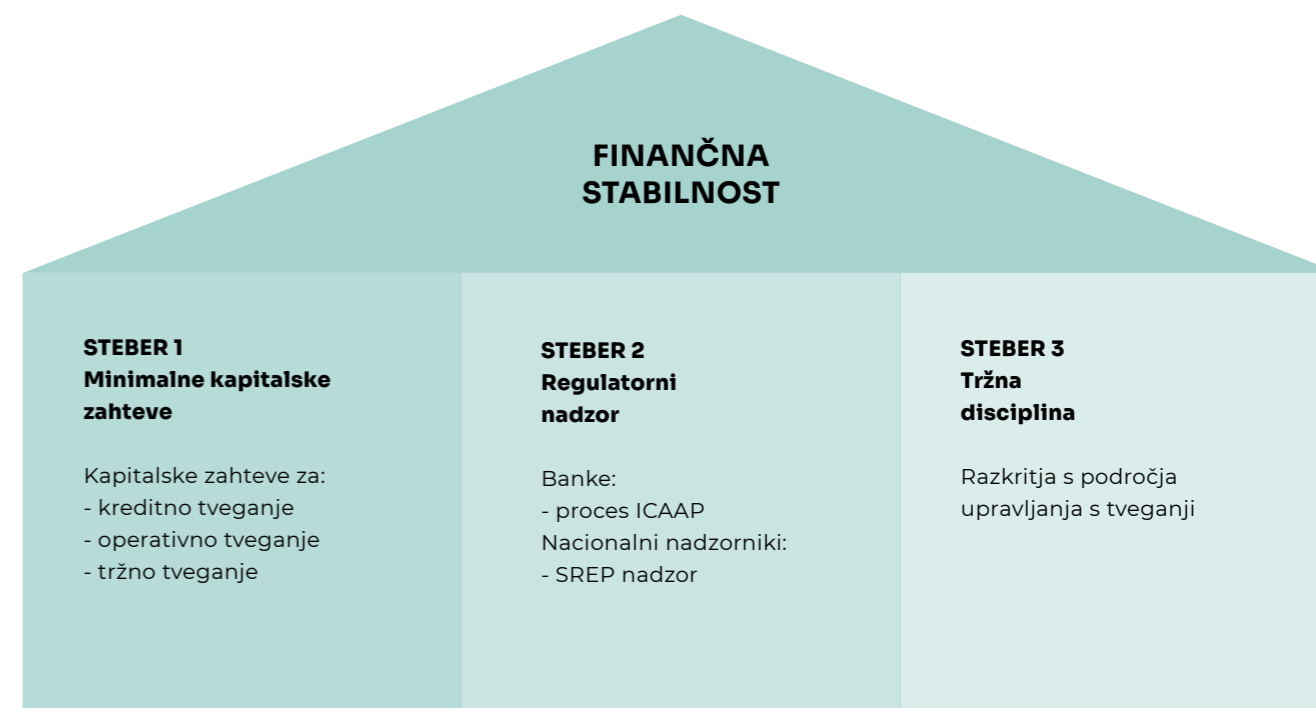
The capital regulatory framework consists of three complementary pillars:

- Minimum capital requirements are included in the first pillar and refer to the capital requirement to credit, market (LON does not calculate the capital requirement for market risk) and operational risk.
- The second pillar aims at calculating the internal capital of a financial institution (capital needs), called ICAAP, and the Supervisory Review and Evaluation Process (SREP).
- The third pillar of the capital arrangements is designed for public disclosures that contribute to better information on the financial situation of the Savings Bank provided to all stakeholders.

The amount of capital requirements expressed by the minimum value of Tier 1 capital ratio and the minimum value of the Total Capital ratio is defined by the Bank of Slovenia within the process of Supervisory Review and Evaluation Process (SREP). In 2023, LON had:

- The additional own funds requirement of 3.75%;
- The guidance on additional own funds of 1.50%.

As at 31/12/2023, LON achieved the required ratios of capital adequacy. As at 31/12/2023, the capital adequacy ratios were 19.89% (Total Capital ratio) and 18.25% (Tier 1 capital ratio).



## 1.1 SUMMARY OF THE INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP) TO SUPPORT EXISTING AND FUTURE ACTIVITIES

The purpose of the Internal Capital Adequacy Assessment Process (the ICAAP process) is better ensuring of LON's adequate capital according to the actual risks it assumes in relation with its operation, and to provide an adequate amount and quality of the capital in the future. The ICAAP process is an important factor in LON in terms of making business decisions and long-term planning which maintains stable operation in the long term.

At least once a year, LON reviews the ICAAP process and carries out an assessment of the adequate internal capital. The process comprises the following key activities:

- Defining strategic goals and key operating indicators;
- Defining the risk profile;
- Establishing an internal limit system and thus the risk appetite;
- Recognising or identifying individual risks;
- Assessing the significance or materiality of individual types of risk;
- Defining methodologies for assessing capital needs within the Pillar 1 and Pillar 2 and their assessment;
- Performing stress tests of individual risks and carrying out reverse stress tests;
- Allocating capital by business lines;
- Ongoing monitoring and taking adequate measures to manage or reduce risks;

In carrying out the ICAAP process, LON takes into account the size, complexity and business model as well as business environment of the Savings Bank, and adjusts approaches and methodologies for executing the process accordingly. LON has established an internal methodology for assessing current exposure to material risks. It also has defined risk-taking aspect and laid down internal limits for all material risks accordingly. At a lower level, the respective limits define the willingness of LON to take individual types of risks. Limits are determined so that LON meets the necessary regulatory requirements, and at the same time, provides for taking risks in the amount that ensures safe operation. Limits are monitored and reported to relevant management bodies on a monthly or quarterly basis.

LON provides the internal capital to cover capital requirements of Pillar 1 associated with:

- Credit risk under the standardised approach in accordance with the CRR;
- Operational risk under the standardised approach in accordance with the CRR.

In drawing up an internal assessment of capital needs, LON identifies additional risks that are not included in the calculation according to the regulatory approach (Pillar 1), but nevertheless have significant impact on its operations. Within the scope of Pillar 2, LON addresses and, if necessary, calculates capital requirements or add-ons for the following main types of risk:

- credit risk;
- operational risk;
- interest rate risk;
- strategic risk;
- profitability risk;
- reputational risk;
- capital risk;
- liquidity risk;
- currency and market risk;
- other external risks (status of the business cycle, regulatory environment, other types of

- scenarios);
- ESG risks.

