



Annual report 2019

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I. General information for SKB Group

Number of employees - 910	Number of customers - 242,547 SKB Bank - 201,101 SKB Leasing Group - 41,446	Number of outlets - 53
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Evolution of SKB Group's balance sheet main items

in million EUR	2019	2018	
Balance sheet	3,385.6	3,313.9	2.2 %
Loans to customers*	2,505.8	2,440.3	2.7 %
Customers' deposits	2,662.5	2,499.0	6.5 %
Equity	365.5	356.5	2.5 %
Capital adequacy ratio	12.3 %	12.7 %	-36 bp

Key results and indicators of SKB Group's performance

in million EUR	2019	2018	
Net banking income	124.1	121.2	2.3 %
Overhead expenses	-59.5	-60.4	-1.5 %
Operating profit	64.6	60.9	6.1 %
Provisions and impairments	2.0	9.5	-79.1 %
Net profit	54.1	57.6	-6.0 %
ROE	14.8 %	16.6 %	-179 bp
Cost/Income ratio	47.9 %	49.8 %	-186 bp

Key result drivers

Individual clients' activity indicators	Δ in %	Dec. 2019	Corporate clients' activity indicators	Δ in %	Dec. 2019
• Number of accounts	0.5 %	174,280	• Number of accounts	0.2 %	17,846
• - Number of accounts with regular payment	1.7 %	128,764	• Number of E-banking users	1.0 %	16,777
• Number of E-banking users	7.3 %	120,537	• Number of Moj@SKB users	57.6 %	6,065
• Number of Moj@SKB users	31.4 %	72,554	• Number of domestic payment transactions	1.2 %	13,934,530
• Number of cards	2.2 %	224,524	• Number of international payment transactions	10.4 %	1,076,945
• Volume of loans	4.0 %	1,166.7 M EUR	• Volume of loans	1.8 %	851.7 M EUR
• - Housing loans	4.6 %	894.6 M EUR	• - Loans without state	0.1 %	780.6 M EUR
• Volume of leasing	3.1 %	251.3 M EUR	• Volume of leasing	-0.9 %	236.0 M EUR
• Volume of deposits	5.7 %	1,717.7 M EUR	• Volume of deposits	8.0 %	944.9 M EUR

* Includes loans to customers measured at amortised cost and loans to customers measured at fair value.

Major business events

The year 2019 has been very dynamic for SKB Bank. We encountered numerous challenges and changes, which we handled successfully and with work and expertise we helped to build the future of the bank and our clients. The end of the year presented a big turning point for SKB Bank as we entered the year with a new owner, OTP Bank. The name remains the same, however we changed the colours and the logo of the company. We offered new products and solutions to our clients also in the year 2019 and we simultaneously ensured a high level of quality of the existing services. We have been continuously creating good business relations, which are based on mutual understanding and trust.

We aim to provide our clients with the best user experience, therefore we upgraded the MOJ@SKB mobile bank in 2019. We offered new functionalities, such as a draft of the payment slip, quick balance overview without having to login into the application and safety features upgrade of the application.

We are aware that our clients come first, so we expanded our product portfolio. Namely, since May 2019 packages of daily banking operations are at clients' disposal. They can choose among three packages: Moj S, Moj M and Moj L package, which vary based on the products the client wants to use for daily banking operations. Furthermore, we optimized and simplified documentation for customers, which now requires only one signature for all daily banking services.

In the youth segment, last year we continued our successful cooperation with e-Študentski servis ŠS d.o.o. (hereinafter "e-ŠS") and Nomago. In 2019, we also agreed with the e-ŠS, to participate in the form of a recommendation for opening accounts with SKB partner bank. By achieving that, students are eligible for faster transfer of earnings and other e-ŠS program bonuses. The main product of collaboration with Nomago is the SKB ISIC Visa partner product, which combines its debit cards with the benefits of an ISIC card and thus offers users an additional discount in Slovenia and abroad.

Our regular offer of savings and investment products now also includes Moorea Fund investment funds, which offers the possibility of quality savings plan with monthly pay-ins or an one-time payment and a complete dispersion of investments. We provide professional banking support to our clients in the field of the refinement of their assets. We design an attractive offer for them and give them access to exclusive investment products and services. A customer-centric approach puts Private Banking clients in the centre of our world, covering many financial situations - from day-to-day banking needs to investment advisory services.

The introduction of the Bank of Slovenia's tightening measures in the area of household lending resulted in adequate reaction and adjustment of the SKB Bank. Therefore, we continue to offer our clients loans on competitive terms and help them in calculating the appropriate creditworthiness of the borrower and the amount of the loan.

In 2019, for the eighth time in nine years, SKB Bank won the award »Bank of the Year« in Slovenia, presented by the internationally recognised The Banker magazine, and the award »Best Bank of 2019 in Slovenia«, presented by the Global Finance magazine.

In 2019 we also organised events for clients in order to thank them for their trust. Furthermore, we participated in some professional events to show support and use the opportunity for networking.

During the last year, we were active in projects we supported as a sponsor and continued to develop the movement #Vztrajam, ambassadors of sport, and invested in sustainable development. With our urban beehive brought the nature to the city for a few years now, as we want to be socially responsible and thus successfully operate in the environment, in which we work and do business.



Presentation of the SKB Group

SKB Group

The SKB Group consists of SKB Bank and the SKB Leasing Group, to which SKB Leasing and SKB Leasing Select belong.

SKB is a development-oriented universal bank providing comprehensive and diverse banking services through various sales channels, including 53 branches across Slovenia, and through modern banking channels - such as electronic, telephone and mobile banking, ATM network, payment and credit cards. SKB, as a retail and small, medium and large business bank, offers a wide range of financial services but does not trade financial instruments for its own account.

SKB Leasing and SKB Leasing Select upgrade banking services with leasing products. SKB Leasing and SKB Leasing Select offer all leasing products to individuals and companies except real estate leasing through a network of branch offices located in all major regional centres throughout Slovenia and with the help of their sales representatives. SKB Leasing, SKB Leasing Select and SKB take advantage of all possible synergies.

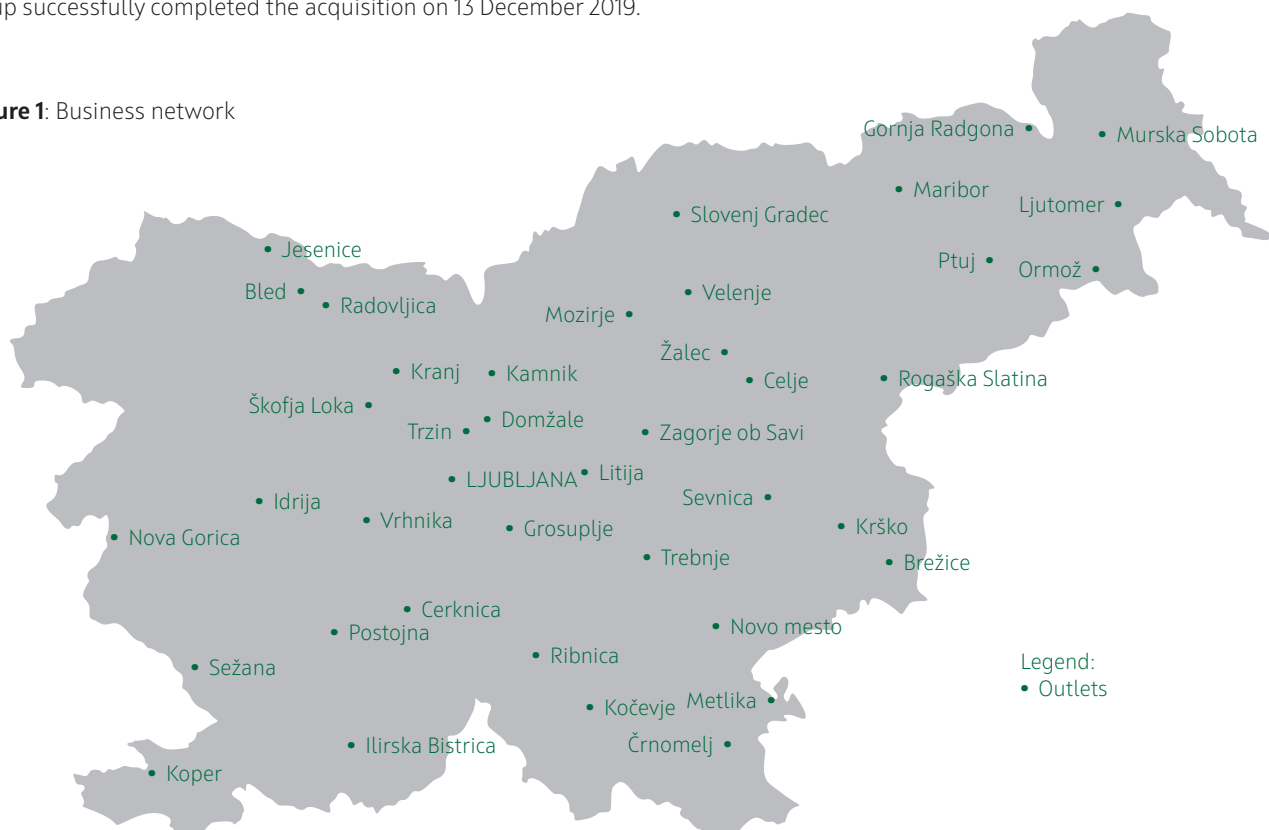
We conduct business in accordance with our key values: team spirit, responsibility, innovation and commitment. We believe this is the base for an encouraging business environment and healthy long-term business relationships. We offer a wide selection of highly competitive products and quality services. Our bank excels in modern approach, innovation and efficient response to our clients' expectations and market changes. Client-friendly bank is created by adjusting bank services to customer needs and desires. We believe that individuals, who move the world, lead everyone into better future, therefore we are developing a lasting relationship with them; a relationship that is based on mutual trust and finding the best and safest solutions.

At SKB, we pay special attention to forming comprehensive and long-term business relationship with our customers. The quality of our services, based on excellent execution and expert advice, is improved by quick response to wishes and needs of our customers, as well as by constantly seeking the optimal location of our banking network on the business map of Slovenia. This allows us to meet the financial needs of existing customers, while attracting new individuals, sole proprietors and small and medium-sized businesses. For each customer segment, we have products specifically tailored for them, with appropriate sales approaches and orientations. As we develop each individual offering, we strive to create a useful banking product for a wider range of customers and to introduce a standardized approach.

Savings products are upgraded with investment products Amundi and Moorea, enabling customers to make choices across a wide range of investment opportunities. In cooperation with insurance companies, we also offer a wide range of insurance and investment products to SKB clients.

On 2 May 2019, the Société Générale Group signed an agreement to sell SKB Group to Hungarian OTP Group. As a part of the SKB Group, SKB Leasing and SKB Leasing Select were also subject of sale agreement, while the Société Générale Group remains present in Slovenia with ALD Automotive. With the approval from the Bank of Slovenia, European Central Bank and the competent antitrust authorities OTP Group successfully completed the acquisition on 13 December 2019.

Picture 1: Business network



OTP Group

The OTP Group is one of the largest independent financial service providers in Central and Eastern Europe, with a comprehensive range of banking services for individuals and legal entities. With the entry into the Slovenian market, the OTP Group is now present in 12 countries in the region.

With more than 39,000 employees, the OTP Group provides services to more than 18.8 million customers and has a network of nearly 1,700 branches. OTP bank is the largest commercial bank in Hungary with a 28 % market share.

The Group's market capitalization in September 2019 was approximately 12 billion EUR and total assets were approximately 56.7 billion EUR. The 21 % return on equity is one of the highest among European banking groups.

The OTP Group comprises a number of subsidiaries that provide services in the fields of insurance, real estate, debt repayment, leasing, asset management, investment funds and pension funds.

OTP Group currently operates in Albania (Banka OTP Albania), Bulgaria (DSK Bank, Expressbank), Croatia (OTP banka Hrvatska), Romania (OTP Bank Romania), Serbia (Vojvodanska banka), Ukraine (CJSC OTP Bank), Russia (OAO OTP Bank), Moldova (Mobiasbanca), Montenegro (Crnogorska komercijalna banka, Podgoricka banka) and Slovenia (SKB banka) via its subsidiaries.



II. Statement by Chief Executive Officer



The year 2019 was a turning point for SKB Group. After 18 years of Société Générale's ownership, the acquisition process was successfully completed at the end of the year, whereby the Hungarian bank OTP became 99.73 % owner of SKB. This is the first OTP investment in Slovenia by which OTP continues to strengthen its position as the largest independent financial group in the Central and Eastern Europe.

Despite the competitive environment and the growing demands coming from legislators and regulators, SKB Group's performance has been successful and proved that its business model is sustainable and profitable in the long run. At the end of the year, SKB Group achieved the profit of 54,1 million EUR. The cost-to-income ratio was 47,9 % and return on equity reached 14,8 %.

With a 8,16 % market share and more than 200.000 customers, SKB banka is positioned as the fourth largest bank in Slovenia. Despite the challenging environment and increased competition, SKB banka managed to increase the market share on all loans to 10,6 %, whereby the market share of housing loans reached 13,7 %.

SKB Leasing Group, composed of subsidiaries SKB Leasing and SKB Leasing Select, is 100 % owned by SKB, has confirmed and maintained its position among the leading leasing companies in Slovenia, with a total financial leasing amount of 487 million EUR.

SKB banka has responded to the rapidly changing banking environment and increased customers' needs by improving its banking services and products. In addition to the existing offer of AMUNDI Funds, the bank is offering new Moorea Investment Funds with the option of a savings plan. We have developed a new range of packages for individuals with day-to-day banking products, enabling the customers to make a choice among three different packages: Moj S, Moj M and Moj L. The packages are adjusted to the volume of banking services and customers' needs. A special attention is paid also to the safety of operations, which is why the bank has upgraded the SKB mobile bank in 2019 with additional security features, whereby a good user experience is still in the first place. SKB improved also its operational efficiency by gradually transforming and digitalizing the processes by implementing the BPM tool for establishing a business relationship with a customer and for retail credit granting process. We set up a Documentation Management System (DMS) and we continue with other optimizations and simplifications in order to further reduce the operating costs.

SKB Group strives to achieve a long-term sustainable return on equity by generating the interest and non-interest income, costs management and continued prudent risk management. The risk management policy continues to be conservative and prudent in monitoring all types of risks, in particular operational risks, and shall remain responsive to any possible deterioration of the financial conditions of its clients, in order to adequately present the level of net cost of risk.

Regardless of the change in ownership, SKB Group's policies and values remain the same. They are based on mutual understanding, cooperation, compliance with regulations and agreements, and on finding the best solutions. OTP Group is a strategic owner with a long-term vision for development, which will enable SKB Group to successfully manage new challenges and opportunities on the market. Our goal is to become the first choice for our customers by offering them new and innovative solutions, which is why the development of the bank is planned to be focused on digitalization and optimization of business processes. The employees are an important pillar of our further development as well. Awards as the »Bank of 2019 in Slovenia« given by the magazine The Banker and the »Best bank of 2019 in Slovenia« given by the magazine Global Finance, are the proof of successful operations, high quality of services and high confidence of our customers.

I would like to thank all our customers and business partners for their loyalty and trust. I would also like to thank and congratulate each and every one of the employees for their efforts in their day-to-day work and projects, as well as for their loyalty, professionalism and commitment.

We are facing new challenges and I believe that we will prove, once again that together we can do more and even better.



Anita Stojčevska
Chief Executive Officer

III. Report of the board of Directors and Committees

Report of the Board of Directors

SKB d.d. has a one-tier corporate governance system.

The corporate governance system is established in such a way to enable operational and professional management of the bank and its current business, while also enabling quality and in-depth supervision of operations and implementation of defined tasks and strategic directives of the bank's owners.

Four Committees are functioning within the Board of Directors: the Audit Committee, the Risks Committee, the Compensation Committee and the Nomination Committee. All four Committees are dealing with the issues under their competence. Presidents of these Committees regularly report regarding their work to the Board of Directors.

Reports of the Board of Directors, Audit Committee, Risks Committee, Compensation Committee and Nomination Committee regarding the work of Presidents in 2019 are presented hereinafter.

The Board of Directors performs its functions in accordance with competences set out in the Companies Act, Banking Act, Guidelines of the European Central Bank and European Banking Federation, Decisions of the Bank of Slovenia, Statute of SKB d.d., Rules on work of the Board of Directors of SKB d.d., Code of Ethics of SKB d.d. and guidelines of SKB Group.

In exercising its powers, the Board of Directors particularly:

- examines the Annual Report and other financial reports of the bank and adopts the Annual Report,
- examines proposal for resolution on the use of balance sheet profit,
- supervises the adequacy of procedures and effectiveness of the Internal Audit Department performance,
- gives consent to the appointment and discharge of the Head of Internal Audit Department,
- explains to the General Meeting of Shareholders its opinion on the annual report of the Internal Audit Department and opinion on the annual report of the General Management,
- adopts and supervises execution of the general principles of remuneration policies,
- forms the Audit Committee, Risks Committee, Nomination Committee, Compensation Committee and other committees,
- discusses findings of the Bank of Slovenia or the European Central Bank (when in accordance with the EU regulation 1024/2013 European Central Bank performs the authorizations and tasks of supervision over the bank), findings of other bodies if findings refer to the bank, findings of the tax inspection and other regulatory bodies when performing supervision of the bank,
- performs other tasks and decides on other matters in accordance with the law.

The Board of Directors may examine and check the accounting ledgers and documentation of the bank, its funds, securities kept and other matters.

The Board of Directors gives its consent to the General Management of the bank for the:

- definition of the bank's business policy,
- definition of the banks' financial plan,
- definition of organization of internal controls system,
- definition of the frame annual work program of Internal Audit Department.

The Board of Directors may give its consent regarding the previous paragraph also subsequently and ex-post approve, decisions made by the Executive Directors under the condition that decisions made comply with the corporate rules of the Group.

The Board of Directors gives its consent also for the following operations and matters of the bank:

- conclusion of a legal transaction based on which, considering the overall exposure of the bank, including indirect credit exposure, the bank's exposure to a single party or to a group of related parties would reach or exceed ten percent (10 %) of the bank's eligible capital as set out under item 71(b) of Paragraph 1 of Article 4 of the Regulation (EU) no. 575/2013,
- conclusion of a transaction causes that the overall exposure of the bank including indirect credit exposure of the bank to a single party or a group of linked parties, would increase for each next five percent (5 %) or the acceptable capital of the bank,
- cancellation of the audit inspection contract, concluded between the bank and the audit company, before the termination of the term, agreed in the contract,
- dismissal of the Head of Risk Management,
- plan of activities for Risk management in the accordance with the strategies and policies of Risk appetite and management. ,
- conclusion of the transaction with a person in a special relationship with the bank if due to this transaction or common value of all transactions the overall exposure of the bank to a single party including the indirect exposure reach or exceed 100,000 EUR and for each further transaction whereby the overall exposure of the bank against a single party from all transactions increase for the subsequent 100,000 EUR whereas for conclusion of the legal transaction in cases from this paragraph the approval is also needed.

Until 23 July 2019 the Board of Directors was composed of seven (7) members. As of the General Meeting of Shareholders, held on 23 July 2019, the Board of Directors was composed of nine (9) members, among them two (2) were newly appointed. Due to the resignation of one newly appointed member on 25 July 2019, the Board of Directors was from that day on composed of eight (8) members.

In its new composition, the Board of Directors continued its work in accordance with the adopted plans of the Board of Directors in the previous structure, since they were oriented towards ensuring safe and efficient business operations of the Group SKB.

Taking into consideration the Article 8.3.4 (a) (i) of Share purchase agreement (SPA) dated 2 May 2019, concluded between the seller Société Générale and the purchaser OTP BANK, on behalf of shareholder's counter proposal six (6) new members of the Board of Directors were appointed by the General meeting of Shareholders on 23 July 2019, subject to the Closing of the transaction ("Closing date"), whereas one (1) member remained the same. According to General Meeting of Shareholders resolution the Board of Directors was to be composed of seven (7) members from the "Closing date" onwards. But one (1) newly appointed member resigned before the "Closing date", consequently since 13 December 2019 (Closing date) the Board of Directors has been composed of six (6) members.

Principles of professionalism, expert competence and experience in various field of operations, reputation of the proposed candidates, their team work ability as well as adequate representation of both genders were respected.

Self-assessment of the work of the Board of Directors and its Committees

The work of the Board of Directors was duly organized and performed in compliance with the Rules on the work of the Board of Directors. The members of the Board of Directors were provided with professionally prepared material enabling an in-depth discussion and professional decision-making.

The contents of the work of the Board of Directors are indicated hereinafter.

We believe that the Board of Directors was provided with adequate regular reporting and other information, as well as with additional explanations at the meetings and had sufficient number of meetings with the General Management of the bank, in order to be able to responsibly monitor the bank's operations, risks management, activities of Internal Audit as well as the compliance with the rules of operations. The Board of Directors actively participated in the formation and implementation of the Bank's business policy with focus on management and monitoring of various risks, ensured compliance of operations with the legal regulations in force and supervised the work of the General Management of the bank. The President of the Board of Directors performed the task in line with the Rules of procedure on the work of the Board of Directors of SKB banka d.d. Ljubljana and cooperated regularly and professionally with the General Management of the bank. The President chaired the sessions of the Board of Directors in the way as to enable the Board of Directors to perform accountable and professional decision-making of the Board of Directors.

The communication and cooperation between the Board of Directors and the General Management of the bank were professional, regular and correct. In their discussions on pending issues, the members of the Board of Directors were at all times led by the due care for prudent and safe operations and by the search for possible improvements in all segments and fields of operations and supervision in the bank, also based on past experiences.

In order to even better supervise and manage the bank, the Board of Directors was actively involved in the bank's work also through its four (4) Committees and it thus contributed to a better safety and rationalization of the bank's operations. The Board of Directors regularly monitored the work of its Committees, as the Presidents of these Committees were reporting on their work to other members of the Board of Directors. The members of the Board of Directors were always invited to the sessions of the Audit Committee and Risks Committees even if they were not members and they attended those sessions as often as possible. All members of the Board of Directors were actively involved in discussions and contributed constructive proposals. ,

The submitted descriptive self-assessment of the work of the Board of Directors and its Committees in 2019 shows that the members of the Board of Directors regularly attended the meetings and actively participated in the discussions and decision-making of the Board of Directors or its Committees and were thus successfully orienting and supervising the operations of the Bank in 2019.

In accordance with the provisions of the Banking Act and consequently also with the implementing regulations thereof, the Board of Directors started, very early, the discussion about the method of assessment of the suitability of its members and key function holders in the bank, as it passed the "Rules on assessment of suitability of the members of the Board of Directors and key function holders" already in 2014. That had been prepared in compliance with the technical standards and EBA guidelines. Over the last years, these Rules have also been upgraded. The modifications and amendments to the "Rules of SKB banka d.d. Ljubljana on assessment of suitability of the members of the Board of Directors" define more detailed criteria for the assessment of the members of the Board of Directors, which contribute to the quality of the corporate governance of the bank and of SKB Group.

The assessment of work and suitability of each present and new member of the Board of Directors as well as the assessment of suitability and work of the Board of Directors as a whole were also prepared on that basis.

All the activities were led in a harmonized way and with a full trust and mutual respect of all members of the Board of Directors, which contributed to the successful operations in 2019 of the SKB Group as a whole. This is evident from the report on operations of the bank and SKB Group in 2019, as the bank and SKB Group registered very good business results last year.

During the whole year, the Board of Directors acted in compliance with the rules related to the prevention of the conflicts of interest and important business contacts in accordance with the Decision on arrangement of internal governance, governing bodies and internal capital adequacy assessment process of banks and savings banks, issued by the Bank of Slovenia. According to the Board of Directors no conflict of interest in the work has been noted, and at the same time, general measures were carried out permanently in order to prevent any conflict of interest.

In 2019 eight (8) regular sessions of the Board of Directors were held in composition prior to the "Closing date". The quorum was met at all sessions, which is also evident from the session minutes. The list of attendees is indicated in the Board of Directors session minutes.

At its sessions held in 2019, prior to the "Closing date", the Board of Directors above all:

- discussed, reviewed and, based on the positive opinion of the independent external auditor Deloitte Revizija d.o.o., adopted the Annual Report on SKB Group's operations in 2018 and the Internal Audit Report for 2018.
- convened the General Meeting of Shareholders where the distribution of profit and discharge of the Board of Directors were proposed.
- discussed periodical reports on operations and on implementation of business policy in 2019, whereby a special attention was paid to the achievement of the planned commercial objectives, development of the bank and of SKB Group, risk exposure and management of all kind of risks, management of costs, as well as strengthening of the position of the bank in the Slovenian banking sector,
- was regularly informed of the work and decisions of the Audit Committee, Risks Committee, Compensation Committee and Nomination Committee,
- contributed to the preparation of the material for the above stated Committees in order to achieve a better transparency and an easier understanding of more complex topics,
- discussed periodical reports on large exposures, paid special attention to the large exposures of the bank towards certain companies or groups of companies and towards individual sectors and agreed with the bank's strategy,
- was informed of and agreed with the bank's non-performing exposures (NPE) management and restructuring plans,
- discussed the report on ICAAP and ILAAP of SKB Group in 2018 and agreed with the risk assessment with regard to the bank's strategy which provides that the risk policy is adequate in terms of the bank's profile and strategy,
- passed the strategy of SKB Group regarding the risk appetite and regularly monitored its implementation, paid a special attention to the reports on the review of formation of provisions and impairments,
- passed the updated Resolution on Internal Control System in SKB Group
- discussed and passed the annual report on prevention of money laundering and fight against terrorist financing in 2018,
- discussed the report on compliance of operations for 2018 and annual action plan for 2019,
- regularly discussed all letters, decisions, orders and recommendations of the supervisory institutions or regulators,
- discussed and passed SKB Group's operational plan and financial budget for 2020 and guidelines for the period 2021-2022,
- discussed the reports of the Internal Audit Department,
- passed the action plan of Internal Audit for 2020,
- was given information about the strategic plan of audit inspections for the 5-year cycle (2020 – 2024),
- was informed about the regular review of the Rules on operations of internal auditing,
- was given oral information about the external quality review of the Internal Audit Department in SKB Group,
- was informed about and agreed with the annual assessment of the Nomination Committee that each member of the Board of Directors individually and the members of the Board of Directors as a whole met the adopted criteria and attained the objectives as set,
- appointed the alternate Chief Executive Officer,
- was acquainted and agreed with temporary appointment of the Head of Risk Division,
- was acquainted with six conditional resignations of Board of Directors members at the General Meeting of Shareholders on 23 July 2019 subject to the closing of the transaction,
- was informed about OTP Bank's proposition to SG for new members of the Board of Directors, which were appointed by the General meeting of Shareholders held on 23 July 2019 on behalf of shareholder's counter proposal, subject to the Closing of the transaction. According to the Banking Act the candidates were assessed by the Nomination Committee as a very suitable candidates for performing the function of the members of the Board of Directors of the bank,
- appointed new Chief Executive Officer of the bank, subject to the occurrence of Closing pursuant to the share purchase agreement dated 2 May 2019 concluded between the seller Société Générale and purchaser OTP BANK and subject to member obtaining the license of the Bank of Slovenia/ECB,
- discussed and agreed with the SKB document representing the contribution of SKB Group in the Bank's Resolution and Recovery Plan within Société Générale Group, which is a part of its plan,
- validated the credit limits of SKB d.d. towards its subsidiaries SKB Leasing and SKB Leasing Select,
- monitored the fulfilment of all ECB/Bank of Slovenia inspection recommendations,
- passed the schedule of the sessions of the Board of Directors and its Committees for the year 2019,
- was acquainted with the resignations of additional three members of the Board of Directors, and decided that the General meeting of Shareholders will be acquainted about their resignation at the next regular General Meeting of Shareholders session,
- was acquainted with all other information as submitted.

Two representatives of the Joint Supervisory Team of ECB/the Bank of Slovenia (JST/ECB) were also present at one of the sessions of the Board of Directors.

Since 2 May 2019, when the SPA was signed, also an OTP observer was present at all sessions of the Board of Directors.

After the Closing date two (2) sessions were held in a new composition, of which the first was the constitutional session. At its two sessions held on 16 December 2019 the Board of Directors above all:

- elected the President and the Deputy President of the Board of Directors of SKB d.d.,
- appointed presidents and members of the Board of Directors' Committees,
- approved contracts with the Executive Officers of the bank,
- gave consent to the General Management for the temporary prolongation of the function of the Head of Risk Division,
- validated the limits of SKB Bank towards OTP Group entities and towards SKB Leasing and SKB Leasing Select.

Compared to the previous year, the business environment improved in 2019. The economic growth had a positive impact on operations of the clients and consequently on operations of the bank as well, the banking activities were intensified. However, investments that are still modest and the weak consumption result in a surplus of liquidity, which

is deposited in the central bank at a negative interest rate. Competition among the banks has tightened, the banking concentration process has started and the business models of banks are changing. In such conditions, the Board of Directors monitored the bank's operations with a particular care and analysed its results.

In all, SKB d.d. always acted in line with SKB Group's risk management policy, respected all regulations in the Republic of Slovenia as well as the guidelines of the Bank of Slovenia and orientations of Société Générale.

The policy of timely and prudent measures with regard to the changing conditions on the market, in the banking sector and in the economy as a whole, orientation towards clients, diligent control over operating costs and risks enabled SKB Group to attain a very good business result in 2019.

During this period, the General Management of the Bank was regularly, timely and comprehensively informing the Board of Directors and the competent Committees of the Board of Directors, with written and oral reports, on operations of the bank, its business strategy and policy, development plans, risk profile, economic situation in Slovenia and in the banking environment, as well as regarding realization of the set guidelines.

Before convening the General Meeting of Shareholders of the bank, the Board of Directors discussed all the materials and gave its consent for all the proposed resolutions that have been submitted to the shareholders for decision making at the 33rd General Meeting of Shareholders of SKB banka d.d. Ljubljana, held on 29 May 2019 and at the 34th General Meeting of Shareholders of SKB banka d.d. Ljubljana, held on 23 July 2019.

The members of the Board of Directors have the possibility to inspect, at any time, accounting ledgers of the bank, to require reports on operations in each single segment as well as on clients. They regularly meet with internal as well as with external auditors.

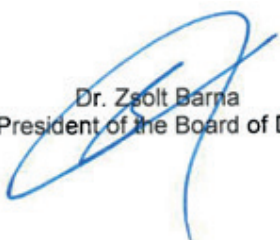
The SKB Group pays a lot of attention to innovation, commitment, responsibility and team spirit, as well as to the business ethics. These are the values that are implemented in practice in our everyday work.

In this respect, all the members of the Board of Directors of SKB d.d. also have adequate education level and experience in various fields of operations, in finance or in banking operations in particular, as well as the know-how related to operations in companies and they perform their work conscientiously and professionally, in compliance with the highest ethical standards.

The Board of Directors estimates that cooperation with the General Management of the bank was carried out on a high professional level and was constantly oriented towards a common goal - successful and secure operations of the bank in the strained economic conditions, what is reflected in the very good business results of the bank. The Board of Directors congratulates the General Management of the bank and all its employees for the achieved result in 2019 and for having been awarded, once again, with the title "Bank of the year 2019 in Slovenia" by the magazine The Banker.

The members of the Board of Directors express their most sincere acknowledgements to all employees of the SKB Group for their dedicated work and professionalism, which significantly contributed to its reputation.

The Board of Directors also thanks the clients of SKB Group for their loyalty, and to shareholders for their strategic orientation and support.



Dr. Zsolt Barna
President of the Board of Director

Report of the Audit Committee

The responsibilities of the Audit Committee are above all:

- monitoring the financial reporting process,
- monitoring the efficiency of internal controls system in the bank, internal auditing and risk management systems,
- monitoring the obligatory audit of the annual and consolidated financial statements,
- reviewing and monitoring the independence of the auditor of the bank's annual report, particularly in providing additional non-audit services,
- proposing to the Board of Directors the appointment of the candidate for auditing the Annual Report of the bank,
- supervision of the integrity of financial information issued by the bank,
- assessing the composition of the Annual Report including the formation of the proposal for the Board of Directors,
- cooperation in defining the important segments to be audited,
- cooperation in preparation of the agreement between the auditor and the bank,
- cooperation with the auditor in auditing the bank's Annual Report particularly by mutual information on major issues concerning the audit,
- ensuring that all functions monitored by the Audit Committee comply with changes in the legal and regulatory environment
- other tasks defined by the Statute or by resolutions adopted by the Board of Directors.

The Audit Committee functioned within the frame of the Board of Directors and assembled in 2019 at three (3) regular sessions. Quorum was met at all sessions of the Committee as evidenced in the minutes of the sessions of the Committee. In case of an absent member the latter authorized another member of the Board of Directors to represent and vote on his behalf at the session of the Committee. At some sessions also other members of the Board of Directors were present, which contributed to even better acknowledgment of the work and responsibilities performed by the Audit Committee.

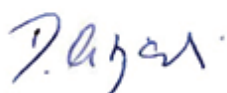
In 2019 the Audit Committee above all:

- discussed the report on SKB Group's operations in 2018 with enclosures and conducted an in-depth discussion in this respect with representatives of the external auditor Deloitte Revizija d.o.o., without the General Management being present,
- discussed the report of the external auditor to the General Management and to the Board of Directors together with the letter addressed to the General Management of the bank by the auditor as well as the Statement on the internal governance arrangements in the bank,
- discussed draft report on the work of the Audit Committee in the year 2018,
- discussed draft report on the work of the Internal Audit in the year 2018,
- regularly discussed quarterly and half-yearly reports of the Internal Audit on their work,
- discussed the reports on implementation of Internal Controls that include, above all, the following segments of the bank's operations: operational risk management, including the presentation and analysis of operational losses and corrective measures, monitoring key risk indicators (KRI), monitoring of all RCSA action plans and presentation of scenario analysis (SA); regularly discussed IT security, security mechanisms for persons and equipment of the bank, bank's Business Continuity Management (BCM), crisis management; special attention was given to compliance, prevention of money laundering and terrorist financing; regularly discussed also structural risks, tax risks and major legal risks, introduction of new products, operations with important external partners (EOS), risks related to human resources and other topics,
- discussed and confirmed the audit plan of the Internal Audit Department for the year 2020 and submitted it to the Board of Directors for formal adoption,
- was informed about the audit strategic plan for a 5-year cycle (2020-2024) and submitted it to the Board of Directors for adoption,
- was informed about regular review of the Rules of the work of Internal Audit Department,
- discussed the results of SG CACI questionnaire related to the implementation of the Audit Committee activities in 2018 according to which the Committee performed its tasks very well,
- performed other tasks in compliance with the Statute of the bank and resolutions of the Board of Directors.

According to the SPA, signed by Société Générale and OTP BANK on 2 May 2019, a representative of OTP was also present at the sessions held after that date.

With its in-depth work in monitoring the exposure of the bank to various risks, with its activities in monitoring the management of these risks and with regular monitoring of implementation of recommendations of the Internal Audit of the bank and of the Internal Audit of the Société Générale Group, the Audit Committee significantly contributed to the efficient work of the Board of Directors.

Draga Cukjati
President of the Audit Committee



Report of the Risks Committee

The Risks Committee is an advisory body to the Board of Directors and performs the following tasks:

- advises on general, current and future tendency of the bank for risk appetite and risk management strategy,
- assists in performing supervision over the senior management regarding the execution of risk management strategy,
- examines, without intervening in the Compensation Committee's tasks, whether the initiatives, provided by the compensation system, take into account the risk, capital, liquidity, as well as the likelihood and time schedule of the bank's incomes, with the purpose of forming prudent compensation policies and practices,
- examines whether the prices of the bank's products are fully consistent with the business model and risk management strategy of the bank and, in case of identified inconsistencies, makes a proposal for measures in order to remedy the inconsistencies and submits the proposal to the General Management and Board of Directors,
- as to the counterparty risks, the Risk Committee examines:
 - contents and changes of the credit portfolio per type of facility and per debtor,
 - key indicators (cost of risk, level of Non-Performing Loans (NPL), default ratios, recovery performance etc...),
 - changes of the quality of commitments: sensitive, irregular, non-performing loans,
 - compliance with the conditional authorizations issued by Société Générale Group,
 - adequacy of the level of provisions for risks exposure,
 - efficiency of bad debt recovery,
 - changes in credit policy,
 - review of collateral management.

In 2019, three (3) regular sessions of the Risks Committee were held.

The quorum was met at all sessions, as indicated in the session minutes. If one of the members were absent at the session he/she authorized another member of the Board of Directors to represent and vote on his/her behalf at the session of the Committee. On some sessions also other members of the Board of Directors were present, which contributed to even better acknowledgment of the implementation of the risk policy.

At its meetings the Risks Committee discussed above all:

- report on the work of the Risks Committee in 2018,
- periodic reports on credit risk,
- reports on large exposure of the bank towards individual clients, groups of clients or sectors, and proposals of the bank's General Management for further activities to resolve these issues,
- periodic reports on credit portfolio for legal entities and retail banking,
- activities in the bank related to risk management, including the volume of formed provisions and impairments, periodic reports on large exposure of the bank towards persons being in a special relationship with the bank,
- preparation and follow-up on Risk Appetite Framework and Risk Appetite Statement in SKB Group,
- other matters in accordance with the Statute of the bank and resolutions of the Board of Directors.

The representatives of the Joint Supervisory Team of the Bank of Slovenia (JST/ECB) were also present at one of the sessions of the Risks Committee.

According to the SPA, signed on 2 May 2019, OTP representative was also present at two sessions of the Risks Committee.

The Risks Committee focused its professional work above all on the analysis and monitoring of credit risks, but it discussed also other risks of the bank and SKB Group. It devoted a special attention to the risk management and NPE management. With its work and regular reports to the Board of Directors, it contributed to the efficient work of the Board of Directors.


Anna Mitkova Florova
President of the Risks Committee

Report of the Compensation Committee

The Compensation Committee is an advisory body of the Board of Directors which performs the following tasks:

- performs professional and independent evaluations of compensation policies and practices and forms, on their basis, the initiatives for measures for improvement of the bank's risk management, capital and liquidity,
- prepares the proposals for decisions of the governing body regarding the compensations, including those having an impact on risk and risk management of the bank,
- supervises the compensations of senior management which performs the risk management function and compliance function.

When preparing the above mentioned decisions, the Compensation Committee takes into consideration the long-term interests of shareholders, investors and other interested parties.

In 2019, the Compensation Committee under the presidency of Jean-Philippe Guillaume assembled at three (3) regular sessions. The Committee had also several consultations with the General Management of the bank.

Quorum was met at all sessions as evident from the Committee's session minutes.

At its sessions held in 2019, the Compensation Committee discussed above all:

- rewards to the two members of the General Management of the bank and members of the Executive Committee - ExCo (including key function holders) for their work and confirmed the proposals. The Board of Directors agreed with the conclusions of the Compensation Committee.
- the total amount to be distributed as a yearly bonus related to 2019 performance for the rest of the employees,
- the review of remuneration policy – report of Internal Audit from audit plan 2019,
- the modification of the document 'Remuneration Policy' proposed to the Board of Directors for approval,
- the performance assessment and specific variable remuneration principals for regulated staff,
- the termination of the employment contract with the Chief Executive Officer and conclusion of the employment contract with the Alternate Chief Executive Officer,
- the list of regulated staff for 2019.

In its professional work, the Compensation Committee focused mainly on implementation of all legal obligations of the bank in the field of employment and remuneration of employees. A special attention was paid to costs management, number of employees, ratio between the fixed and variable part of remuneration of the employees, performance of the employees, concern for adequate qualifications and trainings for employees as well as their development both within SKB Group and Société Générale Group. All this has a positive impact on stable and secure operations of the bank and SKB Group.

With the takeover of SKB Bank by OTP bank in December the Remuneration Committee, held a session with new members under the presidency of Mr. Imre Bertalan. At its session, the employment contracts with the Chief Executive Officer and Deputy Chief Executive Officer, and the remuneration of regulated staff were presented.



Imre Bertalan

President of the Compensation Committee

Report of the Nomination Committee

The Nomination Committee is an advisory body of the Board of Directors and performs the following:

- defines and recommends candidates for the members of the Board of Directors, including Executive Directors, by taking into account the policy on selection of suitable candidates in accordance with the Banking Act,
- defines the tasks and required conditions for an appointment, including the assessment of time which is likely to be required for performing the function,
- defines the objective of gender representation and prepares a corresponding policy on how to increase the number of representatives of the underrepresented gender in the Board of Directors in order to achieve this objective,
- assesses, at least once a year, the structure, scope, composition and performance of the activities of the Board of Directors and prepares reports related to eventual modifications,
- assesses, at least once a year, the know-how, skills and experience of each member of the Board of Directors and of the Board of Directors as a whole and reports to the Board of Directors and to the General Management accordingly,
- regularly examines the policy of the General Management regarding the selection and appointment of suitable candidates for the members of the bank's senior management and prepares recommendations for eventual modifications,
- actively contributes to the fulfilment of the bank's responsibility to adopt corresponding policies for evaluation of suitability of the governing body members,
- when performing its tasks takes into account, to the greatest extent, that upon decision making within the General Management and Board of Directors no individual or a narrower group of individuals prevails in the way that might be detrimental to the interests of the bank.

From 1 January 2019 until the Closing of the transaction under Share purchase agreement (SPA) dated 2 May 2019, concluded between the seller Société Générale and purchaser OTP BANK, dated 13 December 2019 (the Closing date), the Nomination Committee assembled at three (3) sessions where all the members were present and at which they discussed:

- the report on work of the Nomination Committee in 2018,
- the annual assessment of the members of the Board of Directors in accordance with SKB Rules on assessment of suitability of the members of the Board of Directors of SKB d.d.,
- the assessment of the executive member who resigned as Chief Executive Officer and became non-executive member of the Board and the assessment of the alternate Chief Executive Officer,
- the assessment of the two newly proposed members of the Board of Directors,
- the proposal to the General Meeting of Shareholders of the bank on the conditional resignation of the members of the Board of Directors appointed in May 2018 and conditional appointment of the new members of the Board of Directors after change the ownership,
- the assessment of the proposed candidates for the new members of the Board of Directors in line with SKB Rules on assessment of suitability of the members of the Board of Directors and in line with the Share Purchase Agreement concluded between the seller Société Générale and the Purchaser OTP Bank on 2 May 2019; the assessment of suitability of the candidates separately for executive members and separately for non-executive members of the Board of Directors after closing of the transaction as well as the suitability of the candidates for the Board of Directors as a whole.

After the Closing date there was no additional Nomination Committee session.

The Rules on assessment of suitability of members of the Board of Directors in the bank define, in particular, the activities to be carried out with regard to the assessment of suitability of each member of the Board of Directors (acquisition of corresponding documentation according to EBA questionnaire and questionnaire of Bank of Slovenia) as well as the assessment criteria, like for example reputation criteria (eventual criminal proceedings, judicial proceedings, proceedings with regulatory bodies, connotations in media, etc.), experience criteria (professional career, education level, working experience, trainings, etc.) and management criteria (eventual conflict of interests and expectations, available time for performing this function, membership in governing bodies of other companies and organizations, etc.). The data on experience of the members of the Board of Directors are publicly published on the bank's website (Board of Directors).

From 1 January 2019 until 23 July 2019 the Board of Directors was composed of seven (7) members - four (4) men and three (3) women. From the General Meeting of Shareholders, held on 23 July 2019, onwards the Board of Directors was composed of nine (9) members, five (5) men and four (4) women. As from 25 July 2019 till the Closing date on 13 December 2019, the Board of Directors was composed of eight (8) members, five (5) men and three (3) women. As at 31 December 2019, the Board of Directors is composed of six (6) members - four (4) women and two (2) men. Regardless the described changes the Board of Directors was composed of members of various age, various education profiles and experience, what enables them to ensure a constructive and critical judgment of decisions made by the General Management as well as an efficient control over the latter.

When assessing the suitability of the members of the Board of Directors, the Nomination Committee respected the adopted criteria and re-assessed the suitability of each member of the Board of Directors as well as the proposed new members of the Board of Directors. In addition, a separate assessment was made for the Executive Directors of the Board of Directors, separately for the non-executive members of the Board of Directors and for the Board of Directors as a whole. The Commission re-established that the structure of the members of the Board of Directors in terms of education, age, gender, experience, expertise and capacity for work in the fields falling under the competence of the Board of Directors was adequate and ensuring a successful work and fulfilment of the set objectives, i.e., above all safe, stable and successful operations of the bank and maintaining its reputation in the environment in which it operates.

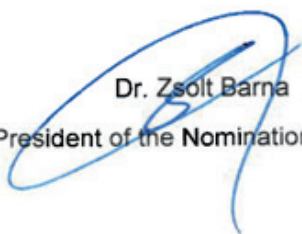
The composition of the Board of Directors has to provide a quality and responsible discussion on all significant documents of the bank, strategy of the bank in all segments and its implementation as well as on all facts and circumstances which might affect the operations of the bank.

All of the above was reported to the Board of Directors by the President of the Nomination Committee.

By performing its tasks, the Nomination Committee contributed to the bank's solid corporate governance system with a clearly defined organization, responsibilities and objectives in all segments of its operations.

With its work, the Nomination Committee contributed also to the efficient work of the Board of Directors.

The composition of the Committee changed after the Closing of the transaction under SPA due to the newly appointed members of the Board of Directors.



Dr. Zsolt Barna
President of the Nomination Committee

View of the Board of Directors on the Report on SKB Group operations

On 24 March 2020 the General Management of SKB d.d. submitted to the Board of Directors, for preliminary consideration, the unaudited Report on operations of SKB bank and SKB Group in 2019. The Board of Directors received also draft report on the work of the Board of Directors and its Committees in 2019. At the same time, the Annual Report of the Internal Audit was submitted as well.

The Board of Directors discussed the report on its work and on work of its Committees at its 4th session, held on 1 April 2020.

On 31 March 2019, the General Management of SKB d.d. submitted proposal to the members of the Board of Directors to adopt the audited Annual Report of SKB Group for 2019.

The report on operations in 2019 shows that both SKB Group and SKB bank performed well, as SKB Group registered a net profit of 54,105 thousand EUR and SKB bank a net profit of 52,084 thousand EUR, whereby the distributable net profit of SKB bank amounts to 141.306.703,67 EUR.

The report on operations of SKB d.d. and SKB Group in 2019 with financial statements and attachments was examined by the auditing company Deloitte Revizija d.o.o., which performed the audit in accordance with international accounting and audit standards.

The auditor issued to the General Management a positive opinion on financial statements and on the Annual Report.

At its 4th regular session held on 1 April 2020, the Board of Directors discussed the audited Annual Report with the report of the auditing company Deloitte Revizija d.o.o. and had no remarks and has adopted Annual Report of SKB Group for 2019.

During the time, following the submission of the unaudited Annual Report until the discussion of the audited Annual Report of SKB bank and SKB Group, the members of the Board of Directors had the possibility to have additional insights in the operations of the bank and to acquire information necessary for verification of the Annual Report. The Board of Directors hereby establishes that its members have obtained all requested information regarding the operations of SKB bank, as well as of its subsidiaries, SKB Leasing d.o.o. and SKB Leasing Select d.o.o. The composition of the Annual Report was also checked by the Audit Committee, which evaluated the composition and the draft Annual Report positively.

The Board of Directors has established that the Annual Report of SKB Group shows comprehensive contents of operations of SKB bank and SKB Group in 2019 and thus completes all previous information already submitted to the Board of Directors during the business year. The Board of Directors also examined the proposal of the General Management of SKB bank for distribution of distributable net profit for which the final decision will be made by the shareholders at 35rd session of the General Meeting of Shareholders that will be held on 11th May 2020.

The Board of Directors fully agrees with the proposal of the General Management and proposes to the General Meeting not to distribute the net profit of SKB bank generated in 2019.

Distributable net profit for the year 2019 is in the total amount 141,306,703.67 EUR, with a net profit for the year 2019 in amount 52,084,137.04 EUR. Distributable net profit will not be distributed to shareholders and remains till further notice unallocated.

With the date of shareholders meeting net profit is transferred from net profit of business year 2019 into retained earnings.

The Board of Directors believes that the General Management of the bank and the Board of Directors met all the legal requirements in the Annual Report for 2019.

The Board of Directors establishes that also in 2019 the economic situation was rather strained and complex. The liquidity in the bank, as well as in the entire banking system, was high what caused a strong competition among the banks and consequently a decrease of interest rate and of the interest margin, too.

The Board of Directors estimates that the cooperation with the General Management of the bank was performed on a high professional level and permanently focused on the common goal – successful and secure operations of the bank what was reflected in the good results of operations of SKB Group.

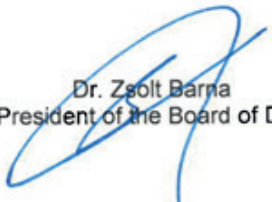
In 2019, the SKB Group has therefore intensified even more its activities leading to restructuring and optimization of operational processes, reduction of costs and at the same time the activities for the growth of the volume of operations, increase of income and reduction of all types of risks in the bank.

The rapid reactivity to the mentioned conditions in the economy and on the market and management of operational costs of the bank in 2019 have led to a good business result, whereby the main contribution consisted above all in a successful commercial activity, consistent implementation of risk management policy and adequate formation of provisions and impairments, operating costs management and endeavor of the employees to achieve the set goals.

It has to be pointed out that SKB operated better than most of its competitors and proved that its business model was adequate also for operations in the most tough economic circumstances and enabled the bank to remain stable. Such working method and the achieved results prove that the bank is on the right way in its development, that it is capable to ensure safe banking operations and is capable of facing the challenges lying ahead.

The Board of Directors expresses its thanks to the General Management and to all the employees of SKB bank and SKB Group for the achieved results.

Thanks also to all of SKB's clients for their loyal business cooperation as well as to the shareholders for their adequate strategic orientation and support.

A blue ink signature of Dr. Zsolt Barna, consisting of a large, stylized 'Z' and 'B'.

Dr. Zsolt Barna
President of the Board of Director

IV. SKB Group strategy

In the wave of changes in the Slovene banking sector SKB Group in December 2019 became a member of OTP Group. OTP announced the continuation of the existing SKB Group strategy, including keeping the name of the bank and leasing companies while changing the corporate colors. In short term SKB will be integrating its processes into the new Group and continue with efficient performance, which was realized during the last years. New ownership offers additional opportunities for growth and development, as **SKB Group** was recognized **as a strategic member of the OTP Group**. Our common goal is to build further **a solid, strong and safe banking group with good reputation on the market which will additionally increase client satisfaction and customer experience**.

SKB has put its focus on Individuals, Professionals and SMEs, as well as on big corporates. SKB will continue to acquire, equip and retain clients by assuring high quality of service. By enjoying client trust and focusing on **long-term quality and profitable growth**, we are determined **to remain a major Slovenian financial Group** and to **fulfill the expectations of our shareholders**. The Group also seeks to build **a creative and encouraging atmosphere for its employees** and to **contribute to the overall development of the Slovene society and economy as a whole**.

Meeting the challenge of changes in the banking world

In the last couple of years the banking industry has been experiencing a period of profound economic, regulatory and technological changes. Our strategy aims to adapt our activities to meet these challenges and provide contemporary solutions to our customers.

Development of distribution channels

SKB Banka is a client-oriented bank, providing a comprehensive and diversified range of high-quality banking products and services to its clients, through various distribution channels, including branch network across Slovenia as well as modern banking channels like mobile banking, e-banking, telephone banking, the ATM network, payment and credit cards.

SKB Leasing, as subsidiary of SKB Bank, offers all leasing products for movable property to individuals and companies through branch network and sales agents. SKB Leasing Select, a subsidiary of SKB Leasing, offers leasing products for selected brands of vehicles through the network of dealers. Synergies between SKB Leasing and SKB Bank are long lasting and set up especially in sales, risk management and finance function.

SKB focus is in optimizing its product mix and current operational model with emphasis on further development of electronic channels (internet banking, mobile banking, and web pages), modernizing network and contact center, enriching card business and payments products, assuring higher coverage of ATM network, simplifying approval process and improve transparency of daily banking offer.

Well balanced business model and ambitions to grow

The well-balanced business model is generating strong synergies among SKB Banka, SKB Leasing and SKB Leasing Select, with selected insurance companies and some partnerships. With the specific products and services offered by the range of our banking and insurance products SKB Group meets all possible financing and investment needs of the clients.

As a retail oriented bank, we have clearly put our focus on portfolios of individuals, sole proprietors and SMEs. Our offer to bigger clients is primarily oriented to participation on their investment projects. In line with established segment approach we set differentiated service model provided by dedicated sales force.

By supporting our customers' projects on a daily basis and over the long term, SKB Group takes part in financing the client's needs by delivering competitive financial services.

Our key objective is to upgrade the offer and ensure process optimizations and perform effective cross sell with banking, insurance and leasing products.

Profitable growth

In order to comply with its major shareholder's strategy, the Bank aims to achieve a long term sustainable return on equity by generating recurring revenues, pursuing stringent overhead cost management on all types of expenses and by continuing its prudent risk management. We aim to improve our market shares on loans, leasing and deposits, however, not at any risk / reward ratio.

Client centricity

The SKB Group pays special attention to building comprehensive and long-term relationships through various distribution channels with its customers by providing a wide range of high-quality banking products and services and maintain high net promoter score.

Quality of services

The quality of our services, based on excellence in execution and advisory, is enhanced by our responsiveness to clients' needs of our existing clients while attracting new customers as well. We are relying on streamlining of our offer and making our decision-making procedures faster to meet our customers' expectations. We are implementing fast loan granting procedures and improved relationship with our clients through our dedicated commercial team to respond more quickly and efficiently to market changes.

Taking advantage of new technology to improve operational efficiency

The digital revolution is redefining much of our daily lives, offering new ways to stay informed, to make businesses and to communicate. Banks must take full part in this transformation by enhancing customer relations with new services, developing mobile solutions and promoting new payment methods, while ensuring the security of systems, data and transactions.

SKB Group is embracing these technological developments as new opportunities to respond to changes in the methods of using banking services and to build the bank of tomorrow. We will offer our clients contemporary services when searching a simple, fast and quality banking product.

To better support commercial activities, we will further adapt our processes and organization to enable our clients' remote and automated access to our products and services, simplify on-boarding and subscription process, benefit from new BPM platforms to further optimize and simplify our processes and use marketing intelligence with advanced analytics, campaign management and data governance, to support and faster decision making process.

We will improve the documentation management for our operations to save some costs and to reduce operational risks.

We shall continue to seek out savings opportunities on any simplification in processes also by outsourcing services and by careful monitoring all types of overheads as well as to increase all sources of revenue while enhancing our control system and gradually transforming our processes.

We are targeting a permanent improvement of our efficiency, as measured by the cost-to-income ratio.

Prudent risk management and compliance with regulation

The risk management policy shall remain conservative and in line with validated SKB Group risk appetite, cautious in monitoring all types of risks, with a special emphasis on operational risks, and shall remain responsive to any possible deterioration of the financial conditions of its clients, in order to adequately present the level of net cost of risk.

The SKB Group shall remain strongly committed to meeting strict regulatory requirements, especially in the client data protection and all aspects of security as well as on areas of various reporting, stress testing, risk and capital management.

Strong capital base

By maintaining a high level of pure Tier 1 capital, the Bank is able to grow in its businesses as well as absorb any sudden and unpredictable dramatic decline in the economic environment.

We shall continue paying a strong attention to capital management, in order to carefully manage and respect capital requirements.

Professional, creative and motivated staff

Capitalizing on the expertise we possess today we will maintain our level of sustainable management quality also in the future to guarantee our clients the same or even higher levels of service. We will also take care that our employees continue to maintain the highest standards of socially responsible, ethical and professional behavior.

We know that our ambitious goals can be met only by team work that involves professional, creative and motivated staff. Our strategic goal is to improve the knowledge, competencies and the culture of all employees and to especially focus performance assessments on profitability rather than volume.

Our staff is one of the bank's most precious asset, essential for its good performance.

Committed to local environment

The SKB Group participates in the life and work of local communities through its outlet network all over Slovenia. We are closely linked to the environment in which we operate, which is reflected in our sponsorships and donations to various sports, cultural and humanitarian activities.

Continuous development and transformation generates significant challenges and expectations for our staff and for the entire organisation. The progress we have made over the past few years illustrates the relevance of our business model and our ability to mobilize our resources and move forward.

Capitalizing on its strengths and on its diversified portfolio of businesses, focusing on its conservative risk management and its operational efficiency, together with the active participation of its employees, the SKB Group has the necessary foundation for the further development of its mission to finance the Slovene economy and to continue supporting its clients' development, while strengthening its position on the Slovenian banking market.

V. Business report

1. Economic trends in the year 2019

Amid the moderation of economic momentum and uncertainties in the international environment, economic growth slowed down. **Gross domestic product** (GDP) has increased by +2.4 % mainly due stable growth of private consumption, despite lower investment growth and a substantial slowdown in export and import.

Export (+4.4 %) and import (+4.2 %) growth was lower in 2019 than in previous year. Export slowed due very weak global trade growth and declining GDP growth of trading partners. The slowdown in exports and industrial production began to shift more strongly towards the services sector during end of the year. In the line with these developments, import also slowed down, so that the contribution of net exports was positive.

With growing disposal income, favourable situation on labour market and greater consumer confidence **private consumption** (+2.7 %) is still more and more important factor of economic growth. **State consumption** decreased a little compared to previous year (+1.6 %) and most of the growth is still from further employment growth in the state sector and growing expenses for goods and services. **Investment activities** slowed significantly in 2019 (+3.2 %). Investments in equipment and machinery fell substantially and also construction investments, which was driven by lower growth in (foreign) demand and increased uncertainty in the international environment.

After rapid growth in 2018, employment increased further in 2019 and was very close to the pre-crisis bottom. Employment growth in the recent period thus mainly reflects the hiring of foreign nationals due to a shortage of appropriately skilled domestic workers. At the end of 2019 the number of registered unemployed persons amounted to 74.2 thousand, being 5.5 % less than at the end of previous year. Real **unemployment rate according to ILO** amounted to 4.5 %.

After several years of moderate growth rates, **gross wage per employee** started to rise faster (+2.7 %). Growth in public sector (+3.7 %) was as a consequence of not only the implementation of agreements with trade unions at the end of last year and regular promotions, but also due to the increase in the minimum wage at the beginning of 2019. The latter, in addition to strong business performance and increased shortage of workers, wage growth continued similar to the previous year in the private sector (+2.2 %).

2019 **inflation** at the annual level reached 1.9 %. Growth of prices was heavily affected by higher prices of food (+3.5 %), higher prices of miscellaneous goods and services (+4.4 %), water supply and miscellaneous services relating to dwelling (+6.7 %) and higher prices of catering services (+3.8 %). In 2019 there were no significant price decreases that would markedly affect the annual inflation apart from lower prices of motor cars (-2.3 %).

Government surplus in the year 2019 amounted to +260 million EUR or 0.5 % GDP and the **consolidated government debt** to 31.744 million EUR or 66.1 % GDP.

Important macroeconomic indicators for Slovenia in the period from 2017 – 2019

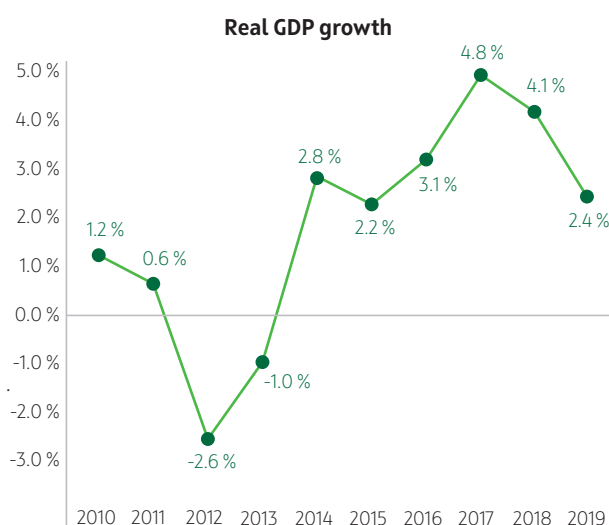
Real growth rates in %, unless otherwise indicated	2019*	2018	2017
GDP	2.4	4.1	4.8
GDP per capita in EUR	22.983	22.083	20.809
Inflation (end of year)	1.9	1.4	1.7
Final consumption	2.4	2.9	1.5
Investments	3.2	9.1	10.4
Unemployment rate (ILO)	4.5	5.1	6.6
Export	4.4	6.6	10.8
Import	4.2	7.7	10.7
Gross wage per employee	2.7	1.6	1.3
Government deficit (% GDP)	0.5	0.7	0.0
Government debt (% GDP)	66.1	70.4	74.1

Source: IMAD, SORS

At the end of December 2019 the **total assets of the entire banking system in Slovenia** amounted to **41.2 billion EUR** (89.4 % GDP), being 2.4 billion EUR (6.3 %) higher than at the end of December 2018. On the assets side balances on accounts with the central bank and lending to the non-banking sector. Among loans the highest growth was recorded in consumer to individuals as well as in housing loans; corporate loans also increased. The movement of retail loans in recent months has been marked by macro-prudential restrictions on retail lending, which entered into force in November 2019. On the liabilities side, the liabilities toward the banks decreased the most, whereas the deposits of non-banking sector and debt securities increased. Loan to deposit ratio in 2019 decreased to 75.7 % from 76.7 % at the end of 2018.

For the third year in a row financial results of Slovenian banks are influenced by net release of impairments and provisions. In 2019, the increase of net banking income was driven by higher non-interest income, mainly due to one-off events in the first half of the year and increased fees and commission income; growth of net interest income is low due to a decrease of interest margin. Despite higher operating expenses in 2019, banking system increased operating profit and recorded **a net profit** in the amount of **533.0 million EUR¹**, which is for 37.8 million EUR higher compared to previous year.

Export, investments and consumption are the main elements of economic growth in the year 2019



Higher inflation in the year 2019



¹ Unaudited financial results

2. Financial review of SKB Group

2.1 Good financial results of SKB Group

After being a part of Société Générale Group for 18 years, SKB Group, composed of SKB Bank, SKB Leasing and SKB Leasing Select, successfully joined the Hungarian OTP Bank Group in December 2019.

"Good financial results of SKB Group measured by gross operating income."

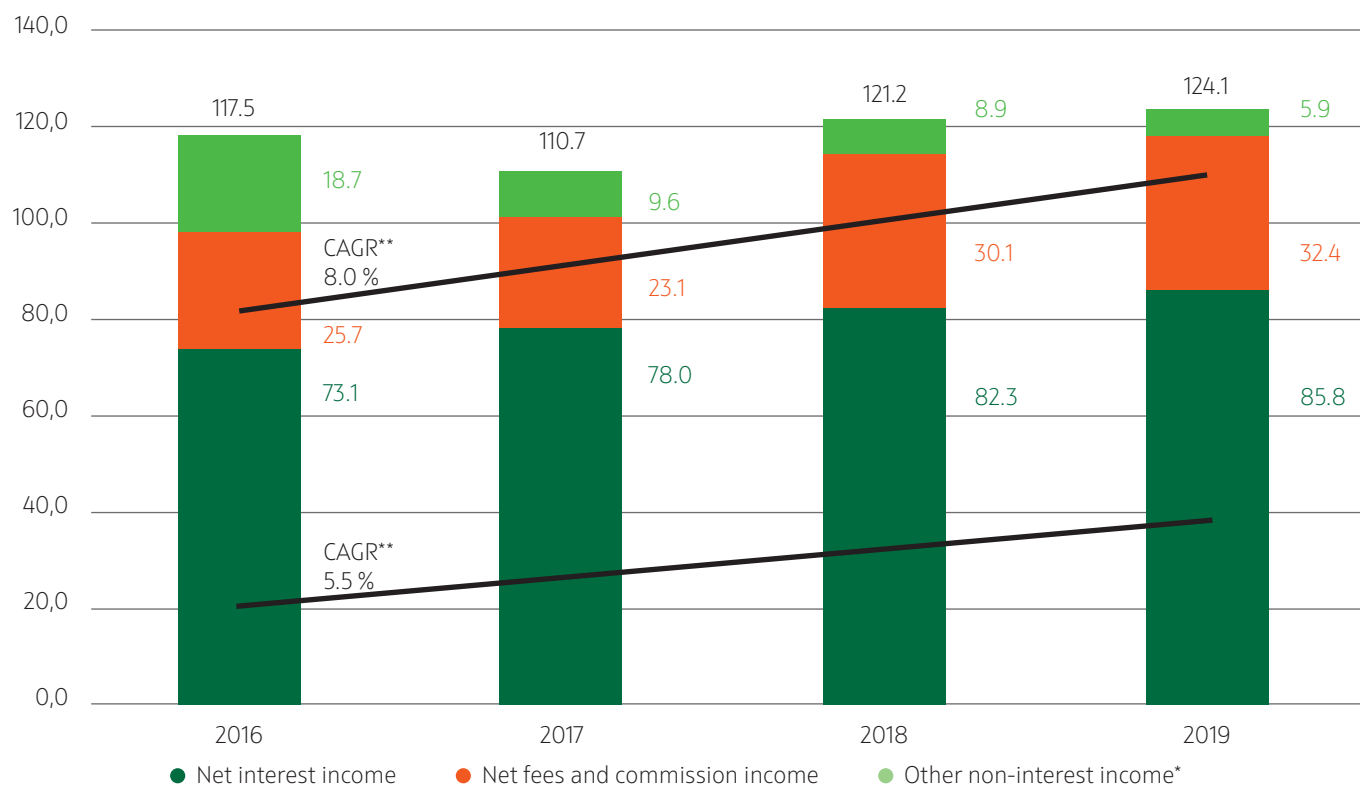
SKB Group completed financial year 2019 with net profit in the amount of 54.1 million EUR, by 3.5 million (-6.0 %) lower than in 2018. Lower net profit is a result of adjusting SKB Group's policies to the new owner's, including recognition of fair value of fixed assets. The Group's performance was successful in 2019, as it increased its gross operating income by 3.7 million EUR (+6.1 %) due to higher growth of net banking income and lower operating expenses. In 2019, SKB Group achieved a 14.8 % return on equity.

in 000 EUR	2019	2018	Difference	Change (%)
Net interest income	85,794	82,258	3,537	4.3
Net non-interest income	38,272	38,968	-696	-1.8
Net banking income	124,067	121,226	2,841	2.3
Operating expenses	-59,465	-60,360	896	-1.5
Gross operating income	64,602	60,866	3,736	6.1
Provisions and impairments	2,023	9,533	-7,510	-78.8
Other	-75	0	-75	
Profit before tax	66,551	70,399	-3,848	-5.5
Tax	-12,446	-12,830	384	-3.0
Net profit	54,105	57,569	-3,464	-6.0

**Impact of individual P&L items on SKB's Group net profit
(in million EUR)**



Elements of SKB Group's net banking income (in million EUR)



* Including extraordinary income from the sale of equity investments and loans measured at fair value.