## 1.2 OWN FUNDS REQUIREMENTS FOR CREDIT RISK

LON calculates own funds requirements for credit risk in line with the provisions of Articles 111 through 134 of the CRR in accordance with the standardised approach. It classifies exposures to prescribed exposure classes, as shown in the table below. Credit risk mitigation techniques refer to bank deposits as credit protection.

Risk weighted exposure amounts for credit risk, counterparty credit risk, and dilution risk and free deliveries as at 31/12/2023 amounted to EUR 108,888 thousand. The own funds requirement for credit risk as at 31/12/2023 was 8% of the risk weighted exposure for credit risk, i.e. EUR 8,711 thousand (as at 31/12/2022: EUR 8,446 thousand).

### CALCULATION OF OWN FUNDS REQUIREMENTS FOR CREDIT RISK UNDER THE STANDARDISED APPROACH USING EXPOSURE CATEGORIES

As at 31/12/2023

CODE	in EUR '000	BALANCE SHEET CLAIMS	OFF-BALANCE SHEET CLAIMS	IMPAIRMENTS AND PROVISIONS	CREDIT RISK MITIGATION TECHNIQUES	RISK-WEIGHTED EXPOSURE	OWN FUNDS REQUIREMENTS FOR CREDIT RISK
2	Exposures to central governments and central bank	146,627	0	(21)	0	68	0
3	Exposures to regional governments and local authorities	4,285	0	(29)	0	851	0
4	Exposures to public sector entities	260	10	(1)	0	1,111	0
5	Exposures to multilateral development bank	0	0	0	0	0	0
6	Exposures to international organisation	0	0	0	0	0	0
7	Exposure to institutions	1,769	2	(0)	0	5,662	0
8	Exposures to corporates	13,921	1,670	(253)	(1,226)	9,260	2,405
9	Exposures to retail banking	90,154	11,745	(576)	(15,556)	48,359	3,369
10	Exposures secured by mortgages	82,288	2,076	(385)	0	28,845	2,792

11	Exposures in default	5,158	9	(2,587)	(648)	1,956	0
12	Exposures to high risk	1,521	778	(9)	0	1,688	0
13	Exposures in the form of covered bonds	0	0	0	0	0	0
14	Exposures of institutions and corporates with a short-term credit assessment	0	0	0	0	0	0
15	Collective investment undertakings	671	0	0	0	113	0
16	Equity exposures	0	0	0	0	0	0
17	Other exposures	12,906	8	(3)	(20)	10,883	0
	<b>Total all exposure classes</b>	<b>359,561</b>	<b>16,297</b>	<b>(3,864)</b>	<b>(17,450)</b>	<b>108,796</b>	<b>8,566</b>

Exposures of institutions and corporates with a short-term credit assessment	0	0	0	0	0	0
Collective investment undertakings	643	0	0	0	78	0
Equity exposures	0	0	0	0	0	0
Other exposures	12,168	8	(3)	24	10,457	0
<b>Total all exposure classes</b>	<b>319,450</b>	<b>13,643</b>	<b>(2,900)</b>	<b>(23,691)</b>	<b>105,576</b>	<b>9,399</b>

As at 31/12/2022

in EUR '000	BALANCE SHEET CLAIMS	OFF-BALANCE SHEET CLAIMS	IMPAIRMENTS AND PROVISIONS	CREDIT RISK MITIGATION TECHNIQUES	RISK-WEIGHTED EXPOSURE	OWN FUNDS REQUIREMENTS FOR CREDIT RISK
Exposures to central governments and central bank	127,199	0	(21)	0	158	0
Exposures to regional governments and local authorities	1,539	0	(10)	0	306	0
Exposures to public sector entities	428	209	(1)	0	1,512	0
Exposures to multilateral development bank	0	0	0	0	0	0
Exposures to international organisation	0	0	0	0	0	0
Exposure to institutions	295	8	0	0	8,487	0
Exposures to corporates	14,572	214	(324)	(1,054)	10,353	2,926
Exposures to retail banking	79,315	12,204	(571)	(22,326)	43,696	3,322
Exposures secured by mortgages	79,409	954	(361)	0	28,203	3,150
Exposures in default	3,283	47	(1,603)	(335)	1,434	0
Exposures to high risk	601	0	(5)	0	893	0
Exposures in the form of covered bonds	0	0	0	0	0	0



### 1.3 OWN FUNDS REQUIREMENTS FOR OPERATIONAL RISK

LON calculates own funds requirements for operational risk using a simple approach in accordance with Article 315 and 316 of the CRR. The calculation is based on the data on three-year average of the sum of interest and non-interest income. The amount of total exposure to operational risk in accordance with Article 92 of the CRR as at 31/12/2023 was EUR 20,041 thousand, and EUR 16,021 thousand as at 31/12/2022. Own funds requirement for operational risk as at 31/12/2023 was EUR 1,603 thousand, and EUR 1,282 thousand as at 31/12/2022.

### 1.4 OWN FUNDS REQUIREMENTS FOR MARKET RISKS AND SETTLEMENT RISK

LON is not exposed to market risks, settlement risks and does not have own funds requirements for large exposures.

### 1.5 RESULT OF THE INTERNAL CAPITAL ADEQUACY ASSESSMENT

LON must ensure an adequate capital for covering all risks that it is or it could be exposed given its operations and volume of business. LON monitors its own capital adequacy in accordance with the ratios defined by regulations and the requirements of the Bank of Slovenia. Minimum ratios that must be achieved within the scope of the 1st regulatory pillar are as follows:

- a Common Equity Tier 1 capital ratio (CET1) of 4.5%;
- a Common Equity Tier 1 capital ratio (%) and Additional Tier 1 capital ratio (AT1) of 6%;
- a total capital ratio of 8%.

Other requirements and recommendations prescribed by the Bank of Slovenia also affect the necessary amount of capital ratios. In 2023, LON had

- The additional own funds requirement of 3.75%;
- The guidance on additional own funds of 1.50%.

The total capital adequacy ratio is a ratio between the own funds and the sum of risk weighted exposures that were 19.89% as at 31/12/2023 (minimum requirement of 16.52%) and 17.12% as at 31/12/2022.

in EUR '000	31. 12. 2023	31. 12. 2022
Tier 1 capital	23,528	18,599
Tier 2 capital	2,117	2,217
<b>Equity in total</b>	<b>25,645</b>	<b>20,815</b>
Credit risk exposure	108,888	105,576
Operational risk exposure	20,041	16,021
<b>Risk-weighted exposure total</b>	<b>128,929</b>	<b>121,597</b>
Own funds requirements for credit risk	8,566	9,399
Own funds requirements for operational risk	1,603	1,282
<b>Own funds requirements in total (Pillar 1)</b>	<b>10314</b>	<b>9728</b>
<b>Common Equity Tier 1 capital ratio</b>	<b>18.25%</b>	<b>15.30%</b>
<b>Total capital ratio</b>	<b>19.89%</b>	<b>17.12%</b>

### 1.6 PLAN TO ENSURE PROVISION OF ADEQUATE OWN FUNDS

The content of the plan to ensure the adequate own funds is explained in Point 7.2 of the Business Report.