**CAGR: Compound annual growth rate

In the negative interest rates environment for excess liquidity and increased competition in the Slovenian banking market, SKB Group generated 124.1 million EUR of net banking income in 2019, by 2.3 % more than in 2018. The increase was mainly driven by higher net interest income (+4.3 %), while net non-interest income was lower due to lower extraordinary income from sale and fair valuation of equity investments and loans measured at fair value (-1.8 %).

SKB Group's interest-bearing businesses accounted for more than two thirds of total net banking income and were therefore crucial drivers of results. In 2019, the Group increased its lending activity by 2.7 %: it strengthened customer lending and financial leasing. At the same time, it optimized its assets and liabilities by diverting part of its excess liquidity to intragroup financing. Despite these activities, the Group still encountered a problem of paying interest on excess liquidity. SKB Group's interest margin decreased by 4 basis points to 2.50 % in 2019, nevertheless SKB Bank still maintains a higher interest margin compared to the average of the Slovenian banking sector.

"Higher interest margin of SKB Bank than the average of the Slovenian banking sector."

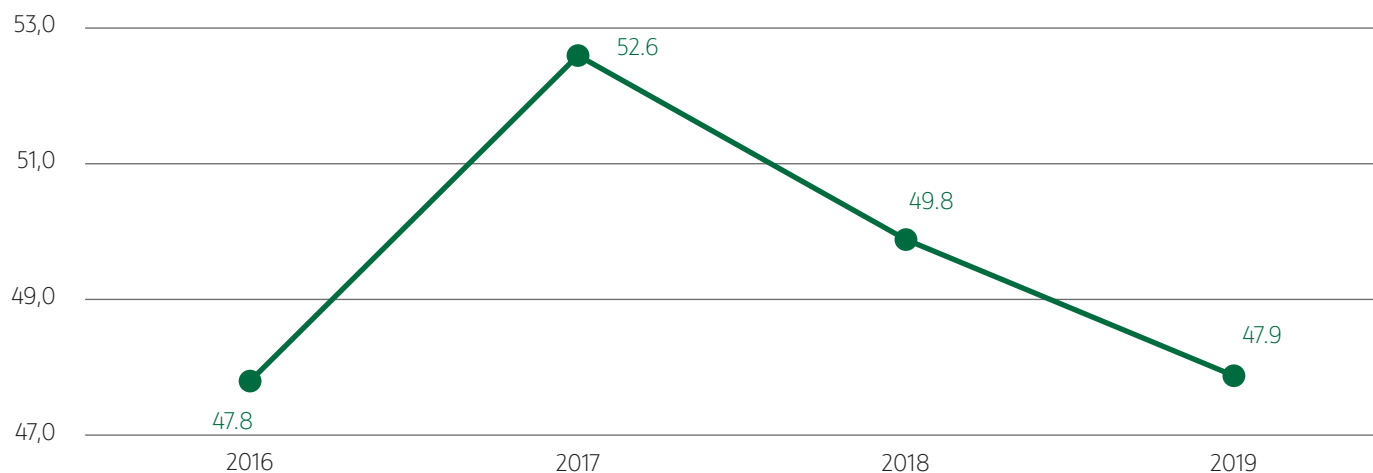
In order to approach its customers, SKB Group upgraded some of its existing products and sales channels with new functionalities in 2019. It supplemented its offer with Moorea investment funds and offered its customers a choice between S, M and L sized bank packages, which offer various bank services for a unified price. With enlarged volume of services, SKB Group increased its net fees and commission income by 7.5 % in 2019, also on account of higher revenues from card operations, payment services and brokerage business. Other net income from financial and non-financial assets and liabilities has been very volatile in recent years. In 2019, it was significantly influenced by fair valuation of equity investments and loans measured at fair value available for sale; SKB Group realized by 1.3 million EUR less income from these items than in previous year.

"Higher financial intermediation margin of SKB Bank than the average of the Slovenian banking sector."

In 2019, SKB Group thus achieved a 3.61 % financial intermediation margin, with SKB bank's financial intermediation margin exceeding that of the Slovenian banking sector on average.

SKB Group's careful monitoring and management of operating expenses, especially administrative expenses, has been its constant task for years. In 2019, the Group was particularly successful as it decreased its operating expenses by 0.9 million EUR (-1.5 %), despite increasing demands from regulators and legislatures and additional costs connected to joining the OTP Group. In 2019, SKB Group continued with automatization, digitalization and optimization of business processes. Staff costs remained at a similar level as in 2018, while general administrative expenses decreased. At the same time, depreciation costs increased due to IFRS 16 implementation, since operating lease costs, formerly part of general administrative expenses, became part of depreciation costs.

Cost to income ratio of SKB Group (in %)

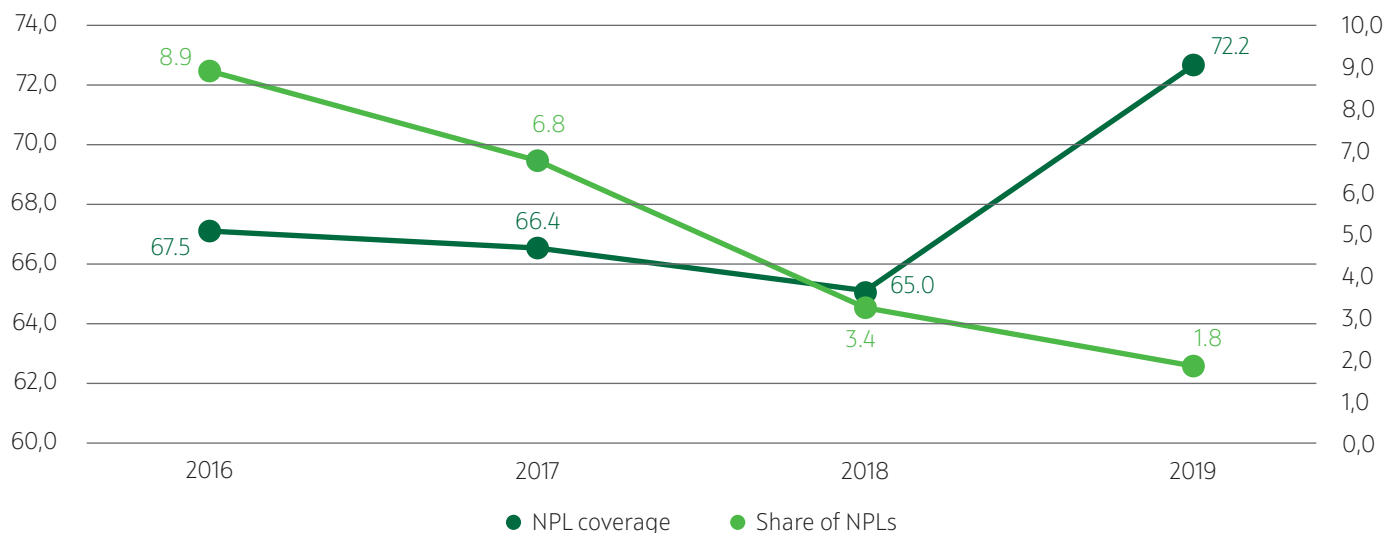


Cost efficiency of SKB Group improved in 2019; cost to income ratio decreased from 49.8 % in 2018 to 47.9 % in 2019. Compared to the average of the Slovenian banking sector, SKB Bank maintained a more favourable cost to income ratio.

"SKB Group successful in reducing operating expenses in 2019."

Income from reversals of **impairments and provisions** had a positive effect on SKB Group's net profit in 2019.

Quality of SKB Group's portfolio and NPL coverage (in %)



"Positive impact of reversals of net cost of risk on SKB Group's net profit. "

Due to reversals of impairments and provisions of some major deals and improved quality of the loan portfolio, SKB Group reported income from net cost of risk for the fourth consecutive year. The Group reduced its non-performing investments (NPL) to 1.8 %² at the end of 2019 from 3.4 % at the end of 2018. Coverage ratio increased from 65.0 % at the end of 2018 to 72.2 % at the end of 2019. At the same time, SKB Group made additional impairments due to adjustments to the OTP Group policies, and it also recorded fair value of fixed assets in accordance with the requirements of the new owner, which reduced income from reversals of impairments and provisions.

² Share of non-performing investments in total exposure (balance sheet and off-balance sheet).

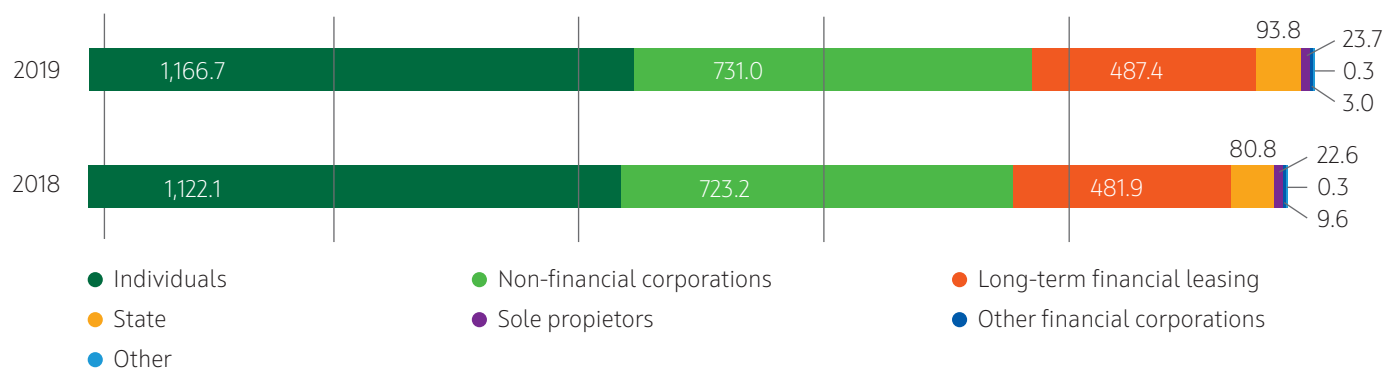
2.2 Assets and liabilities management

SKB Group	(in million EUR)	2019	2018	Difference	Change (%)
Cash, cash balances at central banks and other demand deposits at banks		250.2	190.2	60.1	31.6
Securities		522.5	518.4	4.1	0.8
Loans and financial leasing		2,510.5	2,489.9	20.6	0.8
• Loans to banks		0.5	45.3	-44.8	-98.8
• Loans to customers ³		2,505.8	2,440.3	65.4	2.7
• Other		4.1	4.2	-0.1	-2.2
Financial liabilities measured at amortised cost		2,975.4	2,914.8	60.6	2.1
• Banks and central banks deposits and loans		212.0	378.2	-166.2	-44.0
• Customer deposits		2,662.5	2,499.0	163.5	6.5
• Customer loans		70.0	0.0	70.0	100.0
• Other		30.8	37.6	-6.7	-17.9
Equity		365.5	356.5	9.0	2.5
BALANCE SHEET TOTAL		3,385.6	3,313.9	71.6	2.2

Cash, cash balances at central banks and other demand deposits at banks increased by 60.1 million EUR (+31.6 %) to 250.2 million EUR in 2019 on account of excess liquidity.

Securities present the Republic of Slovenia Bonds (378.8 million EUR) and the Republic of France bonds (137.7 million EUR), held with the purpose of mitigating interest rate risk of SKB Group. In 2019, the exposure to Slovenian bonds increased by 3.2 million EUR and by 0.8 million EUR to French bonds. Structured deposit amounted to 6.1 million EUR at the end of 2019.

Customer loans (in million EUR)



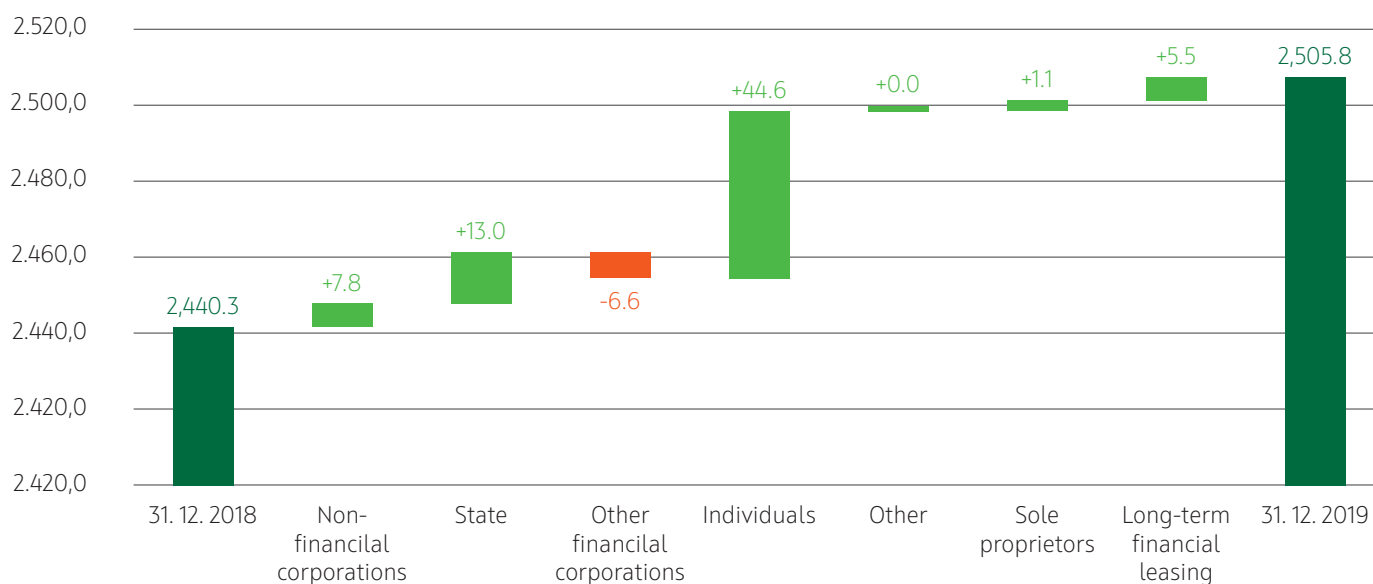
In 2019, **loans to customers⁴** increased by 65.4 million EUR (+2.7 %) and amounted to 2,505.8 million EUR at the end of the year. The highest growth was achieved on loans to individuals (+44.6 million EUR or +4.0 % higher), where SKB Group increased the volume of housing loans by 4.6 % (+38.8 million EUR), while consumer loans remained at a similar level as in prior year (+3.3 million or +1.4 %). In the last months of 2019, the growth of loans to individuals was marked by macro-prudential restrictions on household lending imposed by the Bank of Slovenia in November 2019. Loans to state increased by 13.0 million EUR (+16.1 %) to 93.8 million EUR in 2019 and loans to non-financial corporations increased by 7.8 million EUR (+1.1 %) to 731.0 million EUR, especially on account of higher lending to large corporates. Loans to other financial corporations decreased by 6.6 million EUR to 3.0 million EUR in 2019, while loans to sole proprietors and other loans remained at a similar level as at the end of prior year. In 2019, financial leasing increased by 5.5 million EUR (+1.1 %) to 487.4 million EUR, mostly on account of car leasing.

³ Includes loans measured at fair value and financial leasing.

⁴ Includes financial leasing.

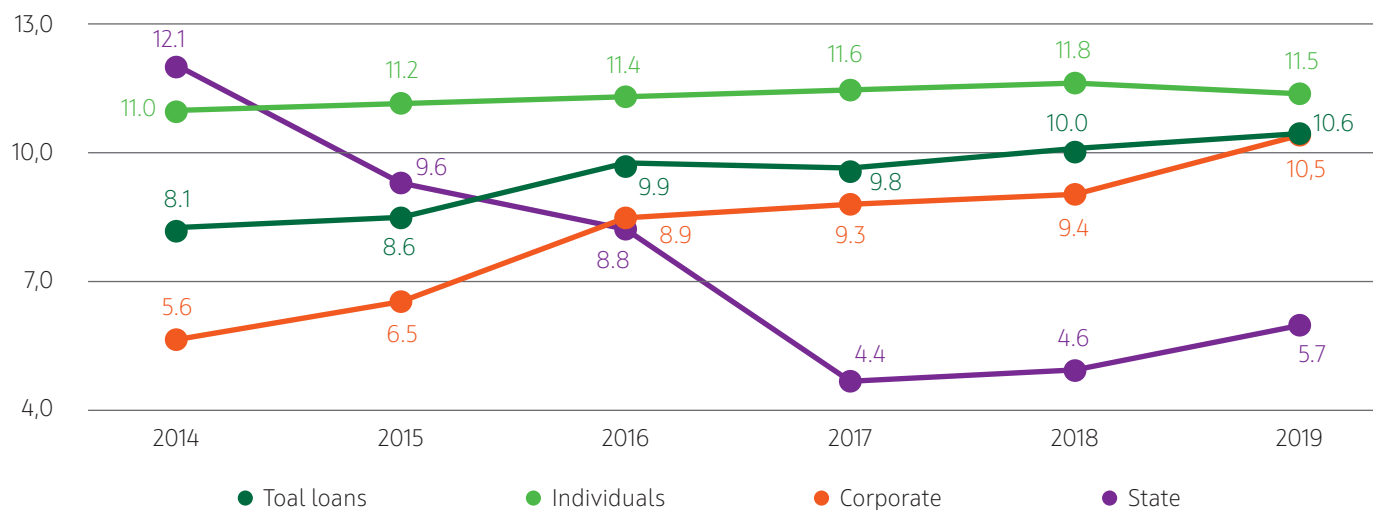
At the end of 2019, loans⁵ to deposits ratio (LTD) was 75.8 % compared to 78.4% at the end of 2018.

Customer loan compared to the same period last year (in million EUR)



"Increased volume of loans and leasing financing – generator of SKB Group's growth in interest income"

Customer loans market shares (in %)



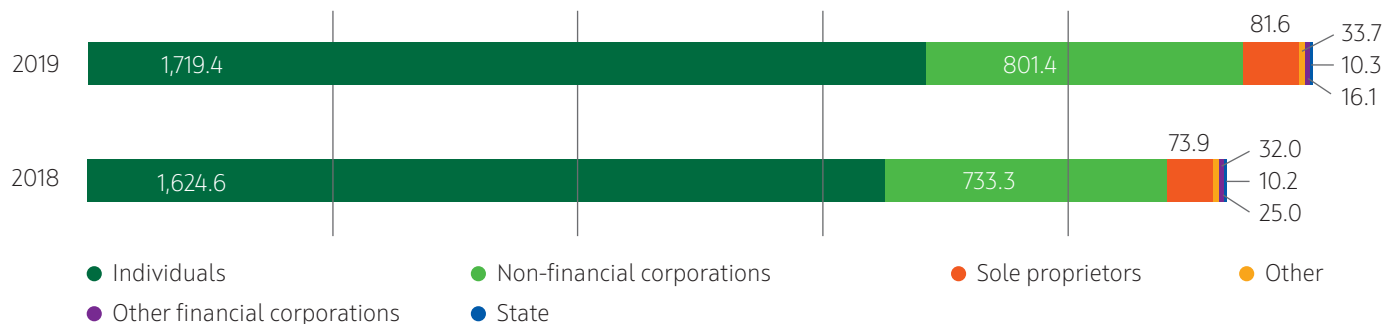
*Corporate includes non-financial corporations and sole proprietors

With optimization of liquidity reserves, SKB Bank increased its market share measured by loans to customers from 10.0 % at the end of 2018 to 10.6 % at the end of 2019.

⁵Excludes financial leasing.

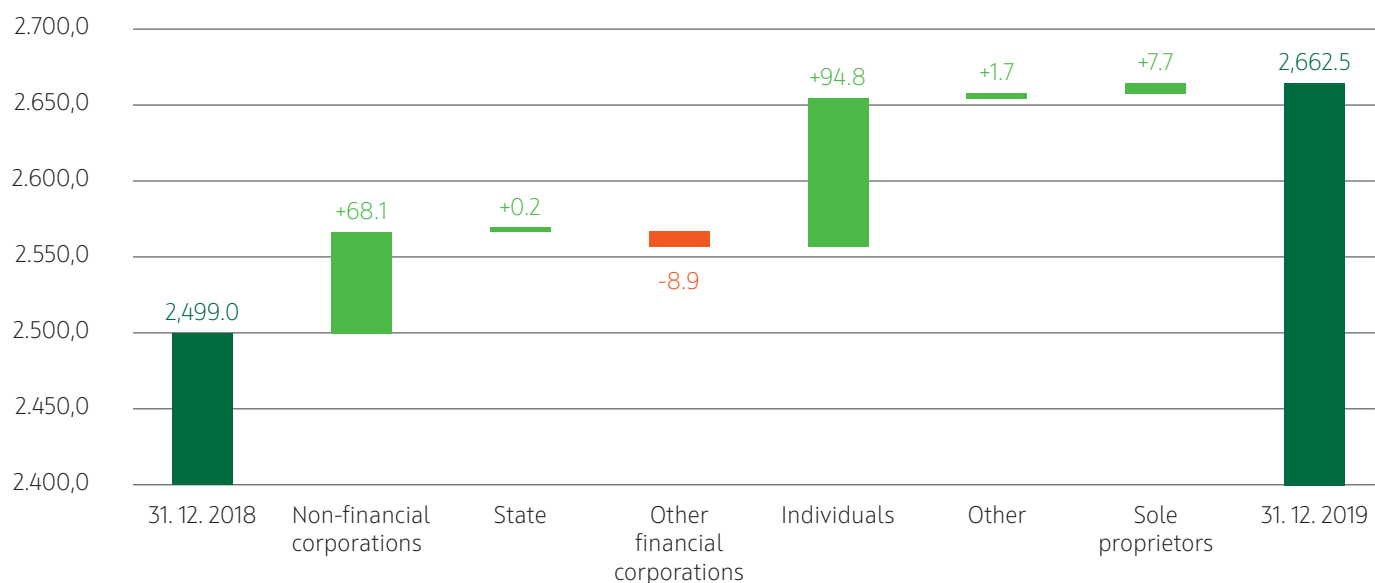
Due to optimization of intra-group financing, SKB Group's financing received from international financial institutions decreased by 96.2 million EUR to 282.0 million EUR in 2019.

Customer deposits (in million EUR)

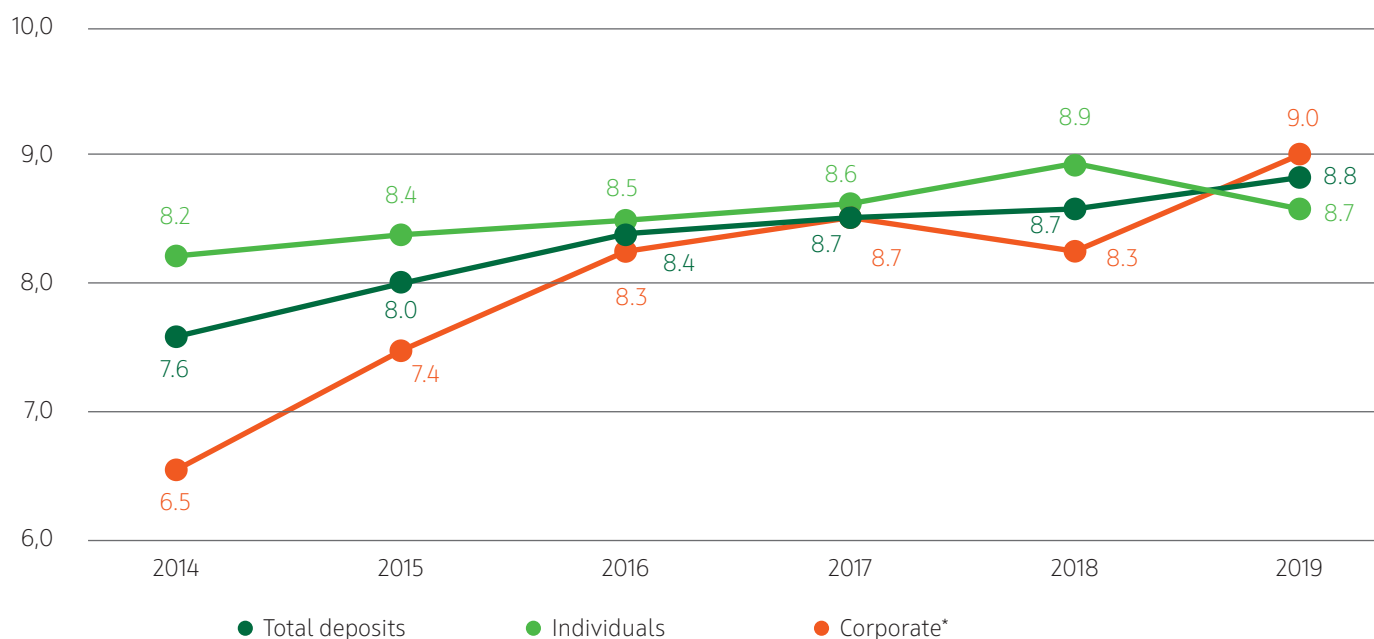


In 2019, liquidity of the banking system and SKB Group remained high. It was significantly influenced by **customer deposits**, which amounted to 2,662.5 million EUR and increased by 163.5 million EUR (+6.5 %) in 2019. Due to low deposit interest rates, growth of deposits with shorter maturities, especially sight deposits, continued in 2019. Deposits increased mainly due to higher collection of deposits from individuals (+94.8 million EUR or +5.8 %), where SKB Group again collected significant funds with its product savings account triple plus. Growth of deposits from non-financial corporations was also high (+68.1 million EUR or +9.3 %).

Customer deposits compared to the same last year (in million EUR)



Customer deposits market shares (in %)



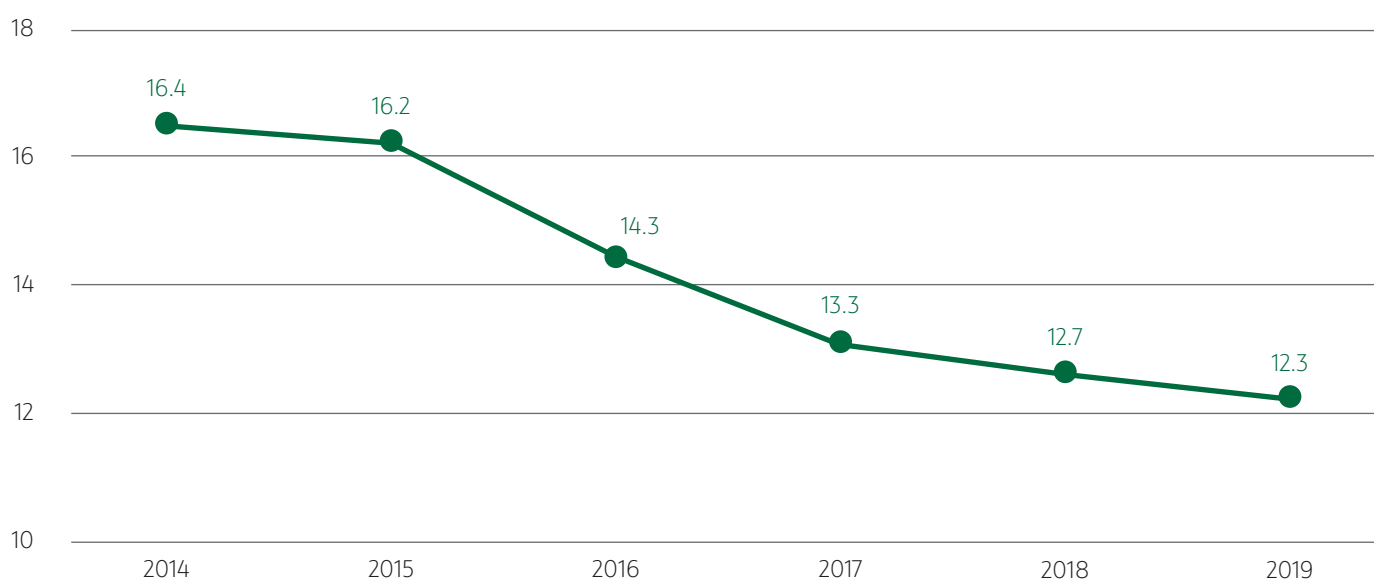
* Corporate includes non-financial corporations, sole proprietors and state.

In 2019, SKB Bank increased its market share measured by customer deposits by 18 basis points to 8.8 %, particularly on account of higher market share in the segment of corporates, whereas market share in the segment of individuals decreased.

"Business model that ensures capital strength of SKB Group"

SKB Group's capital base consists entirely of core capital. This ensures quality foundations for its operations, which also reflects in capital adequacy ratio (ratio between equity and risk weighted assets). At the end of December 2019 the capital adequacy ratio amounted to 12.3 %. In the last 4 years the Group's capital adequacy slightly decreased due to increased loan and financial leasing portfolios. Nevertheless, it remains safely above the regulatory defined minimum.

Evolution of Capital adequacy ratio (in %)



2.3 Important events after the closing of a business year

SKB launched the OTP integration program Link with the objective of harmonization of processes, organization and policies with OTP group. Project teams have been nominated for commercial area, finance, operations, risk management and remaining supporting processes, including control environment and compliance. The objective of the project teams is to identify the areas where the mother bank practices differ from ours and consequently with the goal to resolve major differences by mid of 2020.

One of the first steps was the harmonization of corporate identity with the mother bank requirements, where the bank focusses both on its classical sales channels by changing the visual identity of branches and also on digital channels by updating its applications. The alignment of card portfolio with new corporate identity is on-going and it will be finalized in the next year.

OTP bank offered EUR 25.54 in the takeover bid for the shares of SKB Bank, the offer expired on 13 February 2020, and OTP acquired 2188 shares or 0.017 % of the bank's shares, increasing SKB's ownership to 99.75 percent.

Due to COVID-19 epidemic in Slovenia SKB banka has, as at the end of February, started to notify its employees as well as the headquarters about the situation and activated crisis measures including action plan for the crisis leadership of the bank with the purpose to preserve staffs' health, continuing business activity and especially providing the necessary liquidity for the clients and the bank. For the time being there is no material impact on the banks' business and its economic performance.

3. Human resources

Human resources policy followed the SKB Group values and business guidelines based on teamwork, innovation, responsibility and commitment. New recruitments were carefully planned and conducted in accordance with the business policy of the Group, which is based on standardization and optimization of work processes.

Mobility of employees within the Bank ensured that we successfully filled gaps created by new needs of the working processes and thereby enabled employees to become familiar also with the work processes in other areas of the Bank's operations and with their innovative approach contribute to a sustainable growth of the Bank.

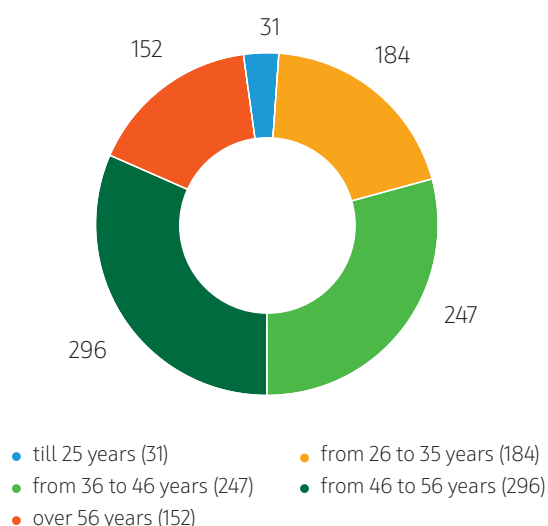
The 2019 Human Resources Structure

At the end of 2019 the SKB Group employed 910 people, of which 826 are bank employees (2018: 829), remaining 84 employees are employed in SKB Leasing and SKB Leasing Select (2018: 83). During the year 2019 we hired 101 new employees, their average age was 29,83 years, whereas 105 employees left the Group. Compared to the previous year the number of employees is the same.

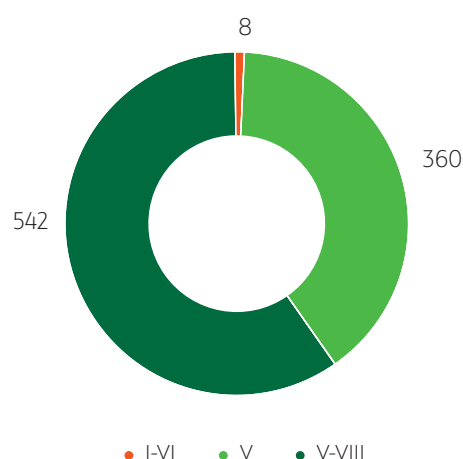
Employees SKB Group	2019	2018	2017
All (31. 12.)	910	912	912
FTE (31. 12.)	856	865	868

In 2019, the average age of employees was 44,1 years, which is slightly lower than in 2018 (44,4 years). The share of employees with post-secondary or third-level education increased by 0,22 %. Thus the Bank employed as many as 542 employees with post-secondary or third level education at the end of the year.

Age structure in SKB Group



Educational structure in SKB Group



Remuneration

In 2019 the Bank continued to follow guidelines established in the past for the remuneration of employees. The guidelines are based on employee's achievement and the promotion of individual progress. Since we wish to reward our best employees for their successfully performed work and motivate them for the future we continued to allocate a significant amount of funds for these incentives in 2019.

Training

We are convinced that the contribution to education and human resources development is of key importance for our success. Only trained employees can follow the rapid changes in the financial market, so we take care of the continuous and comprehensive training of our employees, and for this purpose we provide funds in advance.

In 2019, 25,066 training hours were conducted, which is on average 30 hours per employee. Each employee has attended at least one training.

Trainings are largely carried out by internal trainers, or they are involved in the design of content and performance at both the company's headquarters and the business network.

We also organize more trainings in the form of e-learning, with emphasis on operational risks, prevention of money laundering and terrorist financing and compliance. Such e-learning programs were organized at the group level and were compulsory for all employees.

The employees also took part in individual forms of external training with selected topics from their professional fields.

The trainings were largely aimed at the development of sales skills, skills for more effective leadership, and greater personal effectiveness and encouragement of teamwork.

We also regularly conduct foreign language courses, we have 3 different level groups for the English language. If necessary, we also organize "tailor made" English language learning programs for different work fields and individual Slovenian language course for expatriates.

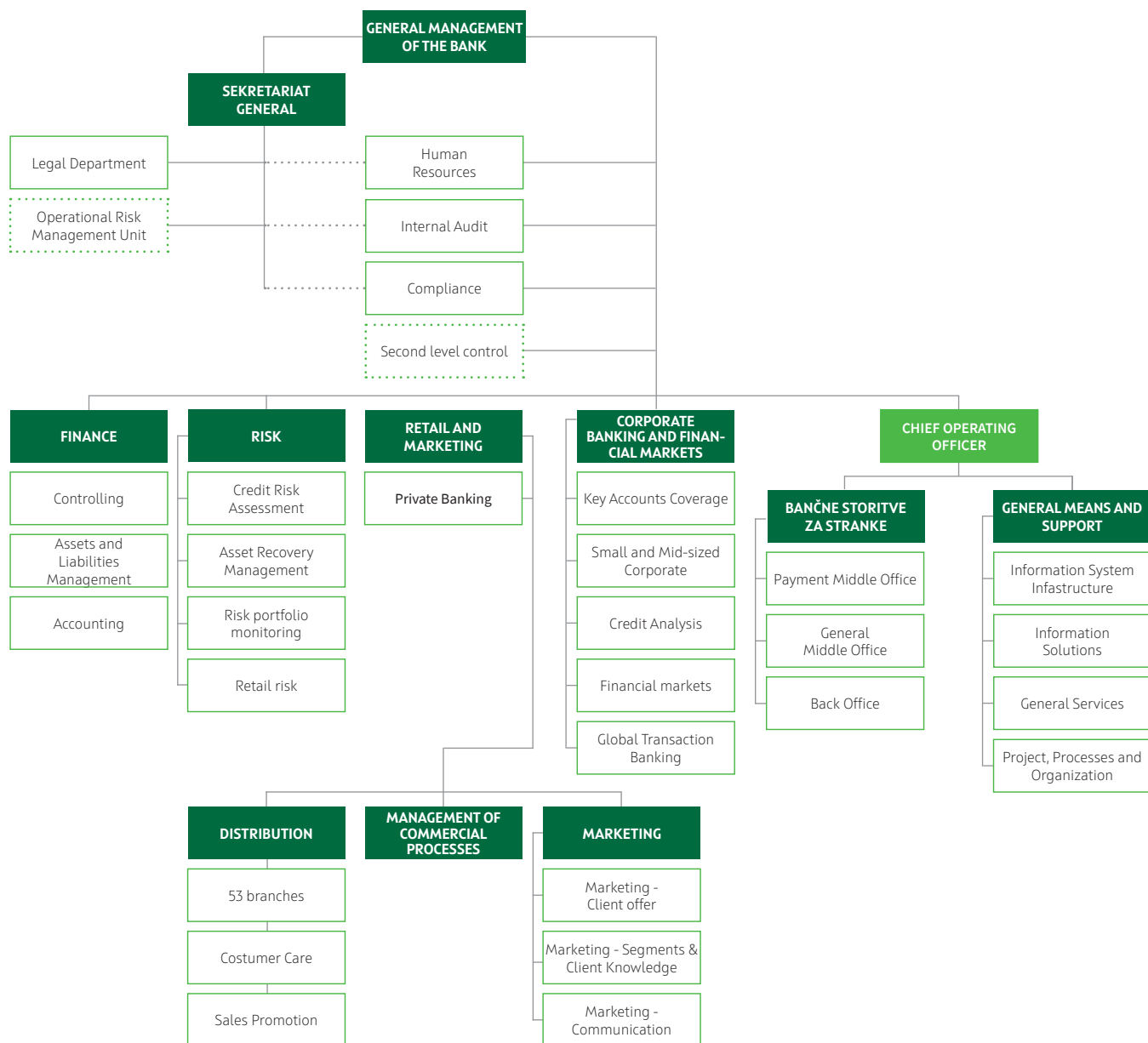
As an ex-parent bank Société Générale offered us great support in acquiring expertise, as well as managerial and other skills, by enabling us to attend training sessions at the headquarters in Paris or its affiliates. The same applies to their knowledge and know-how which are successfully transferred in our bank.

Health and safety at work

In 2019 we referred a total of 155 employees to periodical medical examinations in accordance with Health risk assessment for typical jobs in the Bank.

In accordance with The Health Risk Assessment, of which the main goal is preventing injuries at work, health issues regarding occupational hazards, we carried out 31 trainings and tests of our employees' knowledge in the field of workplace safety. We also organized 31 fire safety training courses and 17 training courses for persons responsible for evacuation and firefighting. Employees are also regularly referred to periodic first aid courses for companies, and we organize training for the usage of a defibrillator which is located at the office entrance at the bank headquarters.

3.1. Organization chart of the bank (on 31 December 2019)



4. Statement about non finance operations

4.1 Organizational governance

For many years, the SKB Group has been committed to being socially responsible and supporting sustainable development, recognizing that inclusion and commitment to the environment are key to its success. When monitoring activities, we follow the structure set out in ISO 26000. We show our support and commitment to the environment in which we operate through various forms of support, sponsorships, donations and other forms. As SKB operates in Slovenia, which is an EU member state, it is distinguished by a high level of respect for human rights. The commitment to high standards of respect for human rights also stems from SKB's affiliation with the OTP International Banking Group. As a responsible employer, the HR policy of the SKB Group seeks to properly understand and anticipate the challenges and upcoming changes, both in the broader industry and in the banking sector. Appropriate training and skills development help employees to carry out their work on a day-to-day basis, as well as to implement changes resulting from amended legislation or business processes. Because SKB is aware of its responsibility to the environment, we are pursuing the goals of environmental policy in the Republic of Slovenia and beyond. SKB Banka's goal is to provide clients with affordable and efficient banking products tailored to their customers' needs.

4.2 Human rights

SKB is doing business operations in Slovenia, a member of EU, with high level of human rights respect. SKB's employees are committed to high standards of human rights respect also as a member of OTP Group.

SKB Group strictly strives to maintain gender equality as well as other rights of employees, related to employment.

Employees have the right to use the whistleblowing channel with non-disclosure of whistle-blower's identity. Whistleblowing rules are put into practice by using the specially created e-mail address: opozorilo.opozorilo@skb.si.

4.3 Fight against corruption and bribery

The SKB Group has internal rules in place to prevent corruption, following the strict anti-corruption principles.

Corruption prevention is included in the work of the Operational Risk and Compliance Committee, which meets quarterly. The Bank has introduced special internal training on this subject, which is compulsory for all employees. In addition SKB's measures and rules in the area of anti-money laundering and terrorist financing include monitoring of possible abuses of the banking system also in terms of corrupt practices.

4.4 Labour practices

The SKB Group's human resource policy purpose was to adequately understand and anticipate challenges and upcoming changes both in the wider business aspect as well as in the banking environment.

With appropriate training and skills development, SKB Group helped employees in their day-to-day work, as well as in the implementation of changes that resulted from changes in legislation or business processes.

Support to changing banking environment

The banking environment is changing considerably; along with these there are changes in the expectations of our customers, the technology that goes towards the digitization of business and the legal frameworks. All these changes affect the operations of SKB Group and the skills of employees that are necessary for successful performance. In SKB Group, various training were conducted, which were attended by almost all employees. SKB Bank organized 233 different training courses which represents 25.066 training hours. Training programs were focused on the area of banking regulation, risk management, compliance, sales and customer relations, management of employees and development of personal and behavioural competencies of employees. In recent years, we updated the way trainings are provided. A large majority of employees in SKB Bank participated in various e-learning trainings.

Developing a banking culture based on common values

The corporate culture of SKB Group is based on common values, behaviours and skills that place our clients and their needs in the centre.

With this in mind, we implemented a few years ago a leadership model that was based on four values - group spirit, innovation, commitment and responsibility, and incorporated them into desirable behaviours, skills and knowledge that enables employees to focus on customers in order to identify their needs.

The Leadership model plays a key role in all human resources processes:

- In the recruitment process, it enables identification of characteristics of the candidates and select the most suitable ones among them.
- In the process of annual appraisal interviews, the leadership model serves as a guide to determine operational objectives and personal development objectives of employees, and consequently enables the evaluation of not only the achieved objectives, but also the way how these objectives were achieved.
- Leadership model is a framework for preparation of succession plan and detection of prospective employees.

Care for employees' commitment

Special attention is paid to the commitment of our employees, which is crucial for the success of the Bank. Recognizing the contribution of every individual, ensuring a safe working environment and the diversity of our teams are the key to maintaining the commitment of our employees and, consequently, our effectiveness.

SKB Group continued to follow guidelines established in the past for the remuneration of employees. The guidelines are based on employees' achievement and the promotion of individual progress. Since we wish to reward our best employees for their successfully performed work and motivate them for the future we continued to allocate a significant amount of funds for these kind of incentives in 2019.

The safe working environment and the health of employees at the workplace are crucial in SKB Group, as they provide an attractive, efficient and sustainable working environment for employees in the long run.

For this purpose, a Safety Statement has been designed to prevent injuries and to protect health in the workplace. Our employees are offered training in the field of occupational safety and periodic medical examinations.

In addition to a safe working environment, much attention is paid to the social aspect of the working environment by organizing social events for employees and their family members.

In SKB Group we also have appointed an employee whom the employees can contact in case of suspected harassment at work and seek help.

Concern for gender diversity reflects in the ability of our SKB Group to choose a candidate or existing employees who have the capabilities best suited to the type of job or function without any bias. This approach is taken into account at all hierarchical levels in the SKB Group.

SKB Group strives to balance the representation of both genders at all levels as well as the diversity in knowledge, competencies and experiences.

At the end of 2019 the SKB Board of Directors had out of six members four female members, the Bank's Management had two female members; the wider management of the bank had out of four members two female members; in the middle management, the share of women was 66 % and among all employees, approximately 70 % are female.

SKB Group also provides assistance to those in need. In cases where individual employees come into difficulties for various reasons, SKB offered and provided them with professional and financial assistance; namely assistance in cases of natural disasters, workplace challenges or family situations.

4.5 The environment

Prevention of pollution

In SKB, we are aware of our responsibility towards environment and we are following environmental policy defined in Republic of Slovenia. Despite change of owner and consequently our exit from Société Générale Group Planetic Reporting project, we will in cooperation with new owner OTP group continue to perform activities related to supervision and improvements in area of our energy consumption and environmental effects from our operations:

- Monitoring energy consumption, which includes energy consumption decrease and implementation of renewable and environmental friendly sources of energy,
- Monitoring of company trips, implementation of measures to decrease them and substitution of business trips with other technical solutions for distant communicating,
- Monitoring of paper consumption with implementation of measures for decrease consumption and usage of environmental friendly (recycled) paper,
- Waste management for proper handling of waste produced in SKB Group.

Data is collected based on invoices, measurements and estimation. Consumption of energy, paper and transport has major effect on CO₂ emissions, so with monitoring and actions for decrease of consumption we are decreasing level of CO₂ resulted from our operations.

Sustainable resource use

SKB is constantly decreasing energy consumption in KWH/occupant. We decreased energy consumption in 2019 in comparison to 2018 for 1.56 % (from 5.199 KWH/occupant to 5.118 KWH/occupant) and based on 2014 for 7,28 % (from 5.520 to 5.118 KWH/occupant).

In 2019 we renovated two branches in which we installed new LED lighting and new more modern air conditioners.

We intend to continue our efforts in next years by additional investments in more energy efficient IT equipment and other equipment, with which we constantly decrease consumption of electrical energy and also energy for heating. In 2020 we are planning the replacement of existing ATM's with new modern ones (less energy consumptive and more environmental friendly). For period 2021-2023 renovation of Head Quarter premises is forecasted, where we plan to implement environmental friendly materials, less consumptive HVAC devices and LED lighting.

Important contribution to energy consumption decrease represents also awareness of our employees for environmental friendly behaviour. We are introducing regularly our environmental activities to them.

Climate change mitigation and adaptation

By decreasing energy and paper consumption we are decreasing also our CO2 emissions.

We intend to increase the share of energy produced from renewable sources in our energy mix and to decrease our CO2 emissions even further.

We are introducing alternative ways of business communication (tele conferences, videoconferences, e-learning) with the goal to reduce number of business trips and consequently also CO2 emissions from transport.

Protection of the environment, biodiversity and restoration of natural habitats

SKB actively manage waste produced by our business operations. All activities are performed in line with the valid legislation and with intention to preserve our environment for the future generations.

After completed process of shredding, our paper documentation is delivered for recycling. Electronic waste equipment from our branches is centrally collected in HQ building and delivered to licensed collecting company, which arranges further recycling of still usable materials and proper destroying of non-usable materials.

SKB implemented sorted communal waste collection in 2011. We regularly remind our employees to achieve the proper awareness on importance of sorting waste and on decreasing production of waste in general. Consequently the percentage of properly sorted waste in bank is increasing year after year.

4.6 Consumer relations

Fair marketing, fact-based and unbiased information and fair contractual practices

We pursue our corporate values in cooperation with clients and we make sure our documentation is clear, transparent and up to date. We remain in contact with our clients and inform them regularly on any changes. In cooperating with our clients, we pursue our strategy of ensuring professionally trained human resources who present the diverse portfolio of quality products and services and in the same time keep in mind the level of risk, presented by the operation.

Protecting consumers' health and safety

We ensure safety of the clients, the employees and the property in accordance with the Private Securities Act. We ensure that the security policy and the provisions of security standards are respected. In order to ensure an adequate level of security, we carry out mechanical, technical, organisational and supervision measures that form a wholesome security system.

Consumer service, support, and complaint and dispute resolution

With all due awareness and in line with keeping in mind that our clients are always at the centre of our attention, we also enable and manage the system for handling complaints. By doing so, we can create a more likeable bank for our clients with excellent operations and ensured better user experience. We conduct quarterly reviews of the Report on customer complaints in cooperation with the Customer Experience Committee and in the presence of the Bank's General Management. We also prepare short weekly reports in order to continuously monitor the state of satisfaction of our clients. The customer's experience is regularly monitored and measured by a survey after contacting the bank.

Consumer data protection and privacy

In SKB Group we consider respecting personal data protection and privacy as a basic right of our clients. We follow this principle by ensuring compliance with the General Data Protection Regulation. SKB has reviewed all processed data and assessed risk and risk mitigates. In addition, it has formalised the relationships with processors to maintain the same level of personal data protection. The clients are informed on all the rights, related to personal data protection, on the website of the bank. Through dpo@skb.si the clients can contact the Data Protection Officer, who handles all requests in due time.

Access to essential services

The goal of SKB Bank is to enable its client's affordable and efficient operations with banking products, adjusted to their needs. For this purpose, we developed an offer of packages (Moj S, Moj M, Moj L) in 2019, which includes a selection of banking products, joined together based on the scope of the client's operation with the bank. The packages bring transparency in monthly costs, as they are fixed. If the client notices his/her needs have changed, he/she can always change the package. We also offer our clients a free personal account with no fee for account keeping for the purpose of receiving regular income; all other banking services can be added in accordance with the bank's regular pricelist. Clients with a special social status have at their disposal a basic payment personal account, which includes basic services of daily banking.

4.7 Community involvement and development

Community involvement

For many years, SKB Bank has strived to be socially responsible and has supported sustainable development, as inclusion and commitment to environment are keys to success. The support and commitment towards environment are evident through support, sponsorships, donations and other forms of inclusion in cultural, sports, educational, humanitarian and philanthropic organisations and their projects. With the upgrading of IT equipment, we removed more than 200 older but still operational printers from regular use at SKB. Part of these printers has been donated to the Sustainable Development Association Duh časa, which is dedicated to collecting computer equipment for the socially disadvantaged. With its inclusion in the environment, SKB Bank wants to show its respect towards nature, community, clients, employees and everything that forms the environment in which we do business.

Education and culture

SKB Bank strives to educate its employees and clients in the field of personal and business finance. We also offer our employees participation in sports projects and occasionally organise a professionally led work-out for employees, which serves as a brief relaxing recreation during working hours. We also try to take care of the environment with the project of urban beekeeping, which aims to preserve the Carniolan grey bee, an indigenous bee species in the Slovenian environment. The maintenance and custody over the urban bee hive enable us to have a unique teambuilding, where we combine pleasure with usefulness.

Employment creation and skills development

We are aware of the importance of spreading knowledge and expanding the circle of employees, which are with us for a long time or have just joined us, therefore we issue calls for applications on different platforms, where we reach a wide and diverse circle of potential new colleagues. At the same time, we take care of the development of skills for our employees, who can participate in various educational trainings, where they improve and upgrade their expertise. In the sector Business network and marketing – Sales promotion for the purposes of accepting newly employed people in the Business network who are gaining their first experience in the field of banking, a workshop was prepared with improvised cash register and professionally equipped office, where the introductory trainings take place before the employee actively and independently begins with his/her work. The educational trainings are conducted by experienced sales promoters.

Technology development and access

The future of banking is in searching for new, innovative solutions and digitalisation, which are also our values in development and enable our clients' simplified procedures and processes, through which they cooperate with the bank and use the banking products and services. Therefore, we aim to upgrade already existing banking products of the future, such as internet and mobile banking. At the same time, we are constantly monitoring user experience of our clients through studies and develop solutions based on the results.

Wealth and income creation

SKB Group strives to include local suppliers in projects in which we take part and in challenges we face and thus participate in the support of development and growth of Slovenian experts and companies. We want to cooperate and to be included in the environment, in which we conduct business, therefore we monitor and support local projects and initiatives of local communities.

Health

Health comes first and we at the SKB Group are very aware of that, therefore we are supporters of Slovenian sports for the 27th consecutive year and we pride ourselves to be the main sponsor of the Olympic Committee of Slovenia (OCS). In 2019 we again showed our support in the form of personal sponsorship to the young, perspective Slovenian athlete Maruša Mišmaš, who is also an SKB ambassador for the movement #Vztrajam, which encourages people to take up sports and lead a healthy lifestyle. In 2019 a new #Inevergiveup (#Vztrajam) ambassador joined us – Darko Đurić, a Slovenian swimmer and a para-Olympic athlete, who despite handicap strives to achieve his goals with a positive perspective on life. We also cooperate with him in the form of personal sponsorship; Darko Đurić is an excellent motivator and a living proof that the perseverance pays off. But #Vztrajam became so much more than a motivation in sports; it now stands for a true motivational movement that surpassed the borders of sports, as it motivates us in all life projects and goals. Through communication channels, such as social networks, we reach a wide audience of people and give them a chance to share their challenges, victories and experiences, and we encourage them to be active and reach the set goals by posting motivational videos and messages.

We support improving and caring for our health also in the form of SKB Sports club, in which a half of all employees is included, among which one tenth consists of already retired employees of the SKB Group. Employees can choose between regular weekly activities and organised sports events for employees, such as: Sports games for bankers of Slovenia, Winter Bankers Olympics, SKB Cup, and the Ljubljana and Istria marathons.

Social investment

SKB is the main sponsor of the Olympic Committee of Slovenia (OKS) for over a quarter of the century. Commitment to sport with main sponsorship of Slovenian Olympic athletes additionally emphasises one of the main corporate values – team spirit, which is surely an important value in Slovenian sport and Olympic spirit. Olympic values, such as team spirit, hard work, perseverance, commitment, sacrifice and professionalism reflect through sponsorship also on our employees, who live these values in their relation to colleagues and clients. In cooperation with the Olympic Committee, our employees took part in the charity run and contributed to the Foundation for Sports under the auspices of the OKS. We also support the SKB Pensioner's club, SKB Sports Association and offer an adjusted banking offer to young OKS scholarship holders from socially deprived families.

In the context of payments for humanitarian purposes, we do not charge the cost of payments to more than 60 different humanitarian organizations and associations, thus contributing to the environment in which we operate.



5. Corporate governance

5.1. System of internal controls

In line with international rules and standards and Slovene regulation on internal governance SKB has implemented and detailed internal control mechanisms.

Internal control mechanisms consist of internal controls (e.g.: reporting, operational procedures including IT systems, segregation of responsibilities, risk exposure limits, logical and physical controls) and independent internal control functions: internal audit, risk management functions of various risks or individual demands/conditions for the banking operation, compliance function and data protection function. Internal control's activities are performed on all the levels of organizational structure of the bank and on the level of each financial service and within the framework of daily business activities of the bank.

System of internal controls in SKB d.d. is divided into two groups:

- Permanent controls (i.e. permanent supervision, control of various risks),
- Periodic controls (i.e. internal audit).

System of internal controls in SKB d.d. is further divided into following levels:

- Permanent Supervision as permanent form of control - first level,
- Second level permanent controls and risks and conditions of banking operation as permanent form of control - second level,
- Internal audit - third level.

Permanent supervision is a first level of controls which consists of the following:

- Day to day security of daily tasks and activities provided by all employees by correct and consistent application of the rules and internal operational procedures and processes including simultaneous elimination of irregularities. Day to day controls, included in a business process are automated and non-automated, and they include for example: physical controls, verification of compliance with defined limits, established system of approvals and authorisations, system of verification and reconciliation, reporting system, and they may be a part of IT supported system of the bank or a part of operational processes; and
- Formalised supervision by heads of organisational units of the bank or other persons, who are independent from the business process – so called managerial supervision - in the form of periodical verifications of correct application of working procedures and accounts considered as sensitive, and in accordance with control guidelines, in formalised registers and with hierarchical reports on every performed supervision.

Aiming at better management of risks related to Finance, Compliance and Risks areas the second level of permanent control system has been established.

The Operational Risk Management Department, within division Secretariat General, is directly responsible to the General Secretary and General Management. The main tasks of this department are coordination of the functions of operational risk, crisis plan and business continuity plan and permanent supervision as the first level of controls in the bank. Compliance risks are coordinated by Compliance Department, which also has a direct reporting line to the General Management.

In the functional sense of permanent supervision there is also supervision of the following risks or conditions of banking operation as part of second level permanent control: business risks, credit risks, market risks, operational risks, IT and data security risks, physical security risks, legal risks, compliance risks, tax risks, interest risks, capital risks, capital adequacy and internal capital, concentration risks, liquidity risks, strategic risks, reputation risks, profitability risks, risks with respect to the introduction of new products or services, risks with respect to outsourcing, remuneration policy risks, assessment of suitability risks for members of the Board of Directors and key function holders.

Responsible persons for individual risk or for individual demand/condition of banking operation, are each for his/her own area, directly responsible to the General Management and shall report to the General Management and also directly to the Board of Directors and relevant committees of the Board of Directors.

Beside instructions and procedures from every working field in the bank or those which regulate actions of employees and are designed for preventive behaviour with the aim to avoid potential risks and to assure safe and diligent operation of the bank as well as to build a control culture, there are also

- rules of ethical behaviour of employees,
- rules and procedures for summons of Crisis committee, which apply in cases of an incident which may have an important influence on banking operation (continuity of operation and/or financial risks) in case of extraordinary unpredictable events and catastrophe,
- Business continuity plan of the bank which provide adequate conditions for continuous operation of the bank in case of serious business disturbances and to limit potential negative consequences.

Internal audit comprises tasks of Internal Audit Department (third level of control) as an independent organisational unit of the bank, which is responsible for internal audit of the bank and its subsidiaries, and directly subordinated to the General Management.

Purpose, tasks, powers and scope of work of Internal audit as well as internal audit procedures, including planning and reporting, are defined in detail by the valid Rules on Internal audit operation, adopted by the General Management and confirmed by the Board of Directors.

Compliance functions as a separate part of internal control functions in SKB include:

- special compliance functions, i.e. prevention of money laundering and terrorism financing (AMLFT), which includes also rules on Know Your Client (KYC), restrictive measures (embargoes and sanctions), FATCA and CRS and personal data protection function
- general compliance function which include advisory and educational function and compliance watch function (new laws, relevant for banking operations) and coordination of procedures of regulators against the bank. Risk of non-compliance includes risk of legal or regulatory sanctions or risk of significant financial losses or reputation risk due to non-compliance of bank with relevant laws and regulation.

5.2. Internal audit report

The Internal Audit Department of SKB d.d. acts in compliance with the provisions of the Slovenian Banking Act and other relevant legislation, acts in line with the International Standards for the Professional Practice of Internal Auditing, follows the Code of Ethics of Internal Auditors and the Code of Internal Auditing Principles. The Department reports directly to the bank management, Board of Directors and its Audit Committee. Such set up is defined also in the Rules on the work of the Internal Audit Department of SKB d.d., their content is checked on annual basis and updated if needed. Until the change in ownership, it was also integrated to the organization of the global division of Internal Audit (IGAD) within the SG Group. The organizational independence of the Department has been effectively achieved also during the year 2019.

The Department is independent and objective, oriented towards a systematic and professional approach at monitoring the decision making process on all bank areas, also at risk management, control environment and corporate governance assessment. It gives assurance that risks related to the key areas of the bank have been adequately managed. Criteria in assessing the system of internal controls and efficient risk management are valid legislation and connected guidelines, best practices and guidelines of the mother banking group. Additionally, with issued recommendations, the Department strives for improved overall effectiveness of the bank. The Department verifies the adequacy of risk management and control system, recommends improvements and best practices, gives advice to the bank management and to other parts of the bank, as well as takes care for increasing risks awareness, fraud prevention and internal controls awareness at all organizational levels. Moreover the Department regularly reviews the remuneration policy of the bank and reports the findings to the Compensation and Benefits committee of the Board of Directors.

The Department is in charge of carrying out all types of audit engagements of all units, functions and processes, by covering primarily all the major risks and the most important operations, including the fulfillment of all regulatory requested missions. In addition, it also provides coverage for the bank daughter leasing companies (SKB Leasing d.o.o. and SKB Leasing Select d.o.o.).

The Department's engagements are driven by the Annual Internal Audit Plan, prepared mainly on the basis of risk assessments of the bank's risks and business areas priorities, using a methodology shared across the banking group. The Annual Plan is also aligned with the Strategic Audit Plan, both are approved by the bank management and confirmed by the Board of Directors, on the proposal of the Audit Committee. Nevertheless the Department also responds to immediate needs of the bank as well, by performing special and unplanned audit missions (upon special demand of the bank management or when frauds are suspected; when major irregularities are discovered or when higher risks arise). In 2019, the Department also participated in joined audit engagements within the mother banking group.

During the year 2019, the Audit Plan for 2019 was successfully completed by performing 14 engagements, at the end of December 2019, 2 reports were in status "draft report issued" and were finalized in the first week of January 2020. One audit mission, foreseen in the Annual Audit Plan, was cancelled with the consent of the Board of Directors, due to delays in the channels strategy implementation. In addition, Internal Auditors devoted significant time to assure strict and regular follow up of open recommendations, including recommendations issued by ECB, gave advice, while constantly assuring enriched expertise within the team of 7, resulting in fulfilling also the mandatory requirements of appropriate knowledge, experiences and licenses.

On a regular basis, the Department prepared exhaustive reports for the Audit Committee and Board of Directors, highlighting the main findings and significant recommendations issued, with a special focus on long term pending recommendations, the number of those importantly decreased also in 2019, reaching no overdue recommendations at the end of the year. During 2019 auditing, the Department did not encounter any critical risks or importantly deficient control environment that would endanger the stability of the bank. Based on audit missions' conclusions, the Department can confirm adequate management of the most important risks, adequate control environment and corporate governance. Moreover, within its review of remuneration policy set up and implementation, the Department also assessed these activities as adequate. Following up on the realization of issued recommendations, the Department ascertains that the recommendations have been in major part implemented in line with the initially set deadlines, with very few exceptions related to the bank projects activities, where new action plans have been proposed and agreed.

The Department is continuously striving to improve its expertise, relaying also on best practices within the mother banking group and by sharing the knowledge with other Slovene banks' internal audit teams.

5.3. Corporate governance statement of SKB d.d.

In order to achieve a high level of transparency in the management, SKB d.d. issues management declaration as a part of the business part of the Annual Report. SKB d.d. implements internal governance arrangements in accordance with the legislation and regulations in force in the Republic of Slovenia, while respecting internal acts and, the guidelines of parent company. SKB d.d. fully takes into account the acts referred to in the second paragraph of Article 9 of the Banking Act⁶.

In order to strengthen the internal governance arrangements in our operations, we take into account, in particular:

- 1) The provisions of the applicable Banking Act, which define the internal governance arrangements, in particular the provisions of Chapter 3.4 (Bank Management System), and Chapter 6 (Internal management arrangements and adequacy of internal capital), in the part of the requirements applicable to a bank / savings bank or to members of the management body,
- 2) Regulation on Internal Governance Arrangements, the management body and the Internal Capital Adequacy Assessment Process for banks and savings banks⁷ and
- 3) EBA guidelines regulating internal governance, assessment of suitability of members of the management body and holders of key functions, and remuneration policies and practices, on the basis of relevant decisions of the Bank of Slovenia on implementation of these guidelines⁸.

At the same time, we strive to consider, to the greatest extent possible, the non-binding recommendations of the Bank of Slovenia.

By signing this declaration, we also commit ourselves to further proactive actions in order to strengthen and promote the appropriate arrangement of internal governance and corporate integrity to the wider professional, financial, economic and other public.

Description of the main features of internal controls and risk management in relation to the financial reporting process

Internal controls provide adequate risk management, accounting, internal and external financial accounting reporting, and legal and business ethical performance of the Bank. Internal controls are established in processes and organizational units' at all organizational levels of operations of the Bank and the Group.

SKB d.d. respects the provisions of the Companies Act and the Banking Act, which stipulate, inter alia, that the bank is obliged to establish an effective system of internal controls and risk management on all levels of the organizational structure of the bank. Regional regulations in this area are also issued by the Bank of Slovenia as a supervisory body of the banks. SKB d.d. follows the published legal regulations and takes them into account. Risk assessment and management have a significant impact on the formulation of the business and strategic plan of the Bank and the Group, on the decision-making process that relates to commercial transactions, individual contracts, investments and other activities.

⁶Banking act (ZBan-2), Official Gazette of RS, št. 25/15, 44/16, 77/16, 41/17, 77/18;

⁷ Regulation on Internal Governance Arrangements, the Management body and the Internal Capital Adequacy Assessment Process for Banks and Savings banks, Official Gazette of RS, št. 73/15, 49/16, 68/17, 33/18, 81/18;

⁸<https://www.bsi.si/en/financial-stability/regulation>

The Bank has an effective risk management system in the field of prevention of money laundering and terrorist financing in line with the law⁹ which includes the function of prevention of money laundering and terrorist financing.

The Bank ensures that its business objectives, strategies and policies are adequately aligned with the strategy and policies for identifying, measuring or assessing, managing and monitoring the risks that they are or might be exposed to in their operations. The business is organized in such a way that it regularly and systematically manages the books of accounts, business documentation and other administrative records so that it can, at any time, be verified whether it operates in accordance with the rules on risk management.

The compliance of the internal control and risk management system with banking rules in the Bank is assessed annually by an external audit that reviews the Bank's annual report.

The SKB Group has established and maintains a multi-level system of internal controls, consisting of daily / operational controls and periodic controls, which include permanent and managerial control. Additionally, the Group has set up monitoring and reporting of significant deviations in financial reporting on a quarterly basis. With the established controls, the Group reduces the risks of inadequate or misleading financial reporting that it regularly evaluates, and it also regularly reviews the control mechanisms. More information on the established risk management systems and on the internal control system is given in the chapter Internal Control System.

Data and explanations from points 3, 4, 6, 8 and 9 of the sixth paragraph of Article 70 of the Companies Act (ZGD-1)

Significant direct and indirect ownership of the company's securities, in terms of achieving a qualifying holding, as defined by the law regulating acquisitions (point 3 of the sixth paragraph of Article 70 of the Companies Act)

Shareholders Equity and SKB Shares

The share capital of the Bank amounts to EUR 52,784,176.26, and is divided into 12,649,200 no-par-value shares. Each no-par-value share has an equal share and belonging amount in the share capital. The share of individual no-par-value shares in the whole share capital is determined with regard to the number of all no-par-value shares issued. The shares are indivisible, registered shares that are issued in dematerialised form. Shareholders are entitled to participate in the management of the company as well as in profit distribution and to receive an adequate share of remaining assets in the event of a cessation of the company. Shares are recorded in the share register in line with regulations. The central records are kept with the KDD - Central Clearing and Depository Company d.d., in Ljubljana, which carries out all procedures of share transfer in line with the law.