### 1.7 DISCLOSURE OF OWN FUNDS REQUIREMENTS AND RISK WEIGHTED EXPOSURE AMOUNTS

Institutions are obliged to disclose information referred to in Article 438(d) of Regulation (EU) No. 575/2013 by using EU OV1 template from Annex I to ITS.

V 1000 EUR	TOTAL RISK EXPOSURE AMOUNTS (TREA)		TOTAL OWN FUNDS REQUIREMENTS
	31/12/2023	31/12/2022	31/12/2023
<b>Credit risk (excluding CCR)</b>	<b>108,888</b>	<b>105,576</b>	<b>108,888</b>
of which the standardised approach	108,888	105,576	108,888
of which the Foundation IRB (F-IRB) approach	0	0	0
of which slotting approach	0	0	0
of which equities under the simple risk-weighted approach	0	0	0
of which the Advanced IRB (A-IRB) approach	0	0	0
Counterparty credit risk - CCR	0	0	0
of which the standardised approach	0	0	0
of which internal model method (IMM)	0	0	0

of which exposures to a CCP	0	0	0
of which credit valuation adjustment - CVA	0	0	0
of which other CCR	0	0	0
Settlement risk	0	0	0
Securitisation exposures in the non-trading book (after the cap)	0	0	0
of which SEC-IRBA approach	0	0	0
of which SEC-ERBA (including IAA)	0	0	0
of which SEC-SA approach	0	0	0
of which risk weight 1 250% / deduction	0	0	0
Position, foreign exchange and commodities risks (Market risk)	0	0	0
of which the standardised approach	0	0	0
of which internal model approach	0	0	0
LARGE EXPOSURES	0	0	0
<b>Operational risk</b>	<b>20,041</b>	<b>16,021</b>	<b>20,041</b>
of which basic indicator approach	20,041	16,021	20,041
of which the standardised approach	0	0	0
of which advanced measurement approach	0	0	0
Amounts below the thresholds for deduction (subject to 250% risk weight)	0	0	0
<b>Total</b>	<b>128,929</b>	<b>121,597</b>	<b>128,929</b>

## 02 CAPITAL BUFFERS

In 2016, the European capital legislation introduced a system of capital buffers which are an additional requirement in determining the required amount of capital. Banks (and saving banks) must therefore also meet the requirements of capital buffers with their most quality capital (Common Equity Tier 1 capital), in additionally, the requirements arising from Pillar 1 and 2.

### CAPITAL CONSERVATION BUFFER

In 2023, LON had to comply with the capital conservation buffer amounting to 2.50% of the capital requirements and had covered it with Common Equity Tier 1 capital in line with the requirement by the Bank of Slovenia.

### COUNTERCYCLICAL CAPITAL BUFFER

In 2016, the Bank of Slovenia also introduced a countercyclical capital buffer. Its aim is to ensure that a bank has sufficient capital available during the period of loan growth that can be used during periods of stress or under less favourable lending conditions. The value of the buffer that may range between 0.00% and 2.50% of the total risk exposure amount is defined by the Bank of Slovenia taking into account the BCBS (2010) and ESRB (2014) methodology and the assessment of the status of the credit cycle in Slovenia. In 2023, the countercyclical capital buffer was 0.5% and the savings bank had to meet the requirement of the buffer until 31/12/2023.

### SYSTEMIC RISK BUFFER

As at 01/01/2023, the Bank of Slovenia introduced a requirement to maintain the systemic risk

buffer for sectoral exposures in the Republic of Slovenia referred to in the first and second indent of Point 4 of Paragraph 1 of Article 247 of ZBan-3. The Bank of Slovenia lays down the following systemic risk buffer levels for the respective sectoral exposures:

- 1.0% for all retail exposures to individuals collateralised by residential immovable property;
- 0.5% for all other exposures to individuals.

## 03 REMUNERATION POLICY

The remuneration policy takes into account the business strategy of the bank, goals, organisational structure, specific interest of LON and risks. It complies with the applicable legislation, guidelines, decisions of the Bank of Slovenia, and regulations and directives. It clearly defines the criteria and conditions for payment of different remunerations to the LON management and employees that have an important impact on the LON's risk profile. Key function holders who may have a material impact on the risk profile within their tasks and activities: LON Management Board, directors of divisions (B-1), and employees in control functions.

The LON remuneration system is modelled pursuant to ZBan-3, ZGD-1, ZDR-1, the Regulation on Internal Governance Arrangements, the Management Body and the Internal Capital Adequacy Assessment Process for Banks and Savings Bank, Collective agreement of banking activities in Slovenia, Directive 2013/36 (CRD IV), Regulation (EU) No 575/2013, (CRR), Delegated Regulation (EU) No 604/2014, Delegated Regulation (EU) No 572/2013, Commission Delegated Regulation (EU) 2017/565, EBA Guidelines on sound remuneration policies in accordance with Directive 2013/36/EU, EBA Guidelines on comparing the remuneration practices, remuneration gender differences and approved higher ratios in accordance with Directive 2013/36/EU and disclosures made in accordance with Article 450 of Regulation (EU) No 575/2013 (EBA GL) and Remuneration policy.

### 3.1 INFORMATION CONCERNING THE DECISION-MAKING PROCESS USED FOR DETERMINING THE REMUNERATION POLICY, AS WELL AS THE NUMBER OF MEETINGS HELD BY THE MAIN BODY OVERSEEING REMUNERATION DURING THE FINANCIAL YEAR (ARTICLE 450 (1)(A) OF REGULATION (EU) NO 575/2013)

The remuneration policy is gender neutral and takes into account the measures for preventing conflicts of interest, and is adopted by the Management Board and Supervisory Board, while the Rules on the management-by-objectives system and rewarding performance is adopted by the Management Board. The remuneration policy was updated in 2023. The base for the amendment were minor modifications from the regular annual review and certain harmonisations with the EBA Guidelines EBA/GL/2021/04. In drawing up the documents, all organisational units in the field of staff development and organisation, financial controlling, internal audit service, business compliance service and risk management function were included. No external provider worked on developing the remuneration policy.