The share capital of the Bank and the number of shares remained unchanged in 2019. The OTP Bank Nyrt is a majority shareholder with a 99.73-percent stake in the Bank.

Shareholders' Equity structure	SKB Group		SKB Banka		SKB Leasing	
Amounts in thousands EUR	2019	2018	2019	2018	2019	2018
Capital	52.784	52.784	52.784	52.784	21.809	21.809
Share premium	104.061	104.061	104.061	104.061	259	259
Accumulated other comprehensive income	19.049	17.281	19.201	17.410	(152)	(128)
Reserves from profit	29.106	29.106	29.106	29.106	2.181	2.181
Retained earnings	106.349	95.694	91.378	84.636	2.021	3.382
Income from current year	54.105	57.569	52.084	53.693	17.251	13.870
Total Shareholders' Equity	365.454	356.495	348.614	341.690	43.369	41.373

SKB Share – in EUR	2019	2019
Net assets per share as at 31 December on a consolidated basis	28,89	28,18
Earnings per share on a consolidated basis	4,28	4,55
Net assets per share as at 31 December – the Bank	27,56	27,01
Earnings per share – the Bank	4,12	4,24

⁹ Prevention of Money Laundering and Terrorist Financing Act (ZPPDFT-1), Official Gazette of RS, št. 68/16 and 81/19

Shareholder's Structure

As at 31 December 2019, there were 98 shareholders registered in the share register, consisting of:

- 7 foreign shareholders with a 99.7380 % stake in the Bank's capital;
- 76 individual investors – domestic individuals with a 0.0293 % stake;
- 15 domestic legal entities with a 0.0181 % stake in the Bank's capital.

The balance of un-exchanged priority shares represents a 0.2146 % stake in the Bank's capital.

As at 31 December 2019, the Bank had no treasury stock.

Ten biggest shareholders as at 31 December 2019	Number of shares	Stake in share capital
OTP Bank Nyrt	12.614.965	99.7294 %
Kmetijski inštitut Slovenije	800	0.0063 %
Gerbec Zvonko	690	0.0055 %
LTH Castings d.o.o.	600	0.0047 %
Clearstream Banking SA – fiduciarni račun	560	0.0044 %
Paniko Zoran	486	0.0038 %
Oven Jože	420	0.0033 %
Gradišnik Zdravka	400	0.0032 %
UniCredit Bank Austria AG – fiduciarni račun	300	0.0024 %
Ilirika Modra Zvezda, d.d.	273	0.0022 %

Restrictions on voting rights (point 6 of the sixth paragraph of Article 70 of the Companies act)

Each share provides one vote at the General Meeting of Shareholders. A quorum of the General Meeting of Shareholders is attained when twenty (20) percent of the share capital represented with a voting right is present at the session. The General Meeting of Shareholders of the Bank acts by a simple majority of the votes cast by the present shareholders if the law does not specify a higher majority or if other requirements are not set.

The Bank's rules on the appointment and replacement of members of the management or supervisory bodies and changes to the Articles of Association (point 8 of the sixth paragraph of Article 70 of the Companies Act)

The bank has a Board of Directors which consists of at least five (5) members. The number of members of the Board of directors is determined by the General Meeting of Shareholders with a resolution on appointment. The term of office of a particular member of the Board of Directors lasts four years. The members of the Board of Directors may be re-elected. In case of resignation of a member or termination of a member's membership, the term of office of a new member is lasts four years. Candidates for the members of the Management Board are proposed by the adequate foundation within the controlling company and/or invited to their candidature by the Nomination Committee.

The Board of Directors elects its Chairman and his/her Deputy among its members.

Executive Directors nominated by the Board of Directors among its members manage the operations of the bank and represent it.

The General Meeting of Shareholders amends and supplements the Bank's Articles of Association by a three-quarter majority of the share capital represented.

The Board of Directors is authorized to amend the Articles of Association only to the extent concerning the alignment of its wording with the valid decisions made by the General Meeting of Shareholders.

Powers of management body members for issuing or purchase of treasury shares (Item 9 of the sixth paragraph of Article 70 of the Companies).

Members of the management body of SKB d.d. do not have the power to issue or purchase treasury shares.

Information on functioning of the Bank's General Meeting of Shareholders and its key competencies and description of the rights of shareholders and their enforcement

The General Meeting of SKB d.d. consists of shareholders.

The General Meeting shall decide on:

- use of balance sheet profit,
- appointment and dismissal of the members of the Board of Directors,
- granting discharge to the members of the Board of Directors,
- amendments to the Statute,
- measures to increase or reduce the share capital,
- dissolution of the Bank and status-related changes,
- appointment of an auditor,
- annual report on Internal Audit Department,
- adoption of Rules governing its functioning,
- other matters determined by law.

A shareholder participates in the share capital of the Bank with regard to the shareholder's stake represented by his/her shares in proportion to the share capital of the Bank. Any person who legitimately holds a share has the status of a shareholder of the Bank. In relation to the Bank, any shareholder entered in the Share Register is deemed to be a shareholder. Other rights are also guaranteed to shareholders in accordance with the provisions of the Companies Act (ZGD-1) and the Bank's Statute - the right to participate in the management of the Bank, to a portion of the profit and to the relevant part of the remaining assets after the bank's cessation.

In accordance with the Articles of Association of SKB d.d. and the Companies Act, the General Meeting has to be convened at least once per calendar year. In 2019, two General Meetings of Shareholders were convened.

At its 33rd session the General Meeting, held on 6 June 2019, the following resolutions were adopted:

I.

1. General Meeting of Shareholders of the bank adopts the Report on internal audit in 2018.
2. The distributable profit for the business year 2018 amounts to 136.250.907,46 EUR.
 - Net profit for the business year 2018 amounts to 53.693.122,82 EUR; the amount of 47.055.024,00 EUR shall be used for the pay out of dividends and the amount of 6.638.098,82 EUR shall be transferred to the retained profit.
 - Gross dividend per share in 2018 amounts to 3,72 EUR.
 - With the day of the General Meeting of Shareholders the net profit from the item net profit for the business year 2018 shall be transferred to the item retained profit and to the item obligation from participation in profit – dividends.
 - Dividends shall be paid out on the sixth working day following the General Meeting of the Shareholders to those shareholders being registered in the central securities registry as the owners of shares at the end of the fifth working day following the date of the General Meeting of Shareholders, which will decide on the use of distributable net profit.
3. The General Meeting of Shareholders grants discharge to the members of the Board of Directors for their work in the business year 2018.

At its 34th session the General Meeting, held on 23 July 2019, the following resolutions were adopted:

I.

1. The Board of Directors consists of nine members without prejudice to the rights of workers to elect workers' representatives as members of the Board of Directors pursuant to the regulations governing workers' participation in management.
2. The General Meeting of Shareholders of the bank on the day of the meeting appoints Mr. Milan Žiaran as the new member of the Board of Directors.
3. The General Meeting of Shareholders of the bank on the day of the meeting appoints Mrs. Manica Novak as the new member of the Board of Directors.
4. The mandate of the newly appointed members of the Board of Directors lasts 4 years from the day of nomination by the General Meeting of Shareholders for the Board of Directors' members.
5. The General Meeting of Shareholders of the bank establishes that the newly appointed members of the Board of Directors have been appointed in compliance with the applicable Banking Act and the Companies Act and regulation of the Bank of Slovenia on Internal Governance Arrangements, the Management body and the Internal Capital Adequacy Assessment Process for Banks and Savings banks.

II.

1. Subject to and effective as of the occurrence of the Closing pursuant to the Share Purchase Agreement dated 2 May 2019 concluded between the seller Société Générale and purchaser OTP BANK in respect of the purchase of the majority stake in SKB d.d., which occurs on the date when the shares of the seller in SKB d.d. are transferred to the benefit of the purchaser's dedicated securities account held with KDD d.d. (as evident from the account excerpt), the Board of Directors shall consist of nine members, without prejudice to the rights of workers to elect workers' representatives as members of the Board of Directors pursuant to the regulations governing workers' participation in management.
2. The General Meeting of Shareholders takes a note and agrees with the resignation statements submitted by Mr. Jean-Philippe Guillaume, Mr. Pierre-Yves Andre Marie Joseph Demoures, Mrs. Clara-Elen Grigore, Mrs. Maria Koytcheva Rousseva, Mr. Milorad Katnić and Mr. Andre Gardella, all submitted subject to and effective as of the occurrence of the Closing pursuant to the Share Purchase Agreement dated 2 May 2019, concluded between the seller Société Générale and purchaser OTP BANK in respect of the purchase of the majority stake in SKB d.d., which occurs on the date when the shares of the seller in SKB d.d. are transferred to the benefit of the Purchaser's dedicated securities account held with KDD d.d. (as evident from the account excerpt).
3. Subject to and effective as of the occurrence of the Closing pursuant to the Share Purchase Agreement dated 2 May 2019 concluded between the seller Société Générale and purchaser OTP BANK in respect of the purchase of the majority stake in SKB d.d., which occurs on the date when the shares of the seller in SKB d.d. are transferred to the benefit of the purchaser's dedicated securities account held with KDD d.d. (as evident from the account excerpt), the General Meeting of Shareholders appoints Zsolt Barna as the new member of the Board of Directors.
4. Subject to and effective as of the occurrence of the Closing pursuant to the Share Purchase Agreement dated 2 May 2019 concluded between the seller Société Générale and purchaser OTP BANK in respect of the purchase of the majority stake in SKB d.d., which occurs on the date when the shares of the seller in SKB d.d. are transferred to the benefit of the purchaser's dedicated securities account held with KDD d.d. (as evident from the account excerpt), the General Meeting of Shareholders appoints Mr Imre Bertalan as the new member of the Board of Directors.
5. Subject to and effective as of the occurrence of the Closing pursuant to the Share Purchase Agreement dated 2 May 2019 concluded between the seller Société Générale and purchaser OTP BANK in respect of the purchase of the majority stake in SKB d.d., which occurs on the date when the shares of the seller in SKB d.d. are transferred to the benefit of the purchaser's dedicated securities account held with KDD d.d. (as evident from the account excerpt), the General Meeting of Shareholders appoints Mrs Anna Florova Mitkova as the new member of the Board of Directors.
6. Subject to and effective as of the occurrence of the Closing pursuant to the Share Purchase Agreement dated 2 May 2019 concluded between the seller Société Générale and purchaser OTP BANK in respect of the purchase of the majority stake in SKB d.d., which occurs on the date when the shares of the seller in SKB d.d. are transferred to the benefit of the purchaser's dedicated securities account held with KDD d.d. (as evident from the account excerpt), the General Meeting of Shareholders appoints Mr Branko Mikša as the new member of the Board of Directors.
7. Subject to and effective as of the occurrence of the Closing pursuant to the Share Purchase Agreement dated 2 May 2019 concluded between the seller Société Générale and purchaser OTP BANK in respect of the purchase of the majority stake in SKB d.d., which occurs on the date when the shares of the seller in SKB d.d. are transferred to the benefit of the purchaser's dedicated securities account held with KDD d.d. (as evident from the account excerpt), the General Meeting of Shareholders appoints Mrs Draga Cukjati as the new member of the Board of Directors.
8. Subject to and effective as of the occurrence of the Closing pursuant to the Share Purchase Agreement dated 2 May 2019 concluded between the seller Société Générale and purchaser OTP BANK in respect of the purchase of the majority stake in SKB d.d., which occurs on the date when the shares of the seller in SKB d.d. are transferred to the benefit of the purchaser's dedicated securities account held with KDD d.d. (as evident from the account excerpt), the General Meeting of Shareholders appoints Mrs Anita Stojčevska as the new member of the Board of Directors.
9. The term of office of the members of the Board of Directors, appointed pursuant to the item 4.0 of the agenda, shall last 4 years following the Closing Date in accordance with the Share Purchase Agreement dated 2 May 2019, concluded between the seller Société Générale and purchaser OTP BANK in respect of the purchase of the majority stake in SKB d.d., which occurs on the date when the shares of the seller in SKB d.d. are transferred to the benefit of the Purchaser's dedicated securities account with KDD d.d. (as evident from the account excerpt).
10. The General Meeting of Shareholders of the Bank establishes that the newly appointed members of the Board of Directors have been appointed in compliance with the Banking Act, the Companies Act and the regulation of the Bank of Slovenia on Arrangements of Internal Governance, the Management Body and the Internal Capital Adequacy Assessment Process for Banks and Savings banks.

Information on the composition of the management or supervisory bodies and their committees

The Board of Directors is composed of Executive and Non-executive Directors. Non-executive Directors are either independent members of the Board of Directors or representatives of the company's shareholders and, in line with the Banking Act, assume, mutatis mutandis, the function of the Supervisory Board in the two-tier governance system, while the Executive Directors assume the function of the Management Board.

The Board of Directors therefore defines the strategic roadmap of the company and validates or analyses the most significant topics of its business: financial statements, risks management, governance scheme, internal control mechanisms, strategic investments plan, compensations, main guidelines in terms of Human Resources, organization and corporate social responsibility, while the Executive Directors manage the current business. The Executive Directors, who are members of the Board of Directors, are also representatives of the company by law.

Within the Board of Directors a closer link between the representatives of the capital and the General Management, as executor of their guidelines, can be established, while on the other hand it is also very important to maintain a clear distinction of responsibilities between Non-executive and Executive Directors, i.e. between the supervisors and the executors of management tasks. Efficiency, professionalism, responsibility and independence among members of the Board of Directors, which are particularly important values driving the relationships among Executive and Non-executive Directors, and among them and the shareholders, are defined in the adopted Internal Acts of the Bank.

Board of Directors of SKB d.d.

In the period 1 January 2019 – 23 July 2019 the Board of Directors was composed of seven (7) members, namely:

- Jean-Philippe Guillaume, President
- Pierre-Yves Demoures, Deputy President
- Clara Grigore, member
- Milorad Katnić independent member
- Maria Rousseva, member
- Andre Gardella, member, Chief Executive Officer
- Vojka Ravbar, member, Deputy Chief Executive Officer

In the period 23 July 2019 – 25 July 2019, the Board of Directors was composed of nine (9) members, namely:

- Jean-Philippe Guillaume, President
- Pierre-Yves Demoures, Deputy President
- Clara Grigore, member
- Milorad Katnić independent member
- Maria Rousseva, member
- Andre Gardella, member
- Vojka Ravbar, member, Deputy Chief Executive Officer
- Milan Žiaran, alternate Chief Executive Officer
- Manica Novak, member

In the period 26 July 2019 – 13 December 2019, the Board of Directors was composed of eight (8) members, due to the resignation of one of the members on 25 July 2019, namely:

- Jean-Philippe Guillaume, President
- Pierre-Yves Demoures, Deputy President
- Clara Grigore, member
- Milorad Katnić independent member
- Maria Rousseva, member
- Andre Gardella, member
- Vojka Ravbar, member, Deputy Chief Executive Officer
- Milan Žiaran, alternate Chief Executive Officer

As at 31 December 2019 the Board of Directors is composed of six (6) members, namely:

- Zsolt Barna, President
- Imre Bertalan, Deputy President
- Draga Cukjati, member
- Anna Mitkova Florova, member
- Anita Stojčevska, Chief Executive Officer
- Vojka Ravbar, Deputy Chief Executive Officer

In the period 1 January 2019 – 13 December 2019 the members of the Committees of the Board of Directors were:

Audit Committee:

- Milorad Katnić, President
- Clara Grigore, member
- Maria Rousseva, member
- Pierre-Yves Demoures, member

Risks Committee:

- Maria Rousseva, President
- Clara Grigore, member
- Milorad Katnić, member

Compensation Committee:

- Jean-Philippe Guillaume, President
- Clara grigore, member
- Pierre-Yves Demoures, member

Nomination Committee:

- Pierre-Yves Demoures, President
- Jean-Philippe Guillaume, member
- Clara Grigore, member

In the period 13 December 2019 – 31 December 2019 the members of the Committees of the Board of Directors were:

Audit Committee:

- Draga Cukjati, President
- Imre Bertalan, member
- Anna Mitkova Florova, member

Risks Committee:

- Anna Mitkova Florova, President
- Draga Cukjati, member
- Imre Bertalan, member

Compensation Committee:

- Imre Bertalan, President
- Draga Cukjati, member
- Anna Mitkova Florova, member

Nomination Committee:

- Zsolt Barna, President
- Draga Cukjati, member
- Imre Bertalan, member

Information on participation of the members of the Board of Directors in the function of members of the governing body in other companies and organizations as at 31 December 2019:

- Zsolt Barna is General Deputy Chief Executive Officer of OTP BANK Plc, Hungary, non-executive member of the Board of Directors of Crnogorska komercijalna banka AD, Montenegro, non-executive member of the Board of Directors of OTP Ingatlan, Hungary, non-executive member of the Supervisory Board of Ipoly Erdo Priv. Ltd, Hungary, non-executive member of the Board of Directors of OTP Real Estate Investment Fund Manager Ltd., Hungary, non-executive member of the Board of Directors of TV2 Media Priv. Ltd., Hungary,
- Imre Bertalan is non-executive member of the Board of Directors of Vojvodjanska banka a.d., Serbia
- Anna Mitkova Florova is non-executive member the Board of Directors of OTP Financial Point Ltd., Hungary, non-executive member the Board of Directors of OTP Building Society Ltd., Hungary, non-executive member of the Supervisory Board of OTP Ingatlanpont Real Estate Agency LLC., Hungary, non-executive member of OTP Mortgage Bank Ltd., Hungary,
- Draga Cukjati is executive member of the Management Board of Poslovni sistem Mercator, Ljubljana, non-executive member of the Supervisory Board of Mercator-H d.o.o. Croatia, non-executive member of the Board of Directors of Mercator-S d.o.o., Serbia,
- Anita Stojčevska is member of the Board of Directors of SKB d.d. only,
- Vojka Ravbar is member of the Board of Directors of SKB d.d. only.

General Management of SKB d.d. in the period 1 January 2019 – 30 June 2019

- Andre Gardella, Chief Executive Officer
- Vojka Ravbar, Deputy Chief Executive Officer

General Management of SKB d.d. in the period 1 July 2019 – 13 December 2019

- Milan Žiaran, alternate Chief Executive Officer
- Vojka Ravbar, Deputy Chief Executive Officer

General Management of SKB d.d. in the period 13 December 2019 – 31 December 2019

- Anita Stojčevska, Chief Executive Officer
- Vojka Ravbar, Deputy Chief Executive Officer

Description of diversity policy implemented with regard to the representation in the governing and supervisory bodies of the company

The Nomination Committee which works in line with Rules of SKB banka d.d. Ljubljana on assessment of suitability of members of the Board of Directors is actively involved in the selection and assessment of members of the Board of Directors (BoD). These rules apply to the proposed and appointed members of the Board of Directors (non-executive and executive directors). In case of the procedure for appointment of a new member of the Board of Directors of SKB d.d., the candidate(s) is (are) proposed by the relevant function within major shareholder as parent bank and/or the Nomination Committee. In SKB d.d., the assessment of the candidate or reassessment of the members of the Board of Directors is prepared and carried out by the Nomination Committee. Members of the Board of Directors, being under assessment, are excluded from the assessment procedure and from decision-making procedure.

The Nomination Committee prepares all necessary activities for assessment/reassessment of suitability for each member of the Board of Directors.

The Rules on assessment of suitability of members of the Board of Directors in the bank define, in particular, the activities to be carried out with regard to the assessment of suitability of each member of the Board of Directors (acquisition of corresponding documentation according to EBA questionnaire and questionnaire of the Bank of Slovenia) as well as the assessment criteria, like for example reputation criteria (eventual criminal proceedings, judicial proceedings, proceedings with regulatory bodies, connotations in media, etc.), experience criteria (professional career, education level, working experience, trainings, etc.) and management criteria, including time availability (eventual conflict of interests and expectations, available time for performing this function, membership in governing bodies of other companies and organizations, etc.).

Should there be a doubt about any of the assessment criteria, an assessment of how this will or might affect the suitability of the person concerned, shall be made by the Nomination Committee. All matters relevant to and available for the assessment should be taken into account, irrespective of where and when they occurred.

The implementation of assessment of suitability of members of the Board of Directors and of the Board of Directors as a whole, contributes to the fact that with an appropriate composition, the Board of Directors will ensure that SKB d.d. shall have a solid corporate system with clearly defined organisation and responsibilities, efficient detection, management and monitoring of procedures and risks the bank is or could be exposed to, adequate internal control system, clear administrative and accounting procedures, lawful and consistent operations and the compensation policies and practices that shall allow and encourage responsible and efficient risk management.

Reassessment of suitability of members of the Board of Directors is made:

- on annual basis,
- in case of eventual reappointment on the same function or position,
- in case of events that make a reassessment of suitability necessary (e.g. major changes in bank's operations or acquisition of data or documents, which might have an impact on the existing assessment of suitability or if a member of the Board of Directors takes up another field of governance or supervision within the existing term of office).

With regard to the previous assessment of suitability, the reassessment of suitability is limited only to major changes or additional information.

Assessment of suitability of a non-executive member of the Board of Directors includes suitability of this particular individual as well as the suitability of all non-executive members of the Board of Directors as a whole, i.e. supervisory function.

Assessment of suitability of an executive member of the Board of Directors includes suitability of this particular individual as well as the suitability of all executive members of the Board of Directors as a whole, i.e. management function.

Assessment of suitability of the Board of Directors as a whole includes an assessment of suitability of executive and non-executive directors as a whole by taking into account an adequately extensive range of know-how, skills and experience of all members, necessary for a thorough understanding of the bank's activities and the risks it is exposed to, and that the Board of Directors as a whole achieves an adequate diversification, including an appropriate gender and age structure.

When assessing the suitability of the members of the Board of Directors, the Nomination Committee respected the adopted criteria and re-assessed, also in 2019 the suitability of each member of the Board of Directors, by taking into account also the changes with regard to the situation upon their nomination. The Nomination Committee applied the same criteria also in the assessment of the proposed new members of the Board of Directors. In addition, a separate assessment was made for the Executive Directors of the Board of Directors, non-executive members of the Board of Directors and for the Board of Directors as a whole. The Commission re-established that the structure of the members of the Board of Directors in terms of education, age, gender, experience, expertise and capacity for work in the fields falling under the competence of the Board of Directors was adequate and ensuring a successful work and fulfilment of the set objectives, i.e., above all safe, stable and successful operations of the bank and maintaining its reputation in the environment in which it operates.

The data on experience of the members of the Board of Directors are publicly published on the bank's website (Board of Directors). As at 31 December 2019, the Board of Directors is composed of six (6) members – four (4) women and two (2) men, of various age, various education profiles and experience, which enables them to ensure a constructive and critical judgement of decisions made by the General Management as well as an efficient control over the latter.

Ljubljana, 31 March 2020



Vojka Ravbar
Deputy Chief Executive Officer



Anita Stojčevska
Chief Executive Officer

Governance statement of SKB Leasing d.o.o.

SKB Leasing d.o.o. mutatis mutandis, follows the described internal management system as applied by the SKB d.d. in accordance with the legislation and regulations in force in the Republic of Slovenia, while respecting its internal acts, the guidelines of the SKB Group. SKB Leasing d.o.o. mutatis mutandis follows the established controls in accordance with the procedures and instructions of the parenting company. It has also set up and maintains a multi-level system of internal controls, consisting of daily / operational controls and periodic controls, which include permanent and managerial control. Within the SKB Group it monitors and reports significant deviations in the financial reporting on monthly basis. With established controls, it reduces the risks of inadequate or misleading financial reporting, which it regularly evaluates, and also regularly reviews control mechanisms.

SKB d.d. is the founder and sole shareholder of the limited liability company SKB Leasing d.o.o. Since the undertaking is a single-person undertaking, the founder, represented by the founder's management body, independently decides on matters he is authorized to decide on in accordance with the law. The founder decides on the amendments to the Articles of Association. The decision to change the Articles of Association must be confirmed by a notary. However, the chief executive office of the company is obliged to register the amendment of the Articles of Association for entry in the register. The company's operations are carried out in accordance with the rules and procedures set out by the founder, which also supervises the operations of the company.

SKB Leasing d.o.o. is represented unlimitedly by the Chief Executive Officer. Appointments and dismissals of the Chief Executive Officer shall be made by the founder. Don Schoeffman is appointed Chief Executive Officer of SKB Leasing d.o.o.

SKB Leasing d.o.o. has a 100 % share in SKB leasing Select d.o.o. The same rules of internal management of the company are also valid for SKB Leasing Select d.o.o.. Don Schoeffmann is appointed Chief Executive Officer of SKB Leasing Select d.o.o..

Ljubljana, 31 March 2020



Don Schoeffmann
SKB Leasing d.o.o.
Chief Executive Officer

General management's responsibility statement and scope of impact

SKB d.d.

All legal transactions between the controlling undertaking and the related undertakings were conducted in a way that there was no disadvantage in circumstances, which were known to SKB d.d. at the time when the legal transaction was carried out.

Also SKB d.d. has not committed or abandoned any act on the initiative or in the interests of the controlling undertaking or its related undertakings. In the year 2019 there was no disadvantage for SKB d.d., which would have to be replaced.

Ljubljana, 31 March 2020



Vojka Ravbar
Deputy Chief Executive Officer



Anita Stojčevska
Chief Executive Officer

SKB Leasing d.o.o.

All legal transactions between the controlling undertaking and the related undertakings were conducted in a way that there was no disadvantage in circumstances, which were known to SKB Leasing d.o.o. at the time when the legal transaction was carried out.

Also SKB Leasing d.o.o. has not committed or abandoned any act on the initiative or in the interests of the controlling undertaking or its related undertakings. In the year 2019 there was no disadvantage for SKB Leasing d.o.o., which would have to be replaced.

Ljubljana, 31 March 2020



Don Schoeffmann
SKB Leasing d.o.o.
Chief Executive Officer

SKB Leasing Select d.o.o.

All legal transactions between the controlling undertaking and the related undertakings were conducted in a way that there was no disadvantage in circumstances, which were known to SKB Leasing Select d.o.o. at the time when the legal transaction was carried out.

Also SKB Leasing Select d.o.o. has not committed or abandoned any act on the initiative or in the interests of the controlling undertaking or its related undertakings. In the year 2019 there was no disadvantage for SKB Leasing Select d.o.o., which would have to be replaced.

Ljubljana, 31 March 2020



Don Schoeffmann
SKB Leasing d.o.o.
Chief Executive Officer

Directors of Divisions on high-level managerial positions, but not being members of the Board of Directors as at 31 December 2019:**Finance:**

- Nataša Mohorčič-Zobec, Director of Finance Division

Risk:

- Dejan Vičič, authorized for performance of Risk Management function

Retail and Marketing:

- Miroslav Vidaković, Director of Retail and Marketing Division

Corporate Banking and Financial Markets

- Bojana Novak, Director of Corporate Banking and Financial Markets Division

Customers Banking Services:

- Miro Cepec, Chief Operating Officer and Director of Customers Banking Services Division

General Means and Support:

- Miro Cepec, Chief Operating Officer and Director of General Means and Support Division

VI. Important data and business performance indicators

Important data and business performance indicators - SKB Group

SKB Group	12. 2019		12. 2018		12. 2017	
	amount in 000 EUR / ratios in %	index	amount in 000 EUR / ratios in %	index	amount in 000 EUR / ratios in %	index
I. BALANCE SHEET						
Balance sheet total	3,385,551	102	3,313,949	104	3,174,268	107
Deposits from non-bank clients	2,732,541	109	2,499,003	107	2,341,209	109
a) from legal and other persons	897,841	117	768,455	90	849,226	113
b) from citizens	1,834,700	106	1,730,548	116	1,491,984	107
Loans to non-bank clients	2,505,789	103	2,440,345	107	2,282,392	105
a) to legal and other persons	1,013,718	102	998,264	80	1,254,090	102
b) to citizens	1,492,071	103	1,442,082	140	1,028,302	108
Overall equity capital	365,454	103	356,495	97	368,249	94
Provisions and impairments	68,504	70	97,633	68	144,467	89
The volume of off-balance sheet business	1,387,888	92	1,510,644	121	1,246,678	127
II. PROFIT AND LOSS ACCOUNT						
Net interest	85,794	104	82,258	105	78,206	107
Net non-interest income	38,198	98	38,968	119	32,766	74
Costs of labour, materials and services	53,051	97	54,857	105	52,373	105
Depreciation / amortization	6,413	117	5,503	94	5,850	93
Net cost of risk and provisions	(2,023)	21	(9,525)	1966	(484)	3
Profit or loss before taxation	66,551	95	70,399	133	53,053	69
Tax on profit	(12,446)	97	(12,830)	132	(9,686)	76
Other comprehensive income before tax	2,221		(6,930)		(6,783)	
Income tax relating to components of other comprehensive income	(444)		1,315		1,283	
III. EMPLOYEES						
Number of employees	910		912		912	
IV. SHARES						
Number of shareholders	98		104		105	
Number of shares	12,649,200		12,649,200		12,649,200	
Belonging amount in the share capital per nominal par-value share (in EUR)	4,1729		4,1729		4,1729	
Book value per share (in EUR)	28,89		28,18		29,11	





SKB Group	12. 2019		12. 2018		12. 2017	
	amount in 000 EUR / ratios in %	index	amount in 000 EUR / ratios in %	index	amount in 000 EUR / ratios in %	index
V. SELECTED RATIOS						
a) Equity capital						
CET1 capital ratio	12.32		12.69		13.25	
T1 capital ratio	12.32		12.69		13.25	
Total capital ratio	12.69		12.69		13.25	
b) Quality of assets						
Non performing (balance and off balance sheet) exposure / all balance and off balance sheet exposure	1.89		3.50		4.80	
Non performing (balance a sheet) exposure / all balance sheet exposure	2.13		3.90		5.40	
All impairment and provisions / non performing impairment and provisions	65.12		57.70		66.80	
Recived collaterals / non performing exposure	8.56		11.60		15.20	
c) Profitability						
Interest margin	2.50		2.54		2.55	
Financial margin	3.61		3.75		3.62	
Return on equity before taxation	1.94		2.18		1.73	
Return on assets	1.58		1.78		1.42	
Return on equity before taxation	18.18		20.26		14.25	
Return on equity after taxation	14.78		16.57		11.65	
d) Operating costs						
Operating costs / assets	1.73		1.87		1.90	

Important data and business performance indicators – SKB Bank

SKB Bank	12. 2019		12. 2018		12. 2017	
	amount in 000 EUR / ratios in %	index	amount in 000 EUR / ratios in %	index	amount in 000 EUR / ratios in %	index
I. BALANCE SHEET						
Balance sheet total	3,365,175	109	3,089,094	103	2,991,227	107
Deposits from non-bank clients	2,743,983	109	2,508,203	107	2,350,526	109
a) from legal and other persons	909,283	117	777,655	91	858,542	112
b) from citizens	1,834,700	106	1,730,548	116	1,491,984	107
Loans to non-bank clients	2,491,260	112	2,230,755	106	2,108,235	104
a) to legal and other persons	1,303,058	120	1,088,656	101	1,081,123	100
b) to citizens	1,188,202	104	1,142,099	111	1,027,112	109
Overall equity capital	384,614	102	341,691	95	358,746	93
Provisions and impairments	58,659	68	86,381	66	131,530	86
The volume of off-balance sheet business	1,387,910	92	1,510,668	121	1,246,701	127
II. PROFIT AND LOSS ACCOUNT						
Net interest	64,725	106	61,289	106	57,783	103
Net non-interest income	48,216	106	45,440	120	37,904	79
Costs of labour, materials and services	48,060	96	50,124	105	47,912	105
Depreciation / amortization	4,797	130	3,678	93	3,967	94
Net cost of risk and provisions	(787)	7	(10,822)	255	(4,248)	23
Profit or loss before taxation	60,871	95	63,749	133	48,056	66
Tax on profit	(8,787)	87	(10,056)	134	(7,482)	68
Other comprehensive income before tax	2,238		(6,930)		(6,783)	
Income tax relating to components of other comprehensive income	(446)		1,315		1,283	
III. EMPLOYEES						
Number of employees	826		829		836	
IV. SHARES						
Number of shareholders	98		104		105	
Number of shares	12,649,200		12,649,200		12,649,200	
Belonging amount in the share capital per nominal par-value share (in EUR)	4,1729		4,1729		4,1729	
Book value per share (in EUR)	27,56		27,01		28,36	





SKB Bank	12. 2019		12. 2018		12. 2017	
	amount in 000 EUR / ratios in %	index	amount in 000 EUR / ratios in %	index	amount in 000 EUR / ratios in %	index
V. SELECTED RATIOS						
a) Equity capital						
CET1 capital ratio	11.22		12.63		13.19	
T1 capital ratio	11.22		12.63		13.19	
Total capital ratio	11.22		12.63		13.19	
b) Quality of assets						
Non performing (balance and off balance sheet) exposure / all balance and off balance sheet exposure	1.66		3.40		4.60	
Non performing (balance a sheet) exposure / all balance sheet exposure	1.86		3.70		5.20	
All impairment and provisions / non performing impairment and provisions	65.54		59.40		68.30	
Recived colleterals / non performing exposure	9.77		12.90		16.50	
c) Profitability						
Interest margin	2.00		2.03		2.00	
Financial margin	3.49		3.53		3.32	
Return on equity before taxation	1.88		2.11		1.67	
Return on assets	1.61		1.77		1.41	
Return on equity before taxation	17.39		18.92		13.14	
Return on equity after taxation	14.88		15.93		11.10	
d) Operating costs						
Operating costs / assets	1.64		1.78		1.80	

VII. Financial report for SKB Group and SKB Banka d.d.

Statement of General Management's responsibilities

The General Management of the bank has approved the financial statements of SKB Group and SKB Bank for the year ended 31 December 2019, the applied accounting policies, and the notes to the financial statements.