Within its competences, the LON Supervisory Board adopts and regularly monitors the adequacy of policies and practices associated with remuneration, including the performed self-assessment of implemented remuneration policy. At least once a year, the LON Management provides a comprehensive and independent review of compliance of actual remunerations based on the respective policy (performed by the internal audit) and also once a year, reports on the implementation of the Remuneration policy to the Supervisory Board.

The Remuneration policy is harmonised with the LON's position in the Slovenian banking sector,

business strategy, business plan and values, as well as its internal organisation.

The objectives of the remuneration policy are as follows:

- Motivating and encouraging to achieve or exceed the planned performance;
- Motivating to achieve the best business results possible while providing for the adequate risk management;
- Providing transparency of all types of remuneration.

LON does not have a special remuneration committee established. The Remuneration policy was addressed by the Risk Committee and then also by the Supervisory Board. The composition of committees and scope of activities of the Supervisory Board in 2023 are described in the chapter Report on the work of the Supervisory Board of the business part of the Savings Bank's annual report.

### 3.2 INFORMATION ON LINK BETWEEN PAY AND PERFORMANCE (ARTICLE 450 (1)(B) OF REGULATION NO 575/2013)

The reward scheme (or annual bonus) is closely linked to the performance of individuals, number of candidates eligible to receive bonus and the availability of the predetermined budget. Non-financial and financial objectives are used for monitoring and evaluating performance. The salary of an employee that importantly affects the LON's risk profile is determined with the employment contract and comprises fixed and variable part. The amount of total remuneration of an employee does not materially depend on the variable part of remuneration, but at the same time the variable part is an efficient way to motivate the employee to achieve or exceed the planned work results. The fixed part of the remuneration is a sufficient amount in the total remuneration of an employee allowing LON to implement completely flexible policy of the variable remuneration. The total variable remuneration depends on the achievement of planned results of LON. In the event of poor or negative business performance or negative business result, LON may reduce variable remuneration to the lower threshold or zero, including the agreement on the malus system or reimbursement of funds by taking into account the act governing employment relationships and collective for the sector.

### 3.3 MOST IMPORTANT DESIGN CHARACTERISTICS OF THE REMUNERATION SYSTEM (ARTICLE 450(1)(C) OF REGULATION NO 575/2013)

In specifying the remuneration system and the practices regarding remuneration of individuals, LON takes into account the following principles:

- a remuneration system compatible with prudent and efficient risk management, which also encourages the respective management, whereby it does not promote exposures of risks exceeding the level of tolerable risk for LON;
- a remuneration system is gender neutral;
- remuneration system is in line with the business strategy, objectives, values and long-term interest of LON and includes measures for preventing conflicts of interest;
- functions of internal controls are independent of organisational units they control, and have requisite competence and receive remunerations according to achieved goals associated with their functions, independent of the performance of business areas they control;
- a remuneration system makes a clear distinction between criteria for determining fixed and variable remuneration. The fixed part of remuneration reflects relevant professional experience and responsibilities in LON, as specified in the description of employee tasks that are part of the conditions of employment. The variable part of the remuneration reflects sustainable and

risk adjusted performance and the performance that is higher than expected, as laid down in the description of employee tasks that are part of the conditions of employment.

Pursuant to Article 190(8) of ZBan-3 regarding the use of principle of proportionality in the implementation of remuneration policies, the provisions of Point 3 and 4 and part of Point 9 of Article 190(2) of ZBan-3 relating to the retained payments in the event of the termination of employment or retirement, do not apply to LON.

### 3.4 RATIO BETWEEN FIXED AND VARIABLE REMUNERATION (ARTICLE 450(1)(D) OF REGULATION NO (EU) 575/2013)

In 2023, the remuneration policy governed the following fields: fixed remuneration of the members of the Supervisory Board, fixed and variable remuneration of the Management Board, and the fixed and variable remuneration of individuals having a material effect on the risk profile of the Savings Bank. The payment of the variable part of the remuneration to employees who have a material impact on the risk profile of the Savings Bank through their tasks, is carried out if eligible given the financial situation of the Savings Bank and justified by the results of the Savings Bank, individual organisational unit and individual employee (in accordance with the general principles of the Remuneration policy).

In 2023, the group of employees having a material impact on the risk profile comprised all directors of divisions, head of Internal Audit Service, business compliance officer, information security officer and money laundering and terrorist financing prevention officer. At the end of 2023, there were 9 people among the employees having a material impact on the risk profile of the Savings Bank.

The remuneration of the Supervisory Board members is fixed and comprises annual compensation for performing function of the Supervisory Board member and expenses for meetings of the Supervisory Board and its committees. The amount of annual compensations and meeting expenses as well as the method of their payment are determined by the General Meeting.

The amount of remuneration received by the Management Board members is specified in an individual agreement concluded by the Supervisory Board with both members of the Management Board, and consists of the fixed and the variable part, and other benefits. It is based on the system of a long-term performance of the Savings Bank. The fixed part is determined as multiple of an average gross salary in Slovenia, while the variable part depends on the performance of the Savings Bank as well as on an individual assessment of performance of the Management Board members made by the Supervisory Board, and is capped. The variable part of remuneration of the Management Board members complies with the application of the principle of proportionality, while in case of any amount exceeding EUR 50,000 gross per year or if the variable remuneration exceeds more than a third of the total annual remuneration of a Management Board member, the legislation stipulates the deferral of payment.

The basis for rewarding employees employed under the collective agreement are internal acts of the Savings Bank that lay down the criteria for assessing the performance of employees. In 2023, the employees not included in the group of employees having a material impact on the risk profile of the Savings Bank received reward for work and business performance in line with the Rules on the management-by-objectives system and rewarding employee performance laying down the conditions to for granting the reward and criteria for determining its amount. In its Annual Report, the Savings Bank did not disclose other information on the performance

criteria, on which the right to shares and options is based, since it did not apply these criteria in 2023 for any employee category.

The Remuneration policy makes a clear distinction between the criteria for determining:

- the fixed remuneration that must reflect, in particular, relevant professional experience and responsibilities in LON, as specified in the description of employee tasks that are part of the conditions of employment;
- the variable part of the remuneration that must reflect sustainable and risk adjusted performance and the performance that is higher than expected, as laid down in the description of employee tasks that are part of the conditions of employment.

The variable part of remuneration is based on the combination of the assessment of the performance of the individual, their business/organisational unit and the general business result of LON. The variable remuneration of functions of internal control having a material impact on the LON's risk profile shall not exceed 50 per cent of the fixed part of remuneration of the respective individual. The variable remuneration of each individual shall not exceed 100 per cent of the fixed remuneration of the respective individual.