The General Management is responsible for preparing the Annual Report, which gives a true and fair representation of the financial position of the Group and the Bank as at 31 December 2019, and the results of their operations for the year then ended.

The General Management confirms that accepted accounting policies have been used on a consistent basis, and that the accounting estimates have been made in compliance with the principles of prudence and good management. The Management Board also confirms that the financial statements with the accompanying notes have been prepared on the assumption of a going concern for the Group and the Bank and in compliance with the relevant legislation and International Financial Reporting Standards adopted by the EU.

The General Management is also responsible for the proper management of accounting, taking appropriate measures to protect the assets, as well as for preventing and discovering fraud and other irregularities or illegal acts.

Ljubljana, 31 March 2020



Vojka Ravbar
Deputy Chief Executive Officer



Anita Stojčevska
Chief Executive Officer

Independent auditor's report - The Company

Deloitte.

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INDEPENDENT AUDITOR'S REPORT to the shareholders of SKB Banka d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the SKB Banka d.d. (hereinafter 'the Company'), which comprise the statement of financial position as at 31 December 2019, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter 'IFRS').

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) 537/2014 of the European Parliament and of the Council, dated 16 April 2014, on specific requirements regarding statutory audit of public-interest entities. Our responsibilities under those rules are further described in *the Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the year ended 31 December 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans to non-bank customers (expected credit losses)

In its financial statements for the year ended 31 December 2019 the Company presented loans to non-bank customers in the amount of EUR 2,533 million gross and total expected credit loss in the amount of EUR 50,3 million.

Ime Deloitte se nanaša na Deloitte Touche Tohmatsu Limited, pravno osebo, in mrežo njenih članic, od katerih je vsaka ločena in samostojna pravna oseba. DTLL strankam ne zagotavlja storitev. Podroben opis pravne organiziranosti združenja Deloitte Touche Tohmatsu Limited in njenih družb članic je na voljo na www.deloitte.com/si/o-nas.

V Sloveniji storitve zagotavlja Deloitte revizija d.o.o. in Deloitte svetovanje d.o.o. (pod skupnim imenom Deloitte Slovenija), ki sta članici Deloitte Central Europe Holdings Limited. Deloitte Slovenija sodi med vodilne družbe za strokovne storitve v Sloveniji, ki nudi storitve revizije, davčnega, pravnega, poslovnega in finančnega svetovanja ter svetovanja na področju tveganj, ki jih zagotavlja več kot 135 domačih in tujih strokovnjakov.

Deloitte revizija d.o.o. - Družba vpisana pri Okrožnem sodišču v Ljubljani - Matična številka: 1647105 - ID št. za DDV: SI62560085 - Osnovni kapital: 74,214,30 EUR,

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Independent auditor's report - The Company

Key audit matter	How the matter was addressed in our audit
Credit risk represents one of the most important types of financial risks to which the Bank is exposed to. Determining appropriate methods and models by the Management to measure and manage credit risk is therefore one of the most important areas in safeguarding the Bank's capital. As part of the credit risk management process, appropriate determination impairment allowances for expected credit losses on loans and receivables from customers represent key considerations for Bank's Management. In determining both the timing and the amount of impairment allowances for expected credit losses on loans and receivables from customers, the Management exercises significant judgement in relation to the following areas: • Use of historic data in the process of determining risk parameters • Estimation of the credit risk related to the exposure • Assessment of stage allocation • Assessment on the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether significant increase in credit risk has occurred, leading to changes in stage allocation and the required measurement of lifetime expected credit losses • Expected future cash flows from operations • Valuation of collateral and assessment of realization period on individually assessed credit-impaired exposures. Management has provided further information about the impairment allowance on loans from customers in notes '3.4.6 Impairment of Financial Instruments and 3.10 – Financial assets measured at Amortised Cost', '4.25 – Financial assets measured at Amortised Costs', '4.16 – Impairments' and 'Measuring credit risk'.	In order to address the risks associated with impairment allowances for expected credit losses on loans and receivables from customers, identified as key audit matter, we have designed audit procedures that allowed us to obtain sufficient appropriate audit evidence for our conclusion. We performed following audit procedures with respect to area of loans: • Reviewing the Bank's methodology for recognizing impairment allowances for expected credit losses and comparing the reviewed methodology against the requirements of IFRS 9 • Obtaining understanding of control environment and internal controls implemented by the Management within the process of measuring impairment allowance for expected credit losses • Evaluating design and inspecting implementation of identified internal controls relevant to the process of measuring impairment allowance for expected credit losses • Testing identified relevant controls for operating effectiveness • Assessing quality of historical data used in determination of risk parameters • Disaggregating loans account balance based on stage allocation for the purposes of sample selection - for Stage 3, individually assessed loans and receivables, the criteria for selection included, but was not limited to, client's credit risk assessment, industry risk, days past due, etc. • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of loans allocated to Stage 1 and Stage 2, focusing on: i. models applied in stage allocation and transitions between stages ii. assumptions used by the Management in the expected credit loss measurement models iii. criteria used for determination of significant increase in credit risk iv. assumptions applied to calculate lifetime probability of default v. methods applied to calculate loss given default

Independent auditor's report - The Company

	vi. methods applied to incorporate forward-looking information • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of individually assessed non-performing loans allocated to Stage 3, which included: i. Assessment of borrower's financial position and performance following latest credit reports and available information ii. Critical assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations taking into consideration borrower's financial status and performance iii. Reviewing and critically assessing estimated value of collateral and estimated realization period as well as associated legal agreements and supporting documentation to assess the legal right to and existence of collateral iv. Critical assessment of discount rates used in the estimation of the expected cash flows from operations and/or collateral v. Re-performing calculation of expected credit losses by applying our own independent judgment and assumptions, based on our industry experience, on to calculation and comparing derived result of the impairment losses per certain sampled loans with the ones provided by the Bank.
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Other information

Management is responsible for the other information. The other information comprises the information, included in Annual report, other than the financial statements and our auditor's report thereon. Other information were obtained prior to the date of this auditor's report, except Report from Supervisory Board, which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we express no assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on our work performed we conclude that other information include material misstatement we need to report such circumstances.

Independent auditor's report - The Company

In relation to this and based on our procedures performed, we report that:

- other information are, in all material respects, consistent with the financial statements;
- other information are prepared in compliance with applicable law or regulation; and
- based on our knowledge and understanding of the Company and its environment obtained in the audit, we did not identify any material misstatement of fact related to the other information.

Responsibilities of Management, Supervisory Board and Audit Committee for the Financial Statements

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

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

Supervisory Board and Audit Committee are responsible for overseeing the Company's financial reporting process and for approving audited annual report.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing rules will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

Independent auditor's report - The Company

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

With Supervisory Board and Audit Committee we communicate the planned scope and timing of the audit and significant findings from the audit, including deficiencies in internal control we have identified during our audit.

We also provide Supervisory Board and Audit Committee with the statement of compliance with relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters for which it may reasonably be thought to bear on independence, and, if appropriate, all the related safeguards.

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

Report on Other Legal and Regulatory Requirements

Appointment of the Auditor and the Period of Engagement

Deloitte revizija d.o.o. was appointed as the statutory auditor of the Company on General Shareholders' Meeting held on 29 May 2018. Our total uninterrupted engagement has lasted 5 years.

Confirmation to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 31 March 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

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

Engagement partner responsible for the audit on behalf of Deloitte revizija d.o.o. is Katarina Kadunc, certified auditor.

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc
Certified auditor

*For signature please refer to the original
Slovenian version.*

Deloitte.

DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

Ljubljana, March 31, 2020

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

Independent auditor's report - The Group

Deloitte.

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INDEPENDENT AUDITOR'S REPORT to the shareholders of SKB Banka d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of the company SKB Banka d.d. and its subsidiaries (hereinafter 'the Group'), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter 'IFRS').

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) 537/2014 of the European Parliament and of the Council, dated 16 April 2014, on specific requirements regarding statutory audit of public-interest entities. Our responsibilities under those rules are further described in *the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the year ended 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans to non-bank customers (expected credit losses)

In its financial statements for the year ended 31 December 2019 the Group presented loans to non-bank customers in the amount of EUR 2,557 million and total expected credit loss in the amount of EUR 60.1 million.

Ime Deloitte se nanaša na Deloitte Touche Tohmatsu Limited, pravno osebo, in mrežo njenih članic, od katerih je vsaka ločena in samostojna pravna oseba. DTLL strankam ne zagotavlja storitev. Podroben opis pravne organiziranosti združenja Deloitte Touche Tohmatsu Limited in njenih družb članic je na voljo na www.deloitte.com/si/o-nas.

V Sloveniji storitve zagotavlja Deloitte revizija d.o.o. in Deloitte svetovanje d.o.o. (pod skupnim imenom Deloitte Slovenija), ki sta članici Deloitte Central Europe Holdings Limited. Deloitte Slovenija sodi med vodilne družbe za strokovne storitve v Sloveniji, ki nudi storitve revizije, davčnega, pravnega, poslovnega in finančnega svetovanja ter svetovanja na področju tveganj, ki jih zagotavlja več kot 135 domačih in tujih strokovnjakov.

Deloitte revizija d.o.o. - Družba vpisana pri Okrožnem sodišču v Ljubljani - Matična številka: 1647105 - ID št., za DDV: SI62560085 - Osnovni kapital: 74.214,30 EUR.

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Independent auditor's report - The Group

Key audit matter	How the matter was addressed in our audit
Credit risk represents one of the most important types of financial risks to which the Bank is exposed to. Determining appropriate methods and models by the Management to measure and manage credit risk is therefore one of the most important areas in safeguarding the Bank's capital. As part of the credit risk management process, appropriate determination impairment allowances for expected credit losses on loans and receivables from customers represent key considerations for Bank's Management. In determining both the timing and the amount of impairment allowances for expected credit losses on loans and receivables from customers, the Management exercises significant judgement in relation to the following areas: • Use of historic data in the process of determining risk parameters • Estimation of the credit risk related to the exposure • Assessment of stage allocation • Assessment on the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether significant increase in credit risk has occurred, leading to changes in stage allocation and the required measurement of lifetime expected credit losses • Expected future cash flows from operations • Valuation of collateral and assessment of realization period on individually assessed credit-impaired exposures. Management has provided further information about the impairment allowance on loans from customers in notes '3.4.6 Impairment of Financial Instruments and 3.10 – Financial assets measured at Amortised Cost', '4.25 – Financial assets measured at Amortised Costs', '4.16 – Impairments' and 'Measuring credit risk'.	In order to address the risks associated with impairment allowances for expected credit losses on loans and receivables from customers, identified as key audit matter, we have designed audit procedures that allowed us to obtain sufficient appropriate audit evidence for our conclusion. We performed following audit procedures with respect to area of loans: • Reviewing the Bank's methodology for recognizing impairment allowances for expected credit losses and comparing the reviewed methodology against the requirements of IFRS 9 • Obtaining understanding of control environment and internal controls implemented by the Management within the process of measuring impairment allowance for expected credit losses • Evaluating design and inspecting implementation of identified internal controls relevant to the process of measuring impairment allowance for expected credit losses • Testing identified relevant controls for operating effectiveness • Assessing quality of historical data used in determination of risk parameters • Disaggregating loans account balance based on stage allocation for the purposes of sample selection - for Stage 3, individually assessed loans and receivables, the criteria for selection included, but was not limited to, client's credit risk assessment, industry risk, days past due, etc. • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of loans allocated to Stage 1 and Stage 2, focusing on: i. models applied in stage allocation and transitions between stages ii. assumptions used by the Management in the expected credit loss measurement models iii. criteria used for determination of significant increase in credit risk iv. assumptions applied to calculate lifetime probability of default v. methods applied to calculate loss given default

Independent auditor's report - The Group

	vi. methods applied to incorporate forward-looking information • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of individually assessed non-performing loans allocated to Stage 3, which included: i. Assessment of borrower's financial position and performance following latest credit reports and available information ii. Critical assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations taking into consideration borrower's financial status and performance iii. Reviewing and critically assessing estimated value of collateral and estimated realization period as well as associated legal agreements and supporting documentation to assess the legal right to and existence of collateral iv. Critical assessment of discount rates used in the estimation of the expected cash flows from operations and/or collateral v. Re-performing calculation of expected credit losses by applying our own independent judgment and assumptions, based on our industry experience, on to calculation and comparing derived result of the impairment losses per certain sampled loans with the ones provided by the Bank.
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Other information

Management is responsible for the other information. The other information comprises the information, included in Annual report, other than the financial statements and our auditor's report thereon. Other information were obtained prior to the date of this auditor's report, except Report from Supervisory Board, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we express no assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the consolidated financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on our work performed we conclude that other information include material misstatement we need to report such circumstances.

Independent auditor's report - The Group

In relation to this and based on our procedures performed, we report that:

- other information are, in all material respects, consistent with the consolidated financial statements;
- other information are prepared in compliance with applicable law or regulation; and
- based on our knowledge and understanding of the Group and its environment obtained in the audit, we did not identify any material misstatement of fact related to the other information.

Responsibilities of Management, Supervisory Board and Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Supervisory Board and Audit Committee are responsible for overseeing the Group's financial reporting process and for approving audited annual report.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing rules will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

Independent auditor's report - The Group

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence concerning the financial information of the entities or business activities within the Group in order to express an opinion on the consolidated financial statements. We are responsible for conducting, overseeing and performing the audit of the Group. We have sole responsibility for the audit opinion expressed.

With Supervisory Board and Audit Committee we communicate the planned scope and timing of the audit and significant findings from the audit, including deficiencies in internal control we have identified during our audit.

We also provide Supervisory Board and Audit Committee with the statement of compliance with relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters for which it may reasonably be thought to bear on independence, and, if appropriate, all the related safeguards.

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

Report on Other Legal and Regulatory Requirements

Appointment of the Auditor and the Period of Engagement

Deloitte revizija d.o.o. was appointed as the statutory auditor of the Company on General Shareholders' Meeting held on 29 May 2018. Our total uninterrupted engagement has lasted 5 years.

Confirmation to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 31 March 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

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

Engagement partner responsible for the audit on behalf of Deloitte revizija d.o.o. is Katarina Kadunc, certified auditor.

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc
Certified auditor

For signature please refer to the original
Slovenian version.

Deloitte.

DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

Ljubljana, 31 March 2020

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

Consolidated income statement for the year ended 31 December 2019

	EUR 000	Notes	2019	2018
Interest income			88,736	85,769
Interest expenses			(2,942)	(3,511)
Net interest income	4.1.		85,794	82,258
Dividend income	4.2.		257	251
Fee and commission income			43,218	40,145
Fee and commission expenses			(10,849)	(10,027)
Net fee and commission income	4.3.		32,369	30,118
Gains and losses on financial assets and liabilities not measured at fair value through profit or loss	4.4.		(944)	742
Gains and losses on financial assets and liabilities held for trading	4.5.		1,782	1,352
Gains and losses on non-trading financial assets mandatorily at fair value through profit or loss	4.6.		3,857	5,140
Gains and losses on financial assets and liabilities designated at fair value through profit or loss	4.7.		-	-
Gains and losses from hedge accounting	4.8.		(230)	(1)
Exchange differences	4.9.		(34)	75
Gains and losses on derecognition of non-financial assets	4.10.		(176)	424
Other operating income	4.11.		1,392	867
Financial and operating income and expenses			124,067	121,226
Administrative expenses	4.12.		(53,051)	(54,857)
• staff expenses			(35,939)	(35,828)
• other administrative expenses			(17,112)	(19,029)
Depreciation	4.13.		(6,413)	(5,503)
Modification gains or losses	4.14.		(29)	-
Provisions	4.15.		468	216
Impairment	4.16.		1,555	9,317
Profit or loss from non-current assets and disposal groups classified as held for sale	4.17.		(46)	-
TOTAL PROFIT BEFORE TAX FROM CONTINUING OPERATIONS			66,551	70,399
Tax expense or income related to profit or loss from continuing operations	4.18.		(12,446)	(12,830)
TOTAL PROFIT AFTER TAX FROM CONTINUING OPERATIONS			54,105	57,569
Net profit for the financial year			54,105	57,569
Profit or loss attributable to owners of the parent			54,105	57,569
Profit or loss attributable to non-controlling interests			-	-
Basic and diluted earnings per share (expressed in EUR per share)	4.19.		4,28	4,55

The accompanying notes in chapter 4 and chapter VIII form an integral part of financial statements.

Consolidated statement of other comprehensive income for the year ended 31 December 2019

EUR 000	2019	2018
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAX	54,105	57,569
OTHER COMPREHENSIVE INCOME AFTER TAX	1,767	(5,591)
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	(226)	12
Actuarial gains or losses on defined benefit pension plans	(250)	13
Income tax relating to items that will not be reclassified to profit or loss	24	(1)
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	1,993	(5,603)
Debt instruments at fair value through other comprehensive income	2,461	(6,917)
• Valuation gains or losses taken to equity	2,461	(6,917)
Income tax relating to items that may be reclassified to profit or loss	(468)	1,314
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX	55,872	51,978
Attributable to owners of the parent	55,872	51,978
Attributable to non-controlling interests	-	-

The accompanying notes in chapter 4 and chapter VIII form an integral part of financial statements.

Consolidated statement of financial position at 31 December 2019

	EUR 000	Notes	31 Dec. 2019	31 Dec. 2018
ASSETS				
Cash, cash balances at central banks and other demand deposits at banks	4.20.		250,246	190,195
Financial assets held for trading	4.21.		8,649	7,054
Non-trading financial assets mandatorily at fair value through profit or loss	4.22.		24,582	35,170
Financial assets designated at fair value through profit or loss	4.23.		6,053	5,947
Financial assets at fair value through other comprehensive income	4.24.		267,205	258,682
Financial assets at amortised cost	4.25.		2,751,221	2,726,438
• debt securities			249,269	253,797
• loans to banks			539	45,316
• loans to non-bank customers			2,497,269	2,423,089
• other financial assets			4,144	4,236
Derivatives - hedge accounting	4.26.		843	607
Tangible assets			38,877	39,983
• property, plant and equipment	4.28.a)		37,058	37,818
• investment property	4.28.b)		1,819	2,165
Intangible assets	4.29.		10,294	11,534
Tax assets	4.18.		4,010	3,108
• current tax assets			802	25
• deferred tax assets			3,208	3,083
Other assets	4.30.		23,267	34,770
Non-current assets and disposal groups classified as held for sale	4.31.		304	461
Total assets			3,385,551	3,313,949
LIABILITIES				
Financial liabilities held for trading	4.21.		9,107	7,719
Financial liabilities designated at fair value through profit or loss	4.23.		6,054	5,947
Financial liabilities measured at amortised cost	4.32.		2,975,358	2,914,774
• deposits from banks and central banks			1,667	1,678
• deposits from non-bank customers			2,662,537	2,499,004
• loans from banks and central banks			210,303	376,502
• loans from non-bank customers			70,004	-
• other financial liabilities			30,847	37,590
Fair value changes of the hedged items in portfolio hedge of interest rate risk	4.26.		1,879	602
Provisions	4.33.		11,149	11,873
Tax liabilities	4.18.		5,105	6,813
• current tax liabilities			402	2,578
• deferred tax liabilities			4,703	4,235
Other liabilities	4.34.		11,445	9,726
Total liabilities			3,020,097	2,957,454

EUR 000	31 Dec. 2019	31 Dec. 2018	31.12.2018
SHAREHOLDERS' EQUITY			
Capital	4.35.	52,784	52,784
Share premium	4.35.	104,061	104,061
Accumulated other comprehensive income	4.35.	19,049	17,281
Reserves from profit	4.35.	29,106	29,106
Retained earnings	4.35.	106,349	95,694
Income from current year	4.35.	54,105	57,569
Total shareholders' equity		365,454	356,495
Total equity and liabilities		3,385,551	3,313,949

The accompanying notes in chapter 4 and chapter VIII form an integral part of financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2019

EUR 000	Capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including income from current year)	Total equity
Balance at 1 January 2019	52,784	104,061	17,281	29,106	153,263	356,495
Comprehensive income for the financial year after tax	-	-	1,768	-	54,105	55,873
Appropriation of (accounting for) dividends	-	-	-	-	(47,055)	(47,055)
Other	-	-	-	-	141	141
Balance at 31 December 2019	52,784	104,061	19,049	29,106	160,454	365,454
Balance at 31 December 2017	52,784	104,061	32,435	29,106	149,863	368,249
Transition effects to IFRS 9	-	-	(9,563)	-	1,161	(8,402)
Balance at 1 January 2018 after transition to IFRS 9	52,784	104,061	22,872	29,106	151,024	359,847
Comprehensive income for the financial year after tax	-	-	(5,591)	-	57,569	51,978
Appropriation of (accounting for) dividends	-	-	-	-	(55,530)	(55,530)
Other	-	-	-	-	200	200
Balance at 31 December 2018	52,784	104,061	17,281	29,106	153,263	356,495

The accompanying notes in chapter 4 and chapter VIII form an integral part of financial statements.

Consolidated cash flow statement for the year ended 31 December 2019

	EUR 000	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Total profit or loss before tax		66,551	70,399
Depreciation		6,413	5,504
Impairments / (reversal of impairments) of investments in debt financial instruments at fair value through other comprehensive income		(25)	(6)
Impairments / (reversal of impairments) of loans and other financial assets at amortised costs		(7,989)	(9,303)
Impairments of tangible assets (impairments of investment property included), intangible assets and other assets		6,459	(8)
Net (gains) / losses from exchange differences		34	(75)
Modification (gains) / losses		29	-
Net (gains) / losses from sale of tangible assets		91	(344)
Net (gains) / losses from sale of intangible assets		85	-
Other (gains) / (losses) from investing activities		-	(81)
Net unrealised (gains) / losses from non-current assets held for sale and discontinuing operations and liabilities associated therewith		(71)	-
Other adjustments to total profit or loss before tax		(468)	(217)
Cash flow from operating activities before changes in operating assets and liabilities		71,109	65,869
(Increases) / decreases in operating assets		(27,743)	(266,483)
Net (increase) / decrease in financial assets held for trading		(1,595)	(1,818)
Net (increase) / decrease in non-trading financial assets mandatorily at fair value through profit or loss		10,588	(3,534)
Net (increase) / decrease in financial assets designated at fair value through profit or loss		(106)	36
Net (increase) / decrease in financial assets at fair value through other comprehensive income		(6,012)	(53,567)
Net (increase) / decrease in loans and other financial assets at amortised cost		(42,122)	(199,082)
Net (increase) / decrease in other assets		11,504	(8,518)
Increases / (decreases) in operating liabilities		61,671	155,591
Net increase / (decrease) in financial liabilities held for trading		1,388	1,892
Net increase / (decrease) in financial liabilities designated at fair value through profit or loss		107	(36)
Net increase / (decrease) in deposits, loans and other financial liabilities measured at amortised cost		58,521	153,592
Net increase / (decrease) in other liabilities		1,655	143
Cash flow from operating activities		105,037	(45,023)
Income taxes (paid) / refunded		(15,503)	(11,261)
Net cash flow from operating activities		89,534	(56,284)

EUR 000	Notes	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipts from investing activities		15,018	7,264
Receipts from the sale of tangible assets		14,790	7,131
Receipts from the sale of intangible assets		-	61
Receipts from non-current assets held for sale and liabilities associated therewith		228	-
Other receipts from investing activities		-	72
Cash payments on investing activities		(27,450)	(12,044)
(Cash payments to acquire tangible assets)		(22,332)	(9,287)
(Cash payments to acquire intangible assets)		(5,118)	(2,757)
(Cash payments to acquire non-current assets held for sale and liabilities associated therewith)		-	-
Net cash flow from investing activities		(12,432)	(4,780)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash receipts from financing activities		-	-
Cash payments on financing activities		(47,055)	(55,530)
(Dividends paid)		(47,055)	(55,530)
Net cash flow from financing activities		(47,055)	(55,530)
Effects of change in exchange rates on cash and cash equivalents		1,389	928
Net increase / (decrease) in cash and cash equivalents		30,047	(116,594)
Opening balance of cash and cash equivalents	4.40.	218,813	334,479
Closing balance of cash and cash equivalents	4.40.	250,249	218,813

Other adjustments to profit and loss include expense from provisions in the amount of EUR 468 thousand (2018: expense from provisions in the amount of EUR 217 thousand).

EUR 000	2019	2018
Cash flows from interest and dividends		
Interest paid	(2,300)	(2,833)
Interest received	96,666	86,476
Dividend paid	(47,055)	(55,530)
Dividend received	257	251

The accompanying notes in chapter 4 and chapter VIII form an integral part of financial statements.

Bank income statement For the year ended 31 December 2019

	EUR 000	Notes	2019	2018
Interest income			67,464	64,563
Interest expenses			(2,739)	(3,274)
Net interest income	4.1.		64,725	61,289
Dividend income	4.2.		11,788	8,436
Fee and commission income			42,446	39,458
Fee and commission expenses			(10,033)	(9,284)
Net fee and commission income	4.3.		32,413	30,174
Gains and losses on financial assets and liabilities not measured at fair value through profit or loss	4.4.		(1,028)	701
Gains and losses on financial assets and liabilities held for trading	4.5.		1,782	1,352
Gains and losses on non-trading financial assets mandatorily at fair value through profit or loss	4.6.		3,857	5,140
Gains and losses on financial assets and liabilities designated at fair value through profit or loss	4.7.		-	-
Gains and losses from hedge accounting	4.8.		(230)	(1)
Exchange differences	4.9.		(35)	72
Gains and losses on derecognition of non-financial assets	4.10.		(273)	323
Other operating income	4.11.		17	(757)
Financial and operating income and expenses			113,016	106,729
Administrative expenses	4.12.		(48,060)	(50,124)
• staff expenses			(32,693)	(32,807)
• other administrative expenses			(15,367)	(17,317)
Depreciation	4.13.		(4,797)	(3,678)
Modification gains or losses	4.14.		(29)	-
Provisions	4.15.		472	118
Impairment	4.16.		315	10,704
Profit or loss from non-current assets and disposal groups classified as held for sale	4.17.		(46)	-
TOTAL PROFIT BEFORE TAX FROM CONTINUING OPERATIONS			60,871	63,749
Tax expense or income related to profit or loss from continuing operations	4.18.		(8,787)	(10,056)
TOTAL PROFIT AFTER TAX FROM CONTINUING OPERATIONS			52,084	53,693
Net profit for the financial year			52,084	53,693
Basic and diluted earnings per share (expressed in EUR per share)	4.19.		4,12	4,24

The accompanying notes in chapter 4 and chapter VIII form an integral part of financial statements.

Bank statement of other comprehensive income for the year ended 31 December 2019

	EUR 000	2019	2018
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAX		52,084	53,693
OTHER COMPREHENSIVE INCOME AFTER TAX		1,791	(5,614)
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS		(202)	(12)
Actuarial gains or losses on defined benefit pensions plans		(223)	(13)
Income tax relating to items that will not be reclassified to profit and loss		21	1
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS		1,993	(5,602)
Debt instruments at fair value through other comprehensive income		2,461	(6,916)
Valuation gains or losses taken to equity		2,461	(6,916)
Income tax relating to items that may be reclassified to profit or loss		(468)	1,314
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX		53,875	48,079

The accompanying notes in chapter 4 and chapter VIII form an integral part of financial statements.

Bank statement of financial position at 31 December 2019

	EUR 000	Notes	31 Dec 2019	31 Dec 2018
ASSETS				
Cash, cash balances at central banks and other demand deposits at banks	4.20.		250,246	190,195
Financial assets held for trading	4.21.		8,649	7,054
Non-trading financial assets mandatorily at fair value through profit or loss	4.22.		24,582	35,170
Financial assets designated at fair value through profit or loss	4.23.		6,053	5,947
Financial assets at fair value through other comprehensive income	4.24.		267,205	258,682
Financial assets at amortised cost	4.25.		2,736,167	2,516,404
• debt securities			249,269	253,797
• loans to banks			539	45,316
• loans to non-bank customers			2,482,740	2,213,499
• other financial assets			3,619	3,792
Derivatives - hedge accounting	4.26.		843	607
Investments in subsidiaries, associates and joint ventures	4.27.		20,454	20,454
Tangible assets			32,193	32,403
• property, plant and equipment	4.28.a)		29,461	29,479
• investment property	4.28.b)		2,732	2,924
Intangible assets	4.29.		8,629	9,801
Tax assets	4.18.		2,030	830
• current tax assets			802	-
• deferred tax assets			1,228	830
Other assets	4.30.		7,820	11,085
Non-current assets and disposal groups classified as held for sale	4.31.		304	461
Total assets			3,365,175	3,089,093
LIABILITIES				
Financial liabilities held for trading	4.21.		9,107	7,719
Financial liabilities designated at fair value through profit or loss	4.23.		6,054	5,947
Financial liabilities measured at amortised cost	4.32.		2,982,373	2,713,164
• deposits from banks and central banks			1,667	1,678
• deposits from non-bank customers			2,673,979	2,508,203
• loans from banks and central banks			210,303	178,502
• loans from non-bank customers			70,004	-
• other financial liabilities			26,420	24,781
Fair value changes of the hedged items in portfolio hedge of interest rate risk	4.26.		1,879	602
Provisions	4.33.		10,874	11,628
Tax liabilities	4.18.		4,703	6,730
• current tax liabilities			-	2,495
• deferred tax liabilities			4,703	4,235
Other liabilities	4.34.		1,571	1,613
Total liabilities			3,016,561	2,747,403

EUR 000	Notes	31 Dec 2019	31 Dec 2018
SHAREHOLDERS' EQUITY			
Capital	4.35.	52,784	52,784
Share premium	4.35.	104,061	104,061
Accumulated other comprehensive income	4.35.	19,201	17,410
Reserves from profit	4.35.	29,106	29,106
Retained earnings	4.35.	91,378	84,636
Income from current year	4.35.	52,084	53,693
Total shareholders' equity		348,614	341,690
Total equity and liabilities		3,365,175	3,089,093

The accompanying notes in chapter 4 and chapter VIII form an integral part of financial statements.

Bank statement of changes in equity for the year ended 31 December 2019

EUR 000	Capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including income from current year)	Total equity
Balance at 1 January 2019	52,784	104,061	17,410	29,106	138,329	341,690
Comprehensive income for the financial year after tax	-	-	1,791	-	52,084	53,875
Appropriation of (accounting for) dividends	-	-	-	-	(47,055)	(47,055)
Other	-	-	-	-	104	104
Balance at 31 December 2019	52,784	104,061	19,201	29,106	143,462	348,614
Balance at 31 December 2017	52,784	104,061	32,587	29,106	140,207	358,745
Transition effects to IFRS 9	-	-	(9,563)	-	(241)	(9,804)
Balance at 1 January 2018 after transition to IFRS 9	52,784	104,061	23,024	29,106	139,966	348,941
Comprehensive income for the financial year after tax	-	-	(5,614)	-	53,693	48,079
Appropriation of (accounting for) dividends	-	-	-	-	(55,530)	(55,530)
Other	-	-	-	-	200	200
Balance at 31 December 2018	52,784	104,061	17,410	29,106	138,329	341,690

The accompanying notes in chapter 4 and chapter VIII form an integral part of financial statements.