Variable remunerations, including the deferred portion, shall be paid or mature only:

- if they are sustainable according to the financial situation of LON as a whole and according to the risks to which LON is exposed; and
- if they are justified by the performance of LON, organisational unit of LON or individual.

The condition referred to in the first indent is assumed to be met, if the planned objectives (indicator, category) of the performance of LON as a whole are achieved. Otherwise, the Supervisory Board assesses whether the condition of sustainability is nevertheless met and the variable remuneration can be determined and paid.

The criteria for measuring performance are established in advance, i.e. at the start of the financial year for the current financial year, and are harmonised with the responsibilities of an individual employee, risks and capital requirements.

The criteria for measuring performance of the Management Board are defined and confirmed by the Supervisory Board, which also specifies the variable part of remuneration for the Management Board. For other employees having a material impact on the LON's risk profile, the criteria for measuring performance are laid down by the Management Board, which also determines the amount of the variable remuneration that depends on the assessment of the performance in achieving goals of each individual.

The performance of employees in control functions is measured primarily on goals specific to their function and tasks.

Organisational units responsible for individual fields prepare a basis for the Supervisory Board and the Management Board, which draws up a joint assessment of performance for all employees in line with the objectives set.

The variable part of remuneration of employees that have individual employment contracts signed (directors of divisions and control functions) is determined by the Management Board based on the assessment of performance in achieving individual annual objectives of an individual, measurable annual goals of an organisational unit and the performance of LON as a whole, and is calculated for each individual in accordance with the achievement of goals set. Two organisational units responsible for HR and financial controlling draw up bases for the Management Board that makes a joint assessment of performance in the past year in accordance with the criteria specified in the Agreement on the goals for the variable part of the salary. If it is established in measurable performance criteria (measurable criteria of organisational units and the criteria of business performance of LON as a whole) that their values have been significantly

affected by single, extraordinary and unforeseen factors, the Supervisory Board of LON, on a proposal of the LON Management Board, may propose the impacts of these factors on the performance assessment to be excluded. This impact must not be more than 50% of the fixed part of the salary.

The organisational units responsible for HR and financial controlling prepare bases for the Supervisory Board regarding the criteria of performance of the Management Board members, and the Supervisory Board makes an overall assessment of performance for the president and the member of the LON Management Board in the previous year, in accordance with the criteria laid down in the Agreement on the goals for the variable part of the salary. The function of risk management and the function of business compliance prepare separate opinions. The overall assessment of performance of the president and the member of the Management Board is prepared and confirmed by the Supervisory Board. The variable part of remuneration is determined on the basis of the calculated overall assessment of performance for the president and the member of the Management Board. If it is established in measurable performance criteria (measurable criteria of organisational units and the criteria of business performance of LON as a whole) that their values have been significantly affected by single, extraordinary and unforeseen factors, the Supervisory Board of LON, on a proposal of the LON Management Board, may propose the impacts of these factors on the performance assessment to be excluded. This impact must not be more than 50% of the fixed part of the salary.

Other non-monetary benefits received by some employees whose professional activities have material impact on the Bank's risk profile refer to the benefits agreed in the employment contract.

Other benefits that may be determined include:

- use of company vehicle of premium class for official and private purposes;
- the accommodation if the place of residence is more than an hour and a half drive away in one direction, whereby the monthly rent including costs must not exceed a specified amount;
- preventive medical check-up once a year, in accordance with the risk assessment, whereby the costs of check-up must not exceed a specified amount;
- payment of the premium for the collective liability insurance of the members of the Management Board and the Supervisory Board;
- payment of the premium for the supplementary pension according to the scheme and with the insurance company that applies to all LON employees;
- other training not related to the operation of the employer, whereby it is approved by the Supervisory Board in advance;
- payment of the membership fee in professional associations;

### **3.5 AGGREGATE QUANTITATIVE INFORMATION ON REMUNERATION, BROKEN DOWN BY SENIOR MANAGEMENT AND MEMBERS OF STAFF WHOSE ACTIONS HAVE A MATERIAL IMPACT ON THE RISK PROFILE OF THE BANK AND THE TOTAL REMUNERATION FOR EACH MEMBER OF THE MANAGEMENT BODY OR SENIOR MANAGEMENT (ARTICLE 450(H AND J) OF REGULATION EU, NO. 575/2013)**

#### **REMUNERATION AWARDED FOR THE FINANCIAL YEAR**

The template EU REM1 below shows LON's remuneration awarded for the financial year 2023

		A	B	C	D	
		MB SUPERVISORY FUNCTION	MB MANAGEMENT FUNCTION	OTHER SENIOR MANAGEMENT	OTHER IDENTIFIED STAFF WHOSE PROFESSIONAL ACTIVITIES HAVE A MATERIAL IMPACT ON AN INSTITUTION'S RISK PROFILE	
1	Fixed emoluments	<b>Number of identified staff</b>	5	2	5	
2		<b>Total fixed remuneration</b>	101	393	436	230
3		of which: cash-based	101	393	436	230
4		(not applicable in the EU)				
EU-4a		of which: shares or equivalent ownership interests	0	0	0	0
5		of which: share-linked instruments or equivalent non-cash instruments	0	0	0	0
EU-5x		of which: other instruments	0	0	0	0
6		(not applicable in the EU)				
7	of which: other forms	0	0	0	0	
8	(not applicable in the EU)					
9	Variable remuneration	<b>Number of identified staff</b>	5	2	5	4
10		<b>Total variable remuneration</b>	0	102	94	24
11		of which: cash-based	0	102	94	24
12		of which: deferred	0	0	0	0
EU-13a		of which: shares or equivalent ownership interests	0	0	0	0
EU-14a		of which: deferred	0	0	0	0
EU-13b		of which: share-linked instruments or equivalent non-cash instruments	0	0	0	0
EU-14b		of which: deferred	0	0	0	0
EU-14x		of which: other instruments	0	0	0	0
EU-14y	of which: deferred	0	0	0	0	
15	of which: other forms	0	0	0	0	
16	of which: deferred	0	0	0	0	
17	<b>Total remuneration (2+10)</b>	98	495	530	254	

## SPECIAL PAYMENTS TO STAFF WHOSE PROFESSIONAL ACTIVITIES HAVE A MATERIAL IMPACT ON LON' RISK PROFILE (IDENTIFIED STAFF)

The template **EU REM2** below shows payments of staff whose professional activities have a material impact on LON' risk profile, for the financial year 2023

		A	B	C	D
		MB SUPERVISORY FUNCTION	MB MANAGEMENT FUNCTION	OTHER SENIOR MANAGEMENT	OTHER IDENTIFIED STAFF WHOSE PROFESSIONAL ACTIVITIES HAVE A MATERIAL IMPACT ON AN INSTITUTION'S RISK PROFILE
	Guaranteed variable remuneration awards	0	0		0
1	Guaranteed variable remuneration awards - Number of identified staff	0	0	0	0
2	Guaranteed variable remuneration awards – Total amount	0	0	0	0
3	Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	0	0	0	0
	Severance payments awarded in previous periods, that have been paid out during the financial year	0	0	0	0
4	Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff	0	0	0	0
5	Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount	0	0	0	0
	Severance payments awarded during the financial year	0	0	0	0
6	Severance payments awarded during the financial year - Number of identified staff	0	0	0	0
7	Severance payments awarded during the financial year - Total amount	0	0	0	0
8	Of which paid during the financial year	0	0	0	0
9	Of which deferred	0	0	0	0
10	Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	0	0	0	0
11	Of which highest payment that has been awarded to a single person	0	0	0	0

All templates above are not disclosed remuneration since no special payments were received in 2023.

## DEFERRED REMUNERATION

The template **EU REM3** below shows deferred remuneration of staff whose professional activities have a material impact on LON's risk profile for the financial year 2023.

	a	b	c	d	e	f	EU-g	EU-h
Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e. changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
1	MB Supervisory function	0	0	0	0	0	0	0
2	Cash-based	0	0	0	0	0	0	0
3	Shares or equivalent ownership interests	0	0	0	0	0	0	0
4	Share-linked instruments or equivalent non-cash instruments	0	0	0	0	0	0	0
5	Other instruments	0	0	0	0	0	0	0
6	Other forms	0	0	0	0	0	0	0
7	MB Management function	0	0	0	0	0	0	0
8	Cash-based	0	0	0	0	0	0	0
9	Shares or equivalent ownership interests	0	0	0	0	0	0	0
10	Share-linked instruments or equivalent non-cash instruments	0	0	0	0	0	0	0
11	Other instruments	0	0	0	0	0	0	0
12	Other forms	0	0	0	0	0	0	0
13	Other senior management	0	0	0	0	0	0	0

14	Cash-based	0	0	0	0	0	0	0
15	Shares or equivalent ownership interests	0	0	0	0	0	0	0
16	Share-linked instruments or equivalent non-cash instruments	0	0	0	0	0	0	0
17	Other instruments	0	0	0	0	0	0	0
18	Other forms	0	0	0	0	0	0	0
19	Other identified staff whose professional activities have a material impact on an institution's risk profile	0	0	0	0	0	0	0
20	Cash-based	0	0	0	0	0	0	0
21	Shares or equivalent ownership interests	0	0	0	0	0	0	0
22	Share-linked instruments or equivalent non-cash instruments	0	0	0	0	0	0	0
23	Other instruments	0	0	0	0	0	0	0
24	Other forms	0	0	0	0	0	0	0
25	Total amount	0	0	0	0	0	0	0



### 3.6 THE NUMBER OF INDIVIDUALS BEING REMUNERATED EUR 1 MILLION OR MORE PER FINANCIAL YEAR, FOR REMUNERATION BETWEEN EUR 1 MILLION AND EUR 5 MILLION BROKEN DOWN INTO PAY BANDS OF EUR 500 000 AND FOR REMUNERATION OF EUR 5 MILLION AND ABOVE BROKEN DOWN INTO PAY BANDS OF EUR 1 MILLION (ARTICLE 450 (1)(I) OF THE REGULATION EU NO. 575/2013)

No individual was remunerated more than EUR 1 million.

## 04 OTHER DISCLOSURES IN ACCORDANCE WITH THE CRR

LON is obliged to make disclosures in accordance with the eighth part of the Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26/06/2013 on prudential requirements for credit institutions and investment firms (hereinafter referred to as: CRR Regulation).

Disclosures are material information that, if omitted or wrongly indicated, would change or affect the assessment or decision by the user using the information to monitor business decisions. Information required under the CRR are disclosed in different parts of the annual report. Material information relating to the risk is disclosed already in the Risk Management chapter. Information required under IFRS and other regulations is included in the Management Report, the Financial Report or the Risk Management Report. Disclosures in the annual report have been also verified and certified by an independent auditor.

LON has a status of small and non-complex bank. In accordance with the amendment of the CRR, which entered into force as at 28/06/2021, small and non-complex banks not listed on a regulated market in the EU are bound only to the disclosure of key metrics (Article 447), namely once a year (Article 433b, Point 2), under the CRR. The substance and form of these disclosures are laid down in the ITS for disclosures (Commission Implementing Regulation (EU) 2021/367).

LON also discloses information in accordance with the guidelines, which amend the EBA/GL/2018/01 on uniform disclosures under Article 473a of Regulation (EU), No. 575/2013 (CRR) as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds to provide for the compliance with a “quick fix” amendment of CRR in response to the outbreak of the COVID-19 pandemic.

The link between the disclosures required under the CRR and the presented content of the annual report is given in the table below.

ARTICLE	REQUIRED DISCLOSURE	CHAPTER IN THE ANNUAL REPORT <sup>4</sup>	PRESCRIBED TEMPLATE
435.1.	Disclosure of risk management objectives and policies		EU OVA from Annex III
	A.Strategies and processes to manage risks	RP 7.	
	F. Declaration approved by the management body on the adequacy of risk management arrangements of the institution	RP 7.	

<sup>4</sup> FP – Financial report

G. A concise risk statement approved by the management body succinctly describing the institution's overall risk profile associated with the business strategy; the statement includes:

- key indicators and data that provide external stakeholders with a comprehensive overview of how the institution manages risks, and also disclose how the institution's risk profile is related to the level of acceptable risk set by the management body;
- information on intra-group transactions and transactions with related parties that could have a material impact on the risk profile of the consolidated group

RP 7.