Bank cash flow statement for the year ended 31 December 2019

EUR 000	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Total profit or loss before tax	60,871	63,749
Depreciation	4,797	3,678
Impairments / (reversal of impairments) of investments in debt financial instruments at fair value through other comprehensive income	(25)	(6)
Impairments / (reversal of impairments) of loans and other financial assets at amortised cost	(6,749)	(10,690)
Impairments of tangible assets (impairments of investment property included), intangible assets and other assets	6,459	(8)
Net (gains) / losses from exchange differences	35	(72)
Modification (gains) / losses	29	-
Net (gains) / losses from sale of tangible assets	188	(242)
Net (gains) / losses from sale of intangible assets	85	-
Other (gains) / losses from investing activities	-	(81)
Net unrealised (gains) / losses from non-current assets held for sale and discontinuing operations and liabilities associated therewith	(71)	-
Other adjustments to total profit or loss before tax	(472)	(118)
Cash flow from operating activities before changes in operating assets and liabilities	65,147	56,210
(Increases) / decreases in operating assets	(232,349)	(220,333)
Net (increase) / decrease in financial assets held for trading	(1,595)	(1,818)
Net (increase) / decrease in non-trading financial assets mandatorily at fair value through profit or loss	10,588	(3,534)
Net (increase) / decrease in financial assets designated at fair value through profit or loss	(106)	36
Net (increase) / decrease in financial assets at fair value through other comprehensive income	(6,012)	(53,567)
Net (increase) / decrease in loans and other financial assets at amortised costs	(238,489)	(162,266)
Net (increase) / decrease in assets-derivatives - hedge accounting		
Net (increase) / decrease in non-current assets held for sale		
Net (increase) / decrease in other assets	3,265	816
(Increases) / decreases in operating liabilities	268,546	114,821
Net increase / (decrease) in financial liabilities held for trading	1,388	1,892
Net increase / (decrease) in financial liabilities designated at fair value through profit or loss	107	(36)
Net increase / (decrease) in deposits, loans and other financial liabilities measured at amortised cost	267,145	112,845
Net increase / (decrease) in other liabilities	(94)	120
Cash flow from operating activities	101,344	(49,302)
Income taxes (paid) / refunded	(12,459)	(8,184)
Net cash flow from operating activities	88,885	(57,486)

EUR 000	Notes	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipts from investing activities		631	540
Receipts from the sale of tangible assets		403	459
Receipts from the sale of intangible assets		-	-
Receipts from non-current assets held for sale and liabilities associated therewith		228	-
Other receipts from investing activities		-	81
Cash payments on investing activities		(12,414)	(4,118)
(Cash payments to acquire tangible assets)		(7,455)	(1,561)
(Cash payments to acquire intangible assets)		(4,959)	(2,557)
(Cash payments to acquire non-current assets held for sale and liabilities associated therewith)			
Net cash flow from investing activities		(11,783)	(3,578)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash receipts from financing activities		-	-
Cash payments on financing activities		(47,055)	(55,530)
(Dividends paid)		(47,055)	(55,530)
Net cash flow from financing activities		(47,055)	(55,530)
Effects of change in exchange rates on cash and cash equivalents		1,389	928
Net increase / (decrease) in cash and cash equivalents		30,047	(116,594)
Opening balance of cash and cash equivalents	4.40.	218,813	334,479
Closing balance of cash and cash equivalents	4.40.	250,249	218,813

Other adjustments to profit and loss before taxes include expense from provisions in the amount of EUR 472 thousand (2018: expense from provisions in the amount EUR 118 thousand).

EUR 000	2019	2018
Cash flows from interest and dividends		
Interest paid	(2,097)	(2,607)
Interest received	75,342	66,052
Dividend paid	(47,055)	(55,530)
Dividend received	11,788	8,436

The accompanying notes in chapter 4 and chapter VIII form an integral part of financial statements.

Notes to the consolidated and the bank's financial statements

1. General information

Official seat, legal form, activities

SKB Bank d.d. has been established as a joint stock company on 29 December 1989 and registered in District court of Ljubljana under the registration number 061/10148300.

Important information from District court of Ljubljana register on 31 December 2019:

Name of the company: SKB banka d.d. Ljubljana

Abbreviated name of the company: SKB d.d.

Official seat of the company: Ljubljana

Business address: Ajdovščina 4, 1000 Ljubljana

Organization: Joint stock company

Amount of capital stock: 52,784,176.26 EUR

According to valid statute of SKB Bank, last amended on 29 May 2018 and in line with the issued license from Bank of Slovenia and according to the Banking law, SKB Bank may perform:

- reception of deposits from public
- granting of loans for own account.

SKB Bank may provide other mutually recognised financial services, in particular:

- reception of deposits,
- payment transaction services according to the law governing payment services, except management of payment system,
- financial leasing,
- issuing of guarantees and other commitments,
- lending, including consumer loans, mortgage-backed loans, factoring with and without recourse and financing of commercial transactions,
- collection, analysis and provision of information on the credit-worthiness of legal entities,
- issuing and managing other payment instruments (e.g., debit and credit cards, travellers' cheques),
- renting safe deposit boxes,
- investment and activities ancillary services and transactions,
- trading for own account or for account of customers,
 - with money market instruments,
 - with foreign means of payments, including foreign exchange transactions,
 - with standardized futures and options,
 - with exchange and interest rate financial instruments,
 - with transferable securities,
- participation in securities issues and the provision of services related to such issues,
- advice to undertakings on capital structure, business strategy and related questions and advice as well as services relating to mergers and the purchase of undertakings,
- money broking on inter-banking markets,
- portfolio management and advice,
- safekeeping and administration of securities.

SKB Bank provides additional financial services, in particular:

- mediation in sales of insurance policies, in accordance with the law governing the insurance sector,
- credit agency by consumer and other credits,
- other services and transactions that has similar characteristic regarding performance and risk to which the bank is exposed as mutually recognised financial services or services from 1. to 2. item of this section.

For all stated services SKB Bank has acquired license from the Bank of Slovenia. For services such as issuing of electronic money, services related to the managing of means of payments, services of managing of pension funds according to the Law of pension and health insurance and performing of custody and related services, SKB Bank has not applied for license.

The consolidated financial statements comprise the financial statements of SKB Bank, entity SKB Leasing, d. o. o., Ajdovščina 4, Ljubljana and entity SKB Leasing Select, d. o. o., Ajdovščina 4, Ljubljana. SKB Bank, SKB Leasing and SKB Leasing Select are referred to collectively as "SKB Group".

In the consolidated financial statements the same guidelines have been used as for unconsolidated statements.

The accounting assumptions are taken into account (a single company assumption, assumption of disclosing true property and financial statement and income statement, assumption of completeness of the content of financial statements and united inclusion, assumption of united evaluation, assumption of the same date, assumption of consistent perseverance of consolidation methods, assumption of clarity and transparency, assumption of economy, assumption of importance).

The following subsidiary is consolidated:

- SKB Leasing, which is 100 % owned by SKB. The principal activity of SKB Leasing is the leasing of vehicles, industrial equipment, land and buildings.

As at 31 December 2019 SKB Leasing and its subsidiary SKB Leasing Select have total assets in the amount of EUR 565,194 thousand (2018: EUR 570,790 thousand), equity in the amount of EUR 43,369 thousand (2018: EUR 41,373 thousand) and a profit for the year in the amount of EUR 17,251 thousand (2018: EUR 13,870 thousand).

The Société Générale Group sold on 13 December 2019 99.73 % of the shares in SKB to OTP Bank. The remaining shares are owned by other enterprises and individuals. The ultimate parent is OTP Group, Nádor Street 16., Budapest, Hungary. SKB Bank is from 31 December 2019 consolidated into OTP Group. Consolidated Annual Report of OTP Group is located at the web address: <https://www.otpbank.hu/porta/en/IR/Reports/Annual>.

At the end of 2019, a total of 826 staff were employed by SKB Bank (2018: 829) at the head office in Ljubljana at Ajdovščina 4, and in the 53 outlets (2018: 54) spread across Slovenia, and 84 staff were employed by SKB Leasing and SKB Leasing Select (2018: 83). The average number of employees in year 2019 was in SKB Bank 827,4 (2018: 834,9) and in SKB Group 909,9 (2018: 914,6).

2. Basis of preparation

2.1. Osnova priprave

The consolidated financial statements and the separate financial statements at 31 December 2019, and for the year then ended, were authorized for issue by the General Management of SKB Bank on 31 March 2020.

The consolidated financial statements of SKB d. d. and its subsidiary and the separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by EU.

The financial statements are prepared on a historical cost basis, except for financial assets and liabilities held for trading including derivative financial instruments, non-trading financial assets mandatorily at fair value through profit or loss, financial assets and liabilities designated at fair value through profit or loss and financial assets at fair value through other comprehensive income that have been measured at fair value.

SKB Group's and SKB Bank's functional currency in 2019 is the Euro ("EUR"). The consolidated financial statements and separate financial statements are prepared in EUR and all values are rounded to the nearest thousand (EUR 000) except when otherwise indicated.

2.2. Changes in accounting policies

2.2.1. Initial application of new amendments to the existing standards effective for the current reporting period

The following new standards, amendments to the existing standards and interpretation issued by the International Accounting Standards Board (IASB) are effective for the current reporting period:

- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019),
SKB Group and SKB Bank implemented IFRS 16 on 1. January 2019. For transition was the prospective method used, which means that there were no recognized effects on retained profit, since assets with right-of-use are measured as amount equal as liability from lease. With transition to IFRS 16 on 1.1.2019 in accounting statements fixed assets increased due to right-of-use and liability from lease (financing), namely for SKB Group in amount of EUR 5.211 thousand, and for SKB bank in amount of EUR 5.186 thousand.
- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).

Changes of existing standards did not show relevant changes in accounting directions of SKB Group and SKB Bank, other than IFRS 16 (directions are presented in chapter 3.16).

2.2.2. Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the following new standard, amendments to the existing standard and interpretation issued by IASB and adopted by the EU are not yet effective:

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Material - adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"** - Interest Rate Benchmark Reform - adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to References to the Conceptual Framework in IFRS Standards** adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

SKB Group and SKB Bank changes of standards that are yet not effective, did not prematurely use. However the evaluation is, that with the beginning of use of standards, there will be no important effect on financial statements.

2.2.3 New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards, which were not endorsed for use in EU as at 29 March 2019 (the effective dates stated below is for IFRS as issued by IASB):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 3 "Business Combinations"** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).

SKB Group and SKB Bank anticipate that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of SKB Group and SKB Bank in the period of initial application.

Hedge accounting for a portfolio of financial assets and liabilities whose principals have not been adopted by the EU remains unregulated.

2.4. Significant accounting judgments and estimates

Judgments

In the process of applying SKB Group's and SKB Bank's accounting policies, management has made judgments, apart from those involving estimations, that significantly affect the amounts recognised in the financial statements.

The most significant judgements relate to financial instruments classifications and to impairment of financial assets.

Estimates and assumptions

The preparation of the financial statements required management to make certain estimates and assumptions which impact the carrying values of SKB Group's and SKB Bank's assets and liabilities and the disclosure of contingent items at the balance sheet date and reported incomes and expenses for the period then ended.

Estimates are used for, but are not limited to: impairment losses on financial assets, impairment losses on tangible and intangible assets, impairment of goodwill, depreciable lives of tangible and intangible assets, tax contingencies, provisions for off-balance sheet risks, provisions for employee benefits and legal claims.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models.

The input for these models is taken from observable markets where possible. However where this is not feasible, a degree of judgment is required in establishing fair values. The valuation technique of financial assets and financial liabilities carried at fair value is described in more detail in Note 6.

Impairment of loans to non-bank customers

SKB Group and SKB Bank regularly review its loans and receivables to assess impairment and perform individual impairment on all loans for which an individual loss occurred and is reported. The experienced judgment is used to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. These estimates include the estimates of expected cash flows from collaterals and other sources.

Similarly, SKB Group and SKB Bank estimate changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

For homogeneous impairment, the Risk management department introduces estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. SKB Group and SKB Bank use its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

SKB Group and SKB Bank calculate either twelve month or lifetime expected credit loss on the sound portfolio by using future cash flows and application of particular risk parameters such as probability of default and loss given default that were assessed by statistical models.

Future events and their effects cannot be perceived with certainty. Accordingly, the accounting estimates made require the exercise of judgment and those used in the preparation of the financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as SKB Group's and SKB Bank's operating environment changes. Actual results may differ from those estimates.

SKB Group and SKB Bank review the loss given default parameter and default frequencies on an annual basis.

Impairment losses of tangible and intangible assets

Each year SKB Group and SKB Bank check the indicators for impairment. If there are indicators of impairment SKB Group and SKB Bank prepare the calculation of impairment losses. This requires an estimation of the 'value-in-use' of the cash-generating unit to which the assets are allocated. Estimating a value-in-use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of Goodwill

At least on an annual basis SKB Group and SKB Bank determine whether the goodwill need to be impaired. This requires an estimation of the 'value in use' of the cash-generating unit to which the goodwill is allocated.

Useful lives of tangible and intangible assets

The useful lives of tangible and intangible assets are determined from the expected usage of the asset, expected physical wear and by technical or commercial obsolescence.

SKB Group still has in use intangible assets at a purchase value of EUR 9,081 thousand, which are 100 % depreciated.

SKB Bank still has in use intangible assets at a purchase value of EUR 8,165 thousand, which are 100 % depreciated.

Tax contingencies

The various interpretations that can be made of the tax regulations applicable to SKB Group's and SKB Bank's operations might give rise to tax contingencies that are not susceptible to objective quantification. However, SKB Group and SKB Bank consider that the tax liability which might arise in connection with this would not be material.

Provisions for off-balance sheet risks

Provisions for off-balance sheet are made for financial guarantees, letter of credits and credit lines in accordance with IFRS 9. SKB Group and SKB Bank make provisions for off-balance sheet items taking into account the financial condition, payment discipline and collateral if any.

Provisions for liabilities to employees

The cost of post-employment benefits is determined using actuarial valuations. The actuarial valuation involves assumptions about discount rates, expected rates of return on assets, future salary increases and similar factors. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

Provisions for legal claims

Provisions for legal claims represent the best estimate of the amounts that SKB Group and SKB Bank would rationally pay to settle the present obligation at the balance sheet date. The estimates of the outcome and financial effect are determined by the judgment of SKB General Management, supplemented by the experience of similar transactions and also from reports from independent experts. In the case that the effect of the time value of money is material, the amount of provisions is the present value of the expenditure expected.

3. Summary of significant accounting policies

The significant accounting policies adopted in the preparation of the financial statements are set out below.

3.1. Consolidation

Subsidiary undertakings, which are those companies which SKB Bank controls according to IFRS requirements, have been fully consolidated. Undertaking is recognized when company:

- Has power over the subsidiary,
- Is exposed or has rights to variable returns from its involvement with subsidiary
- Has the ability to use its power to affect its returns.

The company reassesses whether or not it controls subsidiary if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation. When necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by SKB Bank.

3.2. Related Parties

Related parties of SKB Bank in the reporting period are:

- members of key management personnel of the bank or parent company which have an important influence (participation in decision-making on financial and business policy),
- family members of the members of key management personnel (spouse or partner, children and dependent family members) and
- Companies which are members of the same group as bank.

3.3. Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated at the ECB reference rates for the EUR as of 31 December 2019 and 31 December 2018, respectively.

Transactions denominated in foreign currencies are recorded at the ECB reference rate on the date of the transaction. Monetary items in foreign currency are translated at the functional currency rate of exchange ruling at the balance sheet date. Gains and losses from foreign currency (FX) translations are included in the income statement of the respective year in "Exchange differences". Margins from FX dealings with non-banking clients are included in the profit and loss account in "Gains and losses on financial assets and liabilities held for trading".

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using reference rate as at the dates of the initial transactions.

3.4. Financial instruments

3.4.1. Initial recognition and derecognition of financial instruments

3.4.1.1. Initial recognition

SKB Group and SKB Bank recognise a financial asset or a financial liability in the statement of financial position when they become party to the contractual provisions of the financial instrument.

Financial assets in the scope of IFRS 9 are classified as either financial assets or liabilities held for trading, non-trading financial assets mandatorily at fair value through profit or loss, financial assets or liabilities designated at fair value through profit or loss, financial assets at fair value through other comprehensive income, financial assets or liabilities at amortised cost, as appropriate.

When SKB Group and SKB Bank first recognise a financial instrument, they shall classify it in accordance with the business model and the business model for managing the financial instrument and the contractual cash flow characteristics of the financial instrument.

All regular way purchases and sales of financial assets are recognised on the settlement date, i.e. the date the asset is delivered to the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Derivatives are recognised on a trade date basis.

3.4.1.2. Derecognition

SKB Group and SKB Bank derecognise a financial asset when the contractual rights to the cash flows from the financial asset expire, or they transfer the financial asset and the transfer fulfils the conditions for derecognition.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an asset is sold, derecognition of the asset, recognition of any gain or losses on disposal and the recognition of a receivable from the buyer for payment on the settlement date has to be made. A change in the fair value of the asset between the trade date and settlement date is not recorded in the financial statements.

3.4.2. Classification and measurement

SKB Group and SKB Bank according to IFRS 9 classify financial instruments on the basis of:

- the business model for managing the financial instrument and
- the characteristics of contractual cash flows.

3.4.2.1. Business models of SKB Group and SKB Bank

SKB Group and SKB Bank classify the group of financial assets or liabilities in a particular business model taking into account how groups of financial assets or liabilities are managed together to achieve a particular business objective. The business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or liabilities or both. This assessment is performed on the basis of expected scenarios. When assessing the business model, SKB Group and SKB Bank use the judgement and consider all relevant evidence that is available. Such relevant evidence includes:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and the way in which those risks are managed;
- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and
- frequency and volume of sales, reasons for sales, timing of sales.

Business model "Financial assets held for sale"

Financial assets are held within a business model whose objective is trading. In this category SKB Group and SKB Bank hold derivatives.

Business model "Collecting contractual cash flows"

Financial assets are held within a business model whose objective is to hold financial assets **in order to collect contractual cash flows**. Financial assets are measured at amortised cost. Cash flows are solely payments of principal and interests. Sales are possible, but should remain marginal. Sales related to increased credit risk, sales close to maturity and sales to ensure liquidity needs are also permitted.

Business model "Collecting contractual cash flows and sale"

Financial assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and to sale financial assets. Financial assets are measured at fair value through other comprehensive income. Cash flows are solely payments of principal and interests. Sales may be frequent and significant.

Business model "Financial assets at fair value through profit or loss"

Financial assets are held within a business model whose objective is neither to hold financial assets in order to collect contractual cash flows nor to hold financial assets in order to collect contractual cash flows and to sale financial assets. All financial assets that are not classified as measured at amortised cost or at fair value through other comprehensive income are measured at fair value through profit or loss.

3.4.2.2. Cash flow characteristics

According to IFRS 9 requirements SKB Group and SKB Bank determined the characteristics of cash flows and introduced SPPI test (solely payment of principal and interest on the principal amount outstanding). When financial instrument is classified in business model "Collecting contractual cash flows" or in business model "Collecting contractual cash flows and sale" it is necessary to assess if the contractual cash flows are SPPI.

Contractual cash flows are SPPI if:

- principal is the fair value of the financial asset at initial recognition and
- interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks (e. g. liquidity risk) and costs (e. g. administrative costs), as well as a profit margin.

When contractual cash flows are not consistent with SPPI test, financial instrument has to be recognised at fair value through profit or loss.

SKB Group and SKB Bank have introduced a procedure for SPPI test in the framework of the regular investment process. When assessing if contractual cash flows are solely payments of principal and interest SKB Group and SKB Bank are reviewing contractual characteristics of financial instrument (contractual terms that can change the time and amount of contractual cash flows).

3.4.2.3. Classification of financial instruments

A financial asset shall be measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. However an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

3.4.2.4. Measurement of financial instruments

OAt initial recognition, a financial asset or financial liability shall be measured at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, a financial asset or financial liability shall be measured at:

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

3.4.3. Reclassification of financial instruments

When SKB Group and SKB Bank change business model for managing financial assets they shall reclassify all affected financial assets. SKB Group and SKB Bank shall not reclassify financial liability.

If SKB Group and SKB Bank reclassify financial assets, they shall apply the reclassification prospectively from the reclassification date. SKB Group and SKB Bank shall not restate any previously recognised gains, losses (including impairment gains or losses) or interest.

3.4.4. Modification of financial instruments

A contractual modification of the initial cash flows may be due to:

- a renegotiation of the loan conditions as part of a purely commercial agreement with the customer, this agreement not being linked to an increase in the borrower's credit risk,
- a restructuring considered necessary due to the counterparty's worsened financial situation.

The newly recognised loan must then undergo fresh SPPI testing.

A contractual modification of the initial cash flows due to restructuring should not result in the derecognition of the loan unless the contractual modification is such as to call into question its classification as SPPI.

If the modified loan is still SPPI, then, it must be maintained in the statement of financial position and its amortised cost must be adjusted in such a way that its amount will be equal to the present value, at the original EIR, of new contractual cash flows from the restructuring.

3.4.5. Recognition of gains and losses

Gains and losses of financial instruments measured at fair value through profit and loss are recognised in the income statement except for gains and losses from own credit risk that is recognised in other comprehensive income without subsequent reclassification in income statement. In this way, the IFRS 9 eliminates the instability of the income statement due to changes in credit risk arising from liabilities that are measured at fair value.

Gains and losses of financial instruments measured at fair value through other comprehensive income are recognised in the income statement (interest income, expected credit losses, exchange differences and result on derecognition that is reclassified from other comprehensive income) except for result of revaluation that is recognised in other comprehensive income. SKB Group and SKB Bank can irrevocably decide that equity financial instrument is measured at fair value through other comprehensive income without subsequent reclassification of profit or loss in the income statement.

Gains and losses of financial instruments measured at amortised cost are recognised in the income statement.

3.4.6. Impairment of financial instruments

Standard IFRS 9 requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a timelier basis.

All debt instruments classified as financial assets measured at amortised cost or at fair value through other comprehensive income, as well as lease receivables, loan commitments and issued financial guarantee contracts, are systematically subject to impairment or a provision for expected credit losses since their initial recognition.

Thus, the financial assets in question are allocated to three categories according to the gradual deterioration of their credit risk since their initial recognition, and impairment is booked to each of these categories as follows:

Stage 1

- All financial assets are initially recognised in this category except assets credit impaired at initial recognition.
- A loss allowance is recorded at an amount equal to 12-month expected credit losses.

Stage 2

- If the credit risk on a financial asset has significantly increased since its initial recognition, the asset is transferred to this category.
- The loss allowance for the financial asset is then increased to the level of its lifetime expected credit losses.

Stage 3

- Financial assets identified as being credit-impaired is transferred to this category.
- The loss allowance for credit risk continues to be measured at an amount equal to the lifetime expected credit losses and is adjusted, if necessary, to take into account any additional deterioration in credit risk.

SKB Group and SKB Bank have to take into account all available past due and forward-looking information they could gather without undue cost or effort, as well as the potential consequences of a change in macro-economic factors at a portfolio level, so that any significant increase in the credit risk on a financial asset may be assessed as early as possible.

SKB Group and SKB Bank consider a significant increase of credit risk when:

- a financial asset is in delay for more than 30 days in a particular time frame (taking into account the materiality threshold),
- a deterioration of a client's rating is observed in a particular time frame and
- a client has been put on a "watch list".

When a concession is granted by SKB Group and SKB Bank to the obligor, experiencing or about to experience financial difficulties, which correspond to the definition of forbearance, SKB Group and SKB Bank classify such exposures without exception as defaulted, and calculates lifetime expected credit loss.

With the application of IFRS 9 SKB Group and SKB Bank did not alter the definition of default to determine whether or not there is objective evidence of impairment of a financial asset. As asset is notably presumed in default if one or more contractual payments are more than 90 days past due (again taking into account the materiality threshold) or any other criteria from regulatory definition of default is met.

Calculation of expected credit loss

For the calculation of expected credit loss (ECL in continuation) SKB Group and SKB Bank multiply the exposure at default (EAD) at the end of each month during the lifetime of the asset with the corresponding probability of default (PD) and loss given default (LGD). The result is discounted to the present value. If the asset is allocated in stage 1, only the expected loss in initial 12 months is taken into account. For the assets, allocated in stage 2, the lifetime expected credit loss is considered.

The key risk parameters for the calculation of ECL, notably PD, and LGD were defined based on SKB Group's and SKB Bank's proprietary data, which was the source for the construction of statistical models. In case when available data was not sufficient for statistical modelling (for SKB Group such parameter is credit conversion factor (CCF)), SKB Group and SKB Bank used regulatory defined parameters or the values were expertly defined.

Probability of default (PD): PD curves were calibrated based on historical default rates, and further adjusted with a forward-looking component (GDP growth rate as explanatory variable). Adjustments were done on a bucket level.

Loss rate was calculated over historical data on defaulted loans and based on internal analyses of realized recoveries in time from the moment of default.

Forward looking information

The expected credit loss is measured in a way that reflects point in time as well as forward looking information based on predicted economic conditions on portfolios where it was possible to confirm the correlation between the credit risk and macroeconomic environment. Through the cycle parameters' values were used where such correlation was not confirmed.

The future economic conditions are reflected in scenarios, used in the calculation. They are as follows: favourable, stressed, base and through the cycle. The weights between them are calculated by statistical model and adjusted by expert judgment.

During the reported period, SKB Group and SKB Bank did not make any alterations in the ECL calculation technique itself. On the other hand, the adjustment of parameters to the changed macroeconomic predictions was done in line with internal methodology.

Assumptions about macroeconomic indicators

Scenario	2019	2020	2021
GDP growth			
• Base	3.20 %	2.70 %	2.10 %
• Favourable	4.75 %	4.25 %	3.06 %
• Stress	0.27 %	0.46 %	0.88 %

Sensitivity analyses: effect of change in macroeconomic indicators on PD, LGD and ECL

Sensitivity analyses demonstrates the effect of GDP change for 100 basis points upward and downward on average PD and LGD and the effect on ECL as per 31 December 2019

SKB Group	GDP growth	Effect on average PD (in basis points)	Effect on average LGD (in basis points)	ECL effect (in 000 €)
Corporates	+ 100 basis points	-68.4	0	-3,096
	- 100 basis points	68.4	0	3,096

SKB Bank	GDP growth	Effect on average PD (in basis points)	Effect on average LGD (in basis points)	ECL effect (in 000 €)
Corporates	+ 100 basis points	-68.7	0	-2,415
	- 100 basis points	68.7	0	2,415

The table demonstrates no effect on LGD values as the Bank couldn't link this parameter to any of the macroeconomic indicators.

SKB Group	GDP growth	Effect on average PD (in basis points)	Effect on average LGD (in basis points)	ECL effect (in 000 €)
Corporates	+ 100 basis points	-87.2	0	-2,948
	- 100 basis points	87.2	0	2,948

SKB Bank	GDP growth	Effect on average PD (in basis points)	Effect on average LGD 2 (in basis points)	ECL effect (in 000 €)
Corporates	+ 100 basis points	-85.2	0	-2,182
	- 100 basis points	85.2	0	2,182

3.5. Cash and cash balances with central banks

Cash and balances with the central bank include cash in hand, clearing accounts with the central bank and other demand deposits with banks.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days from original maturity, including:

- cash and balances with central banks,
- loans to banks.

3.6. Financial assets held for trading

Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near future and are shown in the statement of financial position at fair value. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the income statement as "Gains and losses on financial assets and liabilities held for trading".

3.6.1. Derivatives

SKB Group and SKB Bank are offering clients possibility to deal with financial derivatives. Precondition for concluded deals is signed contract. Deals with clients are done on the basis of back to back, thus SKB Group and SKB Bank are having no position neither trades for their account. Occasionally and in insignificant size open position is a result of rounding and date.

SKB Group and SKB Bank enter into derivative instruments in the foreign exchange and interest rate markets. Derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealized gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Derivatives with positive market values (unrealized gains) are shown as assets, and derivatives with negative market values (unrealized losses) are shown as liabilities in the statement of financial position.

For derivatives held for trading, any gains or losses arising from changes in fair value are taken directly to income statement in item "Gains and losses on financial assets and liabilities held for trading". Interests earned are reported as interest income.

3.6.2. Debt Instruments

Debt instruments, classified in this category, are securities SKB Group and SKB Bank hold with the intention of recognising short-term profits. They are carried at fair market value based on quoted bid prices. All gains and losses realized and unrealized from trading are reported in "Gains and losses on financial assets and liabilities held for trading" in the period in which they arise. Interests earned are reported as interest income.

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

In this category SKB Group and SKB Bank classify equity instruments and loans that do not pass SPPI test.

All realised and unrealised gains and losses from equity instruments and loans, mandatorily at fair value through profit and loss are in income statement presented in "Gains and losses on non-trading financial assets mandatorily at fair value through profit or loss".

3.8. Financial assets designated at fair value through profit and loss

In this category SKB Group and SKB Bank classify debt instruments, which contain an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

All realised and unrealised gains and losses from debt instruments designated at fair value through profit and loss are reported in "Gains and losses on financial assets and liabilities designated at fair value through profit or loss". Interests earned are reported as interest income.

3.9. Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are financial asset held for acquiring contractual cash flows and sale. In this category SKB Group and SKB Bank classify debt instruments. Gains and losses from financial assets at fair value through other comprehensive income are shown in "Gains and losses on financial assets and liabilities not measured at fair value through profit or loss" with the exception of revaluation gain or loss, which is recognised in other comprehensive income. Interests earned are reported as interest income.

When impairment loss occurs, the amount of impairment loss is recognised in other comprehensive income.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and discounted cash flow analysis and option pricing models.

3.10. Financial assets at amortised cost

Financial assets at amortised cost are financial assets held for acquiring contractual cash flows. In this category SKB Group and SKB Bank classify debt instruments, loans and other financial assets. Gains and losses from financial assets at amortised cost are shown in "Gains and losses on financial assets and liabilities not measured at fair value through profit or loss". Interests earned are reported as interest income.

Loans originated by SKB Group and SKB Bank by providing money directly to the borrower are categorized as loans and are carried at amortised cost, which is determined as the principal amount outstanding, increased by the amount of interest and other claims due from customers, less any amounts written off and less any provisions for loan impairment. Loans are recognised when cash is advanced to borrowers. Loans are carried at amortised cost using the effective interest method. Amortised cost is calculated by taking into account the discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in "Interest income" in the income statement. The losses arising from impairment of such loans are recognised as "Impairment" in the income statement.

Forbearance – restructuring and refinancing of loans

SKB Group's and SKB Bank's decision regarding the method of resolving bad investments is based on the review of the causes for debtor's difficulties. Sometimes the realisation of insurance is more rational decision than debt's restructuring. In case of restructuring the most common methods are extending the payment deadlines, new loan conditions and in some cases the conversion of part of debt to equity. The restructuring of loans involves extending of payment deadlines and negotiating new loan conditions. According to EBA and Bank of Slovenia rules the investments, for which the forbore instruments have been used, remain classified in a category non-performing loans. SKB Group and SKB Bank are reviewing the fulfilment of new conditions of restructuring loans and monitor the possibility of future payments.

3.11. Derivatives – hedge accounting

3.11.1. Portfolio hedge of interest rate risk

For the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability, or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

At inception of the hedge relationship, SKB Group and SKB Bank formally document the relationship between the hedged item and the hedging instrument, including the nature of the risk, General Management objectives and the strategy for undertaking the hedge.

In relation to cash flow hedges, which meet the conditions for special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge, is recognised directly in equity and the ineffective portion is recognised in net profit or loss in item "Gains and losses from hedge accounting".

In relation to fair value hedges, which meet the conditions for special hedge accounting, the gain or loss on the hedging instrument is recognised in net profit or loss in item "Gains and losses from hedge accounting". Gain or loss on the hedged instrument is also recognised in income statement in the same item as changes in fair value on the hedging instrument.

Hedge accounting is discontinued when the hedging instrument or hedge item expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to net profit or loss for the year.

3.12. Tangible assets

3.12.1. Property, plant and equipment

All property and equipment is stated at cost, less accumulated depreciation and impairment losses.

Depreciation is based on the straight-line depreciation method to write off the cost of each asset to its residual value over the estimated useful life as follows:

v %	2019	2018
Buildings and their significant parts	1.8 – 10.0	1.8 – 10.0
Furniture and fittings	10.0 – 12.5	10.0 – 12.5
Computers	20.0 – 25.0	20.0 – 25.0
Equipment and other	6.7 – 20.0	6.7 – 20.0

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

Significant parts of buildings whose useful life differs from that of the whole building, and whose costs are significant, are separately depreciated.

Maintenance and repairs are charged to the income statement when incurred. Expenditure that enhances and extends the benefits of property or equipment beyond the original specifications and lives are recognised as capital improvements and added to the original cost.

The amortisation expense on property, plant and equipment is recognised in the income statement in the "Depreciation" category. The amortisation period and the amortisation method for property, plant and equipment are reviewed at each financial year-end.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on derecognition of property, plant and equipment are recognised in income statement in item "Gains and losses on derecognition of non-financial assets".

Each year SKB Group and SKB Bank check the indicators for impairment. If there are indicators of impairment SKB Group and SKB Bank prepare the calculation of impairment losses. The carrying amounts are periodically reviewed on the basis of independent valuations to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount, and an impairment loss is recognised in income statement.

3.12.2. Investment property

SKB Group and SKB Bank hold properties as investments to earn rental income. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are carried at depreciated cost. SKB Group and SKB Bank use the same depreciation method and the same depreciation rates, including depreciation by significant parts, for investment properties and for fixed assets.

The carrying amounts of investment properties are periodically reviewed on the basis of independent valuations.

The depreciation arising from investment properties is included in the income statement in "Depreciation", while the income from the rental of investment properties is included in "Other operating income".

3.13. Intangible assets

Intangible assets include computer software and goodwill.

3.13.1. Computer software

Software recognised as an asset is amortised using the straight-line method over its estimated useful life as follows:

	in %	2019	2018
Computer software		14.3	14.3

Intangible assets acquired separately are measured on initial recognition at cost. Costs that are directly associated with identifiable software products controlled by SKB Group and SKB Bank and are expected to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Expenditure which increases the value of software programs beyond their original specifications is added to the original costs of the software. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses.

The amortisation expense on intangible assets with finite lives is recognised in the income statement in the "Depreciation" category. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each financial year-end.

Gains or losses arising from derecognition of an intangible asset are recognised in the income statement in category "Gains and losses on derecognition of non-financial assets".

Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

3.13.2. Goodwill

If the costs of acquisition exceed the fair value of the net identifiable assets of the business acquired, goodwill is accounted for.

Goodwill is reviewed for impairment annually. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

3.14. Tax assets and liabilities

3.14.1. Current tax assets and liabilities

Current taxes are calculated in accordance with the provisions of the relevant legislation of the Republic of Slovenia, the Corporate Income Tax Act, at a rate 19 % of taxable profits.