438	Disclosure of own funds requirements and risk weighted exposure amounts		EU OV1 from Annex I
	D. Total risk weighted exposure amount and the corresponding overall capital requirements	CRR 1.7.	
447	Disclosure of key metrics	CRR 4.1.	EU KM1 from Annex I
450.1.	Remuneration policy		
	A. Information concerning the decision-making process used for determining the remuneration policy	CRR 3.1.	EU REMA from Annex XXXIII
	B. Information on the link between pay and performance	CRR 3.2.	EU REMA from Annex XXXIII
	C. The most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, the deferral policy and vesting criteria	CRR 3.3.	EU REMA from Annex XXXIII
	D. The ratios between fixed and variable remuneration	CRR 3.4.	EU REMA from Annex XXXIII
	H. Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the bank	CRR 3.5.	EU REM1,2,3 from Annex XXXIII

	I. The number of individuals being remunerated EUR 1 million or more per financial year, for remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500,000 and for remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million	CRR 3.5.	EU REM4 and EU REM5 from Annex XXXIII
	J. The total remuneration for each member of the management body or senior management	CRR 3.6.	EU REMA from Annex XXXIII
468	Temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income in view of the COVID-19 pandemic	CRR 4.2.	n.a.
473a	Introduction of IFRS 9	CRR 4.3.	Quantitative proposals

## 4.1 DISCLOSURE OF KEY METRICS

Institutions are obliged to disclose information referred to in Article 447(a) through (g) and Article 438(b) of the Regulation (EU) No. 575/2013 by using EU KM1 template from Annex I to ITS.

	IN EUR '000	31/12/2023	31/12/2022
AVAILABLE CAPITAL (AMOUNTS)			
1	Common Equity Tier 1 capital	23,528	18,599
2	Tier 1 capital	23,528	18,599
3	Capital in total	25,645	20,815
RISK WEIGHTED EXPOSURE AMOUNTS			
4	Total risk exposure amount	128,929	121,597
CAPITAL RATIOS (AS A PERCENTAGE OF THE RISK WEIGHTED EXPOSURE AMOUNT)			
5	Common Equity Tier 1 capital ratio (%)	18.25%	15.30%
6	Tier 1 capital ratio (%)	18.25%	15.30%
7	Total capital ratio (%)	19.89%	17.12%
ADDITIONAL OWN FUNDS REQUIREMENTS TO ADDRESS RISKS OTHER THAN THE RISK OF EXCESSIVE LEVERAGE (AS A PERCENTAGE OF RISK-WEIGHTED EXPOSURE AMOUNT)			
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	3.75%	3.75%
EU 7b	of which: to be made up of CET1 capital (percentage points)	2.81%	2.81%

EU 7c	of which: to be made up of Tier 1 capital (percentage points)	2.11%	2.11%
EU 7d	Total SREP own funds requirements (%)	11.75%	11.75%
COMBINED BUFFER AND OVERALL CAPITAL REQUIREMENT (AS A PERCENTAGE OF RISK-WEIGHTED EXPOSURE AMOUNT)			
8	Capital conservation buffer (%)	2.5%	2.5%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0.5%	0%
9	Institution specific countercyclical capital buffer (%)	0.28%	0%
EU 9a	Systemic risk buffer (%)	0	0%
10	Global Systemically Important Institution buffer (%)	0	0%
EU 10a	Other Systemically Important Institution buffer (%)	0	0%
11	Combined buffer requirement (%)	3.28%	2.5%
EU 11a	Overall capital requirements (%)	15.03%	14.25%
12	CET1 available after meeting the total SREP own funds requirements (%)	6.50%	3.55%
LEVERAGE RATIO			
13	Total exposure measure	359,228	332,355
14	Leverage ratio (%)	6.55%	5.59%
ADDITIONAL OWN FUNDS REQUIREMENTS TO ADDRESS THE RISK OF EXCESSIVE LEVERAGE (AS A PERCENTAGE OF TOTAL EXPOSURE MEASURE)			
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	0%	0%
EU 14b	of which: to be made up of CET1 capital (percentage points)	0%	0%
EU 14c	Total SREP leverage ratio requirements (%)	0%	0%
LEVERAGE RATIO BUFFER AND OVERALL LEVERAGE RATIO REQUIREMENT (AS A PERCENTAGE OF TOTAL EXPOSURE MEASURE)			
EU 14d	Leverage ratio buffer requirement (%)	3%	3%
EU 14e	Overall leverage ratio requirement (%)	3%	3%
LIQUIDITY COVERAGE RATIO			
15	Total high-quality liquid assets (HQLA) (weighted value – average)	141,423	118,497

EU 16a	Cash outflows - Total weighted value	43,597	36,042
EU 16b	Cash outflows - Total weighted value	1,033	1,049
16	Total net cash outflows (adjusted value)	42,564	34,993
17	Liquidity coverage ratio (%)	332%	339%
NET STABLE FUNDING RATIO			
18	Total available stable funding	287,982	280,025
19	Total required stable funding	125,235	136,544
20	NSFR ratio	230%	205%

#### 4.2 DISCLOSURE IN ACCORDANCE WITH ARTICLE 468 OF THE REGULATION (EU) NO 575/2013 (CRR) AS REGARDS TRANSITIONAL ARRANGEMENTS FOR MITIGATING THE IMPACT OF THE INTRODUCTION OF IFRS 9 ON OWN FUNDS TO PROVIDE FOR THE COMPLIANCE WITH A “QUICK FIX” AMENDMENT OF CRR IN RESPONSE TO THE OUTBREAK OF THE COVID-19 PANDEMIC

LON decided not to apply the temporary treatment referred to in Article 468 of the CRR regulation, because it estimated, given the circumstances at that time, that adequate stability in the calculation of own funds and capital adequacy was provided despite the COVID-related situation.

#### 4.3 DISCLOSURE IN ACCORDANCE WITH ARTICLE 473A OF THE REGULATION (EU) NO 575/2013 (CRR) AS REGARDS TRANSITIONAL ARRANGEMENTS FOR MITIGATING THE IMPACT OF THE INTRODUCTION OF IFRS 9 ON OWN FUNDS TO PROVIDE FOR THE COMPLIANCE WITH A “QUICK FIX” AMENDMENT OF CRR IN RESPONSE TO THE OUTBREAK OF THE COVID-19 PANDEMIC.

LON applied with the Bank of Slovenia for permission to avail itself of transitional arrangements, namely only dynamic component, which was granted by decision of 26/11/2020. Under Article 473a(9) of the Regulation (EU) No. 575/2013 and taking into account all submitted information and evidence, the Bank of Slovenia made a decision and issued LON a permission that the transitional arrangement referred to in Article 473a of the Regulation (EU), No. 575/2013 applies from 31/12/2020 until the end of the transitional period referred to in Article 473a(6a) of the Regulation (EU), No. 575/2013, namely 31/12/2024.

LON explains that the use of the transitional arrangement improves the capital adequacy ratio of LON. In accordance with IFRS 9, the value adjustments and provisions for credit exposure losses from Group 1 and 2 shall be calculated by taking into account macroeconomic projections, and that may be, in particular during times of expressed uncertainty, very changeable and

pro-cyclical, and for this reason the application of the transitional arrangement referred to in Article 473a of the Regulation (EU), No. 575/2013 enables LON to exclude from its CET1 capital a part of additional volatility due to the application of IFRS 9, namely from 2020 until the end of 31/12/2024, when the transitional arrangement referred to in Article 473a of the Regulation (EU), No 575/2013 ceases to apply.

Upon its transition to IFRS 9, LON removed impairments and provisions in Group 1 and 2. In accordance with the provisions laid down in the second paragraph of Article 473a, the static component for LON was 0. For this reason, the application of the transitional arrangement was completely identical with the application of only dynamic component.

In calculating requirements under CRR and CRD/ZBan-3, LON uses a simplified calculation provided by the discretion from Paragraph 7a of Article 7a of the CRR.

LON started to use the transitional arrangement on 31/12/2020.

The table below shows a comparison of institutions' own fund, CET1 capital, Tier 1 capital, Common Equity Tier 1 capital ratio, Tier 1 capital ratio, Total capital ratio, and leverage ratio with and without the use of temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income, due to COVID-19 pandemic in accordance with Article 473a of the CRR.

	AVAILABLE CAPITAL (AMOUNTS)	31/12/2023	31/12/2022
1	COMMON EQUITY TIER 1 CAPITAL	23,528	18,599
2	Common Equity Tier 1 capital without using IFRS 9 transitional arrangements or comparable ECL approaches	23,435	18,265
2a	Common Equity Tier 1 capital without using temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income, in accordance with Article 468 of the CRR	23,528	18,599
3	Tier 1 capital	23,528	18,599
4	Tier 1 capital without using IFRS 9 transitional arrangements or comparable ECL approaches	23,435	18,265
4a	Tier 1 capital without using temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income, in accordance with Article 468 of the CRR	23,528	18,599
5	Capital in total	25,645	20,815
6	Total capital without using IFRS 9 transitional arrangements or comparable ECL approaches	25,552	20,482

6a	Total capital without using temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income, in accordance with Article 468 of the CRR	25,645	20,815
<b>TRISK WEIGHTED ASSETS (AMOUNTS)</b>			
7	Total risk exposure	128,929	121,597
8	Total exposure without using IFRS 9 transitional arrangements or comparable ECL approaches	128,837	121,264
<b>CAPITAL RATIOS</b>			
9	Common Equity Tier 1 capital expressed as a percentage of the risk exposure amount	0.1825	0.1530
10	Common Equity Tier 1 capital expressed as a percentage of the risk exposure amount, without using IFRS 9 transitional arrangements or comparable ECL approaches	0.1819	0.1506
10a	Common Equity Tier 1 capital expressed as a percentage of the risk exposure amount, without using temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income, in accordance with Article 468 of the CRR	0.1825	0.1530
11	Tier 1 capital expressed as a percentage of the risk exposure amount	0.1825	0.1530
12	Tier 1 capital expressed as a percentage of the risk exposure amount, without using IFRS 9 transitional arrangements or comparable ECL approaches	0.1819	0.1506
12a	Tier 1 capital expressed as a percentage of the risk exposure amount, without using temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income, in accordance with Article 468 of the CRR	0.1825	0.1530
13	Total capital expressed as a percentage of the risk exposure amount	0.1989	0.1712
14	Total capital expressed as a percentage of the risk exposure amount, without using IFRS 9 transitional arrangements or comparable ECL approaches	0.1983	0.1689

14a	Total capital expressed as a percentage of the risk exposure amount, without using temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income, in accordance with Article 468 of the CRR Leverage ratio	0.1989	0.1712
<b>LEVERAGE RATIO</b>			
15	Calculation of the leverage ratio total exposure measure	359,228	332,355
16	Leverage ratio	0.0655	0.0559
17	Leverage ratio without using IFRS 9 transitional arrangements or comparable ECL approaches	0.0653	0.0550
17a	Leverage ratio without using temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income, in accordance with Article 468 of the CRR	0.0655	0.0559

# 07

## LIST OF ABBREVIATIONS

### LEGAL ACTS APPLIED

- CRR – Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms
- CRD IV – Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms
- ZBan-3 – Banking Act (Of the Republic of Slovenia, No. 92/21 and 123/21 – ZBNIP)
- ITS – Commission Implementing Regulation (EU) 2021/637)
- ZGD-1 – Companies Act (Official Gazette of the Republic of Slovenia, No. 65/09 – official consolidates text, 33/11, 91/11, 32/12, 57/12, 44/13 – decision of the Constitutional Court, 82/13, 55/15, 15/17, 22/19 – ZPosS, 158/20 – ZIntPK-C and 18/21)
- ZPPDFT – Prevention of Money Laundering and Terrorist Financing Act (Official Gazette of the Republic of Slovenia, No. 68/16, 81/19, 91/20 and 2/21 – corr.)
- IFRS – International Financial Reporting Standards
- IAS – International Accounting Standards
- ZTFI – Market in Financial Instruments Act (Official Gazette of the Republic of Slovenia Nos 108/10, 78/11, 55/12, 30/16, 9/17, 77/18 – ZTFI-1, 66/19 – ZTFI-1A and 123/21 – ZTFI-1B))

### OTHER REGULATIONS USED

- Regulation on Internal Governance Arrangements, the Management body and the Internal Capital Adequacy Assessment Process for Banks and Savings banks (Official Gazette of the Republic of Slovenia 115/2021)

### OTHER ABBREVIATIONS USED

- ECB– European Central Bank
- PMLFT – Prevention of Money Laundering and Terrorist Financing
- CRS – Common Reporting Standard
- ICAAP – The Internal Capital Adequacy Assessment Process
- ILAAP – The Internal Liquidity Adequacy Assessment Process
- SREP – Supervisory Review and Evaluation Process
- IRRBB – Interest Rate Risk for Banking Book
- RS – Republic of Slovenia
- KDD – Klirinško depotna družba d.d.
- SBS – Slovenian Banking Sector
- IMAD – Institute of Macroeconomics Analysis and Development
- SEPA – Single Euro Payments Area
- SNR – Internal Audit Service
- SPPI-test – solely payments of principal and interests
- ECL – expected credit loss
- PD – Probability of Default
- LGD – Loss Given Default
- EAD – Exposure at Default
- CCF – Credit Conversion Factor
- EIR – Effective interest rate
- IR – Interest rate
- IS – Income Statement
- ICI – Statement of Comprehensive Income

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