3.14.2. Deferred tax assets and liabilities

Deferred taxation is provided using the liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. It is calculated at the tax rates that are expected to apply to the period when it is anticipated the assets or liabilities will be settled, and it is based on tax rates (and laws) that have been enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax relating to items recognised directly in equity is also recognised in equity and not in the income statement.

3.15. Non-current assets and disposal groups classified as held for sale

Non-current assets held for sale are assets for which the carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Classification of assets in this group is possible under the following conditions: assets must be available for immediate sale in their present condition, the sale must be highly probable and assets must be sold, not abandoned.

They are measured at the lower of their carrying amounts and fair values less costs of sale. Depreciation is stopped as soon as an asset is classified as being held for sale.

Temporary property and equipment acquired for debt repayments in the restructuring process are not classified among property and equipment but among stock. These assets are carried at their estimated net realizable value.

3.16. Leasing

The contract contains leasing, if it ensures the right to control or supervision over the use of an asset for agreed period of time in exchange for payment. Control is ensured when client has right to economic benefit and right-of-use of asset.

3.16.1 The lease term

As the period of lease is considered a period, in which it is not possible to cancel the lease and in which the lessor has a right-of-use of an asset, who is subject of a lease. In case of contracts being concluded for indefinite time, the period of lease is defined as for 5 years and is extended on every year period.

3.16.2 Interest rate – discount rate

Interest rate for lease is an interest rate which the lessor should pay and with that for similar period of time and with similar guarantee in similar economic environment would obtain asset, in similar value as asset which ensures right-of-use. SKB Group and SKB Bank use as discount rate, an interest rate at which they debit for.

3.16.3 Lease, which does not meet conditions to be recognized

In case of:

- short-time lease (period of lease is shorter than 12 months and contract does not include buying option),
- lease, at which the asset as subject to lease is with low value (assets with value less than EUR 5.000).

SKB Group and SKB Bank as leaseholder

A finance lease is a lease which transfers substantially all the risks and rewards of ownership to the lessee. In opposite case the lease is listed as operational lease.

At the commencement date, a lessor shall recognize assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

In case of operational lease the carrying amount of leased asset is increased by any initial direct cost arising from mediation at operating lease and is recognized in period of lease on same basis as income from lease. Rents are recognised as revenue in the period in which they are earned.

SKB Group and SKB Bank do not have assets acquired by finance lease.

SKB Group and SKB Bank as lessor

Lessor on initial start date of lease recognize the asset which represents the right-of-use and liability from lease. Value of asset as right-of-use covers: amount of initial measurement of liability from lease, rent payments, which were carried out at the beginning of lease or before, reduced for received lease initiatives, initial direct costs, which incurred at lessor, and cost estimation. Value of right-of-use is evenly time depreciated in accordance with period of lease. Lease liability is measured as present value of rents, paid in period time of lease and are discounted at interest rate as stated above.

3.17. Financial liabilities held for trading

In category "Financial liabilities held for trading" SKB Group and SKB Bank hold derivatives unless they are designated as effective hedging instruments. Financial instruments held for trading are shown in the statement of financial position at fair value. Gains or losses on investments held for trading are recognised in the income statement as "Gains and losses on financial assets and liabilities held for trading".

3.18. Financial liabilities designated at fair value through profit or loss

In category "Financial liabilities designated at fair value through profit or loss" SKB Group and SKB Bank hold structured deposit. All realised and unrealised gains and losses from financial liabilities designated at fair value through profit and loss are shown in "Gains and losses on financial assets and liabilities designated at fair value through profit or loss". Interest earned is reported as interest income.

3.19. Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost are recognised initially at 'cost' net of transaction costs incurred. Subsequently, financial liabilities measured at amortised cost are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective yield method.

3.20. Provisions

In the normal course of business, SKB Group and SKB Bank enter into financial instrument contracts with off-balance sheet risk. Such contracts include the issuance of guarantees and letters of credit, granted but not-yet-drawn loans, and credit lines. These financial instruments involve, to varying degrees, elements of credit, interest rate and currency risk. Provisions are made for estimated losses on such items based on similar assessments as set out for loans and advances.

Provisions are recognised when SKB Group and SKB Bank have a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

3.21. Financial guarantees

SKB Group and SKB Bank give financial guarantees consisting of letters of credit, letter of guarantees, and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, in "Other liabilities". Subsequent to initial recognition, they are measured at the higher of the initial fair value less, when appropriate, cumulative amortisation calculated to recognise the fee in the income statement in "Fee and commission net income" over the term of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement as "Provisions".

3.22. Interest income and expenses

Interest income and expense is recognised in the income statement on an accrual basis by using the effective interest rate method. Interest income and expense includes the amortisation of any discount or premium on securities. Interest income also includes up-front and commitment fees, which are subject to the effective interest rate calculation and are amortised over the life of the loan.

Interest income is calculated on the basis of the gross carrying amount (amortised cost before adjusting for any loss allowance) unless the loan is purchased or originated credit impaired or subsequently became credit impaired. In those cases interest income is calculated on the basis of amortised cost (net of the loss allowance).

3.23. Dividend income

Dividend income is recognised in the income statement on the date that the dividend is declared.

3.24. Fee and commission income

Fee and commission income arises on financial services provided by SKB Group and SKB Bank, including account maintenance, cash management services, brokerage services, investment advice and financial planning, investment banking services, project finance transactions and asset management services. Fee and commission income is recognised when the corresponding service is provided.

3.25. Gains and losses on financial assets and liabilities not measured at fair value through profit and loss

Gains and losses on financial assets and liabilities not measured at fair value through profit and loss includes realized gains and losses arising from purchases and disposals of financial assets and liabilities not measured at fair value through profit and loss (financial assets measured at fair value through other comprehensive income and financial assets and liabilities at amortised cost, including finance leases).

3.26. Gains and losses on financial assets and liabilities held for trading

Gains and losses on financial assets and liabilities held for trading arise from purchases, disposals and changes in the fair value of financial assets and liabilities held for trading. It also includes the result from dealing with all foreign currency transactions.

3.27. Gains and losses on non-trading financial assets mandatorily at fair value through profit and loss

Gains and losses on non-trading financial assets mandatorily at fair value through profit and loss arise from purchases, disposals and changes in the fair value of these financial instruments.

3.28. Čisti dobički in izgube iz finančnih sredstev in obveznosti, določenih za merjenje po pošteni vrednosti prek poslovnega izida

Gains and losses on financial assets and liabilities designated at fair value through profit and loss arise from purchases, disposals and changes in the fair value of these financial instruments.

3.29. Gains or losses from hedge accounting

In relation to cash flow hedges, which meet the conditions for special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge, is recognised directly in equity and the ineffective portion is recognised in net profit or loss in item "Gains and losses from hedge accounting". The gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged item affects the net profit and loss.

In relation to fair value hedges, which meet the conditions for special hedge accounting, the gain or loss on the hedging instrument is recognised in net profit or loss in item "Gains and losses from hedge accounting". Gain or loss on the hedged instrument is also recognised in income statement in the same item as changes in fair value on the hedging instrument.

3.30. Exchange differences

Exchange differences are recognised when assets and liabilities in foreign currency are translated at the functional currency of exchange ruling at the balance sheet date.

3.31. Gains and losses on derecognition of non-financial assets

Gains and losses on derecognition of non-financial assets arise from the purchases and disposals of tangible and intangible assets.

3.32. Staff expenses

SKB Group and SKB Bank contribute to private pension funds for employees. Contributions to the state pension fund, social insurance, medical insurance, and unemployment funds for employees are considered as operating expenses as incurred.

SKB Group and SKB Bank count for employee holiday benefits on an accrual basis and for the present value of a defined employee retirement plan and seniority awards based on actuarial calculations.

Retirement Severance Pay:

Retirement severance pay is required by the Slovenian employment act in the amount of 3 average employee's monthly salaries or 3 months of the average Slovenian salary. The highest amount must be taken into account.

Seniority awards:

Seniority awards are required by local regulations in following amounts:

10 years of employment: 460 EUR
20 years of employment: 689 EUR
30 years of employment: 919 EUR
40 years of employment: 919 EUR

Termination benefits:

According to the Slovenian employment act and Banking branch collective agreement dismissed employees (employed under Collective Agreement) are entitled to termination benefits (depending to the length of service) up to 33 % of their gross salary for each year of service.

Management bonus scheme:

Included within salaries and other short-term benefits of management are salaries and remuneration. Salaries and remuneration of the Management board, as well as the remuneration principles and structure, are subject to the approval of the Board of Directors.

Equity-settled transactions:

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period is recorded in 'Personnel expenses' and represents the movement in cumulative expense recognised as at the beginning and end of that period.

3.33. Profit or loss from non-current assets and disposal groups classified as held for sale

Profit or loss from non-current assets and disposal groups classified as held for sale arise from disposals of these assets.

3.34. Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of SKB Group and SKB Bank and accordingly are not included in their financial statements.

3.35. Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the amounts recognised and SKB Group and SKB Bank intend to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

4. Notes to the financial statements of SKB Group and SKB Bank

4.1. Net interest income

EUR 000	Group		Bank	
	2019	2018	2019	2018
Interest income				
Non-trading financial assets mandatorily at fair value through profit or loss	349	826	349	826
Financial assets designated at fair value through profit of loss	-	-	-	-
Financial assets at fair value through other comprehensive income	6,089	6,817	6,089	6,817
Financial assets at amortised cost	80,558	75,870	59,651	55,238
Derivatives - hedge accounting	357	164	357	164
Interest income on impaired financial assets accrued - loans and receivables to customers	1,215	1,718	973	1,475
Financial liabilities arising from negative interest rate	168	374	45	43
	88,736	85,769	67,464	64,563
Interest expense				
Financial liabilities designated at fair value through profit or loss	-	-	-	-
Financial liabilities measured at amortised cost	(2,033)	(2,759)	(1,830)	(2,522)
Other liabilities	(3)	(76)	(3)	(76)
Financial assets arising from negative interest rate	(906)	(676)	(906)	(676)
	(2,942)	(3,511)	(2,739)	(3,274)
Net interest income	85,794	82,258	64,725	61,289

EUR 000	Group		Bank	
	2019	2018	2019	2018
Interest income from financial assets at amortised cost				
• corporates	15,520	13,488	15,520	13,488
• government	4,443	4,695	4,443	4,695
• financial organisations	527	550	3,438	3,329
• individuals and sole proprietors	37,211	35,202	37,223	35,201
• long term financial lease	24,072	23,653	-	-
	81,773	77,588	60,624	56,713
Interest expense from financial liabilities measured at amortised cost				
• corporates	(144)	(126)	(144)	(126)
• government	(16)	(13)	(16)	(13)
• financial organisations	(393)	(412)	(190)	(175)
• individuals and sole proprietors	(1,480)	(2,208)	(1,480)	(2,208)
	(2,033)	(2,759)	(1,830)	(2,522)

4.2. Dividend income

	Group		Bank	
EUR 000	2019	2018	2019	2018
Dividend income from non-trading financial assets mandatorily at fair value through profit or loss	257	251	257	251
Dividend income from investments in subsidiaries, associates and joint ventures (accounted for using the cost method)	-	-	11,531	8,185
	257	251	11,788	8,436

Dividend income from investments in subsidiaries, associates and joint ventures (accounted for using the cost method) refers to capital investment in subsidiary SKB Leasing; 100 % owned by SKB Bank.

4.3. Net fee and commission income

	Group		Bank	
EUR 000	2019	2018	2019	2018
Fee and commission income				
Fees (commissions) from operations for KDD, stock exchange, brokerage commission and commission from operations for third parties	745	623	745	623
Fees (commissions) from payment operations	16,809	16,015	16,993	16,187
Fees (commissions) from other payment operations	8,086	7,995	8,105	8,006
Fees (commissions) from lending operations	3,692	2,518	3,692	2,518
Fees (commissions) from collateral given	2,404	2,478	2,404	2,478
Fees (commissions) on safekeeping of effects and valuables	207	205	207	205
Fees (commissions) from agency services and commission operations	1,334	1,533	623	663
Fees (commissions) from insurance operations	2,135	1,771	1,870	1,771
Fees (commissions) on current accounts management	7,806	7,007	7,807	7,007
	43,218	40,145	42,446	39,458
Fee and commission expenses				
Fees (commissions) from operations for KDD, stock exchange, brokerage commission and commission from operations for third parties	(1,184)	(1,022)	(369)	(280)
Fees (commissions) from payment operations	(8,074)	(7,331)	(8,073)	(7,330)
Fees (commissions) from collateral received	(761)	(875)	(761)	(875)
Fees (commissions) for other services	(830)	(799)	(830)	(799)
	(10,849)	(10,027)	(10,033)	(9,284)
Net fee and commission income	32,369	30,118	32,413	30,174

Tax on financial services decreases revenues from fees in the amount of EUR 4,032 thousand (2018: EUR 3,907 thousand).

4.4. Gains and losses on financial assets and liabilities not measured at fair value through profit and loss

	Group		Bank	
EUR 000	2019	2018	2019	2018
Gains				
Financial assets at amortised cost	1,137	1,098	927	837
Financial liabilities measured at amortized cost	260	2	261	2
	1,397	1,100	1,188	839
Losses				
Financial assets at amortised cost	(2,341)	(358)	(2,216)	(138)
	(2,341)	(358)	(2,216)	(138)
	(944)	742	(1,028)	701

4.5. Gains and losses on financial assets and liabilities held for trading

	Group		Bank	
EUR 000	2019	2018	2019	2018
Net gains or losses from derivatives	638	(395)	638	(395)
Net gains or losses from dealing in loans and other financial assets	1,144	1,747	1,144	1,747
	1,782	1,352	1,782	1,352

4.6. Gains and losses on non-trading financial assets mandatorily at fair value through profit and loss

	Group		Bank	
EUR 000	2019	2018	2019	2018
Gains	6,368	12,015	6,368	12,015
Losses	(2,511)	(6,875)	(2,511)	(6,875)
	3,857	5,140	3,857	5,140

Gains and losses from investments in equity instruments in the amount of EUR 1,352 thousand (2018: EUR 4,649 thousand) and from loans in the amount of EUR 2,504 thousand (2018: EUR 491 thousand) are included in this item.

4.7. Gains and losses on financial assets and liabilities designated at fair value through profit and loss

	Group		Bank	
EUR 000	2019	2018	2019	2018
Gains	293	392	293	392
Losses	(293)	(392)	(293)	(392)
	-	-	-	-

Gains and losses on financial assets and liabilities designated at fair value through profit and loss refer to valuation of investment deposit and EMTN bonds at fair value. Investment deposits are fully covered with investment in EMTN bonds issued by Société Générale, therefore SKB Group and SKB Bank are not exposed to market risk.

4.8. Gains and losses from hedge accounting

	Group		Bank	
EUR 000	2019	2018	2019	2018
Net gains or losses from derivatives - fair value hedge	1,047	601	1,047	601
Net gains or losses from hedged items related to hedged risk - fair value hedge	(1,277)	(602)	(1,277)	(602)
Net gains or losses from ineffective cash flow hedge	-	-	-	-
	(230)	(1)	(230)	(1)

4.9. Exchange differences

	Group		Bank	
EUR 000	2019	2018	2019	2018
Exchange differences	(34)	75	(35)	72
	(34)	75	(35)	72

4.10. Gains and losses on derecognition of non-financial assets

	Group		Bank	
EUR 000	2019	2018	2019	2018
Gains	185	481	5	334
Losses	(361)	(57)	(278)	(11)
	(176)	424	(273)	323

Gains and losses from purchases and sales of tangible and intangible assets are included in this item.

4.11. Other operating income

	Group		Bank	
EUR 000	2019	2018	2019	2018
Income				
Rental income - investment property	147	170	274	297
Rental income - POS terminals	317	300	317	300
Rental income - other property, plant and equipment	43	84	106	149
Sale of services - operational leases	1,237	1,505	-	-
Sale of services - other	516	358	-	-
Other operating income	2,298	1,934	2,432	1,929
	4,558	4,351	3,129	2,675
Expenses				
Taxes	(49)	(60)	(3)	(13)
Contributions	(2,975)	(3,266)	(2,968)	(3,262)
Memberships	(103)	(103)	(103)	(103)
Other operating expenses	(39)	(55)	(38)	(54)
	(3,166)	(3,484)	(3,112)	(3,432)
	1,392	867	17	(757)

Operational leases - future minimum income	Group		Bank	
EUR 000	2019	2018	2019	2018
Future minimum income from operational leases - cars and other equipment				
Less than one year	1,254	1,216	-	-
One to five years	1,191	1,220	-	-
	2,445	2,436	-	-
Future minimum income from operational leases - real estate				
Less than one year	137	126	317	313
One to five years	240	253	932	942
	377	379	1,249	1,255

4.12. Administration costs

	Group		Bank	
EUR 000	2019	2018	2019	2018
Payroll and other staff costs				
Salaries Gross	(26,694)	(26,551)	(24,616)	(24,501)
Social security costs	(4,519)	(4,656)	(4,117)	(4,285)
Other employee costs	(4,726)	(4,621)	(3,960)	(4,021)
	(35,939)	(35,828)	(32,693)	(32,807)
Administration costs				
Material costs	(1,189)	(1,297)	(1,125)	(1,228)
Advertising and marketing	(1,202)	(1,351)	(979)	(1,126)
Professional services	(3,097)	(3,852)	(2,773)	(3,501)
IT costs	(2,690)	(2,404)	(2,241)	(2,059)
Operating lease rentals	(546)	(1,842)	(499)	(1,739)
Business trips	(148)	(155)	(127)	(128)
Maintenance and protection of premises	(1,313)	(1,365)	(1,260)	(1,317)
Education, training and scholarships	(311)	(263)	(300)	(258)
Insurance	(394)	(367)	(382)	(360)
Postal and telephone charges	(2,339)	(2,303)	(2,074)	(2,021)
Supervision	(709)	(546)	(709)	(546)
Other costs	(3,174)	(3,284)	(2,898)	(3,034)
	(17,112)	(19,029)	(15,367)	(17,317)
	(53,051)	(54,857)	(48,060)	(50,124)

Other costs of SKB Group include costs of maintenance of equipment in the amount of EUR 482 thousand (2018: EUR 490 thousand), costs of card and electronic operations and maintenance of ATM's in the amount of EUR 753 thousand (2018: EUR 872 thousand), printing costs in the amount of EUR 236 thousand (2018: EUR 298 thousand) and costs of other services.

Other costs of SKB Bank include costs of maintenance of equipment in the amount of EUR 482 thousand (2018: EUR 490 thousand), costs of card and electronic operations and maintenance of ATM's in the amount of EUR 753 thousand (2018: EUR 872 thousand), printing costs in the amount of EUR 228 thousand (2018: EUR 285 thousand) and costs of other services.

Auditor's fee:

	Group		Bank	
EUR 000	2019	2018	2019	2018
Audit of annual report by contract	(228)	(231)	(205)	(208)
Other services for assurances	(20)	(3)	(17)	-
	(248)	(234)	(222)	(208)

4.13. Depreciation / Amortization

	Group		Bank	
EUR 000	2019	2018	2019	2018
Tangible fixed assets	(4,703)	(3,787)	(3,213)	(2,100)
Intangible fixed assets	(1,612)	(1,640)	(1,486)	(1,475)
Investment property	(98)	(76)	(98)	(103)
	(6,413)	(5,503)	(4,797)	(3,678)

4.14. Modification gains or losses

	Group		Bank	
EUR 000	2019	2018	2019	2018
	29	-	29	-
	29	-	29	-

4.15. Provisions

	Group		Bank	
EUR 000	2019	2018	2019	2018
Pending legal issues	26	1,351	11	1,240
Pensions and similar liabilities	(429)	(279)	(410)	(266)
Commitments and contingencies	1,071	(656)	1,071	(656)
Other	(200)	(200)	(200)	(200)
	468	216	472	118

Details of movement in provisions are presented in Note 4.33.

4.16. Impairment

	Group		Bank	
EUR 000	2019	2018	2019	2018
Financial assets not measured at fair value through profit or loss				
Financial assets at fair value through other comprehensive income	25	6	25	6
Financial assets at amortised cost	7,990	9,303	6,750	10,690
	8,015	9,309	6,775	10,696
Other non-financial assets				
Tangible assets	(3,507)	-	(3,507)	-
Goodwill	(2,953)	-	(2,953)	-
Other assets	-	8	-	8
	(6,460)	8	(6,460)	8
	1,555	9,317	315	10,704

Details of movement in provisions for impairment of loans are presented in Note 4.25.

4.17. Profit or loss from non-current assets and disposal groups classified as held for sale

	Group		Bank	
EUR 000	2019	2018	2019	2018
Profit or loss from non-current assets held for sale	(46)	-	(46)	-
	(46)	-	(46)	-

14.18. Tax

	Group		Bank	
EUR 000	2019	2018	2019	2018
Corporate tax payable in the year	(12,549)	(12,990)	(9,162)	(10,007)
Net deferred tax (charge) / credit	103	160	376	(49)
Tax expense	(12,446)	(12,830)	(8,787)	(10,056)
Profit / (loss) after tax as disclosed	69,335	67,563	52,084	53,693
Profit before tax	81,781	80,393	60,871	63,749
Corporate income tax rate	19 %	19 %	19 %	19 %
Tax calculated at income tax rate	15,538	15,275	11,565	12,112
Adjusted for				
Non deductible expenses	18,559	21,594	3,288	1,192
Non taxable income	(31,903)	(29,515)	(13,686)	(10,221)
Utilization of tax incentives	(2,280)	(2,424)	(2,137)	(2,050)
Provisions for retirement indemnities - actuarial losses through other comprehensive income	(112)	(7)	(112)	(7)
Transition to IFRS 9		(1,894)		(218)
Tax base	66,045	68,147	48,224	52,445
Income tax	(12,549)	(12,948)	(9,163)	(9,965)
Withholding tax	-	-	-	-
Corporate tax payable in the year	(12,549)	(12,948)	(9,163)	(9,965)
Effective tax rate	15 %	16 %	14 %	16 %

Non-deductible expenses include expenses which are not recognised for tax purposes (depreciation of assets above the tax deductible depreciation rate, 50 % of provisions for retirement severance pay and senior awards, non-deductible expenses for penalties imposed by the competent authority, costs of private life and other non-deductible expenses).

Non-taxable income includes profit received from subsidiary SKB Leasing, dividends from capital investments, income from reversal or use of taxed provisions and part of interests received from SKB Leasing and SKB Leasing Select.

Tax assets and tax liabilities	Group		Bank	
EUR 000	2019	2018	2019	2018
Tax assets				
Current tax assets	802	25	802	-
Deferred tax assets	3,208	3,083	1,228	830
	4,010	3,108	2,030	830
Tax liabilities				
Current tax liabilities	402	2,578	-	2,495
Deferred tax liabilities	4,703	4,235	4,703	4,235
	5,105	6,813	4,703	6,730

Net deferred tax assets	Group		Bank	
EUR 000	2019	2018	2019	2018
Deferred tax liabilities				
Mark to market valuation of securities at fair value through other comprehensive income - bonds	4,700	4,227	4,700	4,227
Impairment of securities at fair value through other comprehensive income - bonds	3	8	3	8
	4,703	4,235	4,703	4,235
Deferred tax assets				
Long term provisions	1,877	2,138	9	11
Provisions for retirement indemnities and seniority awards	287	276	287	276
Provisions for retirement indemnities - actuarial losses through other comprehensive income	91	67	79	57
Impairment of securities at fair value through other comprehensive income - bonds	3	8	3	8
Impairment of securities at amortised cost	2	6	2	6
Depreciation over the rates prescribed by tax legislation	518	588	418	472
Impairment of goodwill	430	-	430	-
	3,208	3,083	1,228	830
Net deferred tax assets	(1,495)	(1,152)	(3,475)	(3,405)

The deferred tax charge in the income statement comprises the following temporary differences:	Group		Bank	
EUR 000	2019	2018	2019	2018
Long term provisions	(258)	193	(1)	(1)
Provisions for retirement indemnities and seniority awards	11	7	11	7
Securities, measured at fair value through other comprehensive income - bonds	(5)	(1)	(5)	(1)
Securities, measured at amortized cost	(4)	-	(4)	-
Depreciation over maximum tax-allowable rates	(71)	(39)	(55)	(54)
Impairment of goodwill	430	-	430	-
Net income / (loss) from deferred tax	103	160	376	(49)

The deferred tax charge in equity comprises the following temporary differences:	Group		Bank	
EUR 000	2019	2018	2019	2018
Deferred tax liabilities				
Mark to market valuation of securities at fair value through other comprehensive income - bonds	4,703	4,235	4,703	4,235
	4,703	4,235	4,703	4,235
Deferred tax assets				
Provisions for retirement indemnities - actuarial losses through other comprehensive income	91	67	79	57
	91	67	79	57
Net deferred tax assets/(liabilities)	(4,612)	(4,168)	(4,624)	(4,178)

Tax payable and matured unpaid taxes

SKB Group and SKB Bank have no tax liabilities from matured, unpaid taxes.

4.19. Basic earnings / (loss) per share

EUR 000	Group		Bank	
	2019	2018	2019	2018
Net profit attributable to shareholders	54,105	57,569	52,084	53,693
Weighted average number of ordinary shares in issue	12,649,200	12,649,200	12,649,200	12,649,200
Basic earnings / (loss) per share (in EUR per share)	4.28	4.55	4.12	4.24

Basic earnings / (loss) per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year. Diluted earnings / (loss) per share is equal to the basic.

4.20. Cash, cash balances at central banks and other demand deposits at banks

Group and bank			
EUR 000		2019	2018
Cash in hand		31,076	26,813
Balances with central banks and other demand deposits at banks		219,170	163,419
Gross exposure		250,246	190,232
Provisions		-	(37)
Net exposure		250,246	190,195

Slovenian banks are obliged to have mandatory reserve in Bank of Slovenia. The amount of reserve depends on the volume and structure of deposits received. The banks are obliged to calculate mandatory reserve at 1% from all deposits with maturity up to 2 years.

4.21. Financial assets and liabilities held for trading

Group and Bank						
EUR 000	2019			2018		
	Nominal value	Fair value assets	Fair value liabilities	Nominal value	Fair value assets	Fair value liabilities
Derivative financial instruments						
Currency forwards	130,493	1,381	395	149,627	892	1,731
Currency swaps	27,955	-	962	25,598	875	2
Interest rate swaps	477,580	7,247	7,720	554,559	4,873	5,569
Interest rate options (call option)	9,903	10	14	24,213	95	319
Interest rate options (put option)	9,903	11	16	24,213	319	95
Currency options	-	-	-	-	-	-
	655,834	8,649	9,107	778,210	7,054	7,716
Net fair value		(458)			(662)	

SKB Group and SKB Bank trade with derivatives only on behalf and for the account of third parties; currency swaps use for regulation of liquidity in particular currency.

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

	Group		Bank	
EUR 000	2019	2018	2019	2018
Equity instruments	16,062	17,913	16,062	17,913
Loans and other financial assets	8,520	17,257	8,520	17,257
	24,582	35,170	24,582	35,170

4.23. Financial assets and liabilities designated at fair value through profit or loss

Financial assets designated at fair value through profit or loss	Group		Bank	
EUR 000	2019	2018	2019	2018
Debt securities				
Debt securities - listed	6,053	5,947	6,053	5,947
	6,053	5,947	6,053	5,947

Financial liabilities designated at fair value through profit or loss	Group		Bank	
EUR 000	2019	2018	2019	2018
Structured deposit	6,054	5,947	6,054	5,947
	6,054	5,947	6,054	5,947

The structure of the issued deposits takes the form of a deposit for which the interest rate is indexed on a basic instrument (underlying). Such deposits are fully backed with an investment in European Medium Term Notes (EMTN) issued by Société Générale, so SKB Group and SKB Bank are not exposed to market risk. The EMTN investments market value evolves according to the evolution of interest rates (euribor) and the basic instrument (underlying).

4.24. Financial assets at fair value through other comprehensive income

	Group		Bank	
EUR 000	2019	2018	2019	2018
Financial assets - listed				
Government bonds	267,205	258,682	267,205	258,682

Government securities consist of Slovenian government bonds in the amount of EUR 245,714 thousand (2018: EUR 238,604 thousand) and French bonds in the amount of EUR 21,491 thousand (2018: EUR 20,078 thousand).

4.25. Financial assets at amortised cost

EUR 000	Group		Bank	
	2019	2018	2019	2018
Debt securities				
Debt securities - listed	249,280	253,829	249,280	253,829
Gross exposure	249,280	253,829	249,280	253,829
Provision for impairment	(11)	(32)	(11)	(32)
	249,269	253,797	249,269	253,797
Loans to banks				
Deposits	539	45,318	539	45,318
Gross exposure	539	45,318	539	45,318
Provision for impairment	-	(2)	-	(2)
	539	45,316	539	45,316
Loans to non-bank customers				
• corporates	745,842	753,084	715,258	716,890
• government	93,852	81,198	93,852	81,198
• financial organisations	2,985	9,601	508,152	319,423
• individuals	1,193,443	1,151,470	1,190,894	1,148,556
• other	306	279	306	279
• sole proprietors	24,608	23,803	24,582	23,771
Long term financial leases	496,370	491,506	-	-
Gross exposure	2,557,406	2,510,941	2,533,044	2,290,117
Provision for impairment	(60,137)	(87,852)	(50,304)	(76,618)
	2,497,269	2,423,089	2,482,740	2,213,499
Other financial assets				
Gross exposure	4,172	4,364	3,636	3,902
Provision for impairment	(28)	(128)	(17)	(110)
	4,144	4,236	3,619	3,792
	2,751,221	2,726,438	2,736,167	2,516,404

Due from other banks refers to liquidity reserve of SKB Group and SKB Bank mostly.

SKB Group received as collateral for loans and advances to customers the real estate at an estimated fair value of EUR 1,593,371 thousand (2018: EUR 1,515,496 thousand), state securities and guarantees at a fair value of EUR 78,286 thousand (2018: EUR 85,162 thousand) and cash deposits at a fair value of EUR 6,567 thousand (2018: EUR 7,021 thousand).

SKB Bank received as collateral for loans and advances to customers the real estate at an estimated fair value of EUR 1,593,371 thousand (2018: EUR 1,515,496 thousand), state securities and guarantees at a fair value of EUR 78,286 thousand (2018: EUR 85,162 thousand) and cash deposits at a fair value of EUR 6,567 thousand (2018: EUR 7,021 thousand).

SKB Group and SKB Bank consider as large loans the amount of financial assets measured at amortised cost of ten biggest debtors.

As at 31 December 2019, SKB Group had large loans of EUR 214,207 thousand or 8.36 % of the gross loan portfolio. Provision in the amount of EUR 97 thousand was made against these loans in 2019.

As at 31 December 2019, SKB Bank had large loans of EUR 425,585 thousand or 16.77 % of the gross loan portfolio. Provision in the amount of EUR 132 thousand was made against these loans in 2019.

SKB Group and SKB Bank consider client as defaulter, when experiences serious financial and business deterioration that have an impact on the worsening of their creditworthiness, when there is a high probability of loss of part of financial asset or payment of commitment and individually impaired or claims that are due and not paid over 90 days and are material.

As at 31 December 2019, SKB Group had non-performing loans in the amount of EUR 60,480 thousand.

As at 31 December 2019, SKB Bank had non-performing loans in the amount of EUR 51,122 thousand.

Provisions for impairment of loans	Group		Bank	
EUR 000	2019	2018	2019	2018
Debt securities				
• - government	(11)	(32)	(11)	(32)
	(11)	(32)	(11)	(32)
Banks		(2)		(2)
Non-bank customers				
• corporates	(23,398)	(47,176)	(22,590)	(45,639)
• government	(42)	(385)	(42)	(385)
• financial organisations	(11)	(43)	(91)	(84)
• individuals	(26,767)	(29,381)	(26,664)	(29,276)
• other	(7)	(5)	(7)	(5)
• sole proprietors	(914)	(1,237)	(910)	(1,229)
Long term financial leases	(8,998)	(9,625)	-	-
	(60,137)	(87,852)	(50,304)	(76,618)
Other financial assets	(28)	(128)	(17)	(110)
	(60,176)	(88,014)	(50,332)	(76,762)

In income statement SKB Group has income from paid claims written off in the amount of EUR 1,032 thousand (2018: EUR 1,098 thousand) and expenses from claims written off and not covered by allowances in the amount of EUR 2,245 thousand (2018: EUR 328 thousand).

In income statement SKB Bank has income from paid claims written off in the amount of EUR 929 thousand (2018: EUR 837 thousand) and expenses from claims written off and not covered by allowances in the amount of EUR 2,245 thousand (2018: EUR 138 thousand).

In year 2019 SKB Bank and SKB Group made a write-off of the financial assets, that are still in process of enforcement in amount of EUR 22,828 thousand (2018: EUR 4,364 thousand).

Financial leases	Group		Bank	
EUR 000	2019	2018	2019	2018
Gross exposure from financial leases				
Less than one year	12,896	12,289	-	-
One to five years	177,908	187,506	-	-
More than five years	305,566	291,711	-	-
	496,370	491,506	-	-
Provisions				
Less than one year	(836)	(708)	-	-
One to five years	(3,974)	(4,217)	-	-
More than five years	(4,188)	(4,700)	-	-
	(8,998)	(9,625)	-	-
Net exposure	487,372	481,881	-	-
Unrecognized future income from financial leases	50,421	50,985	-	-

4.26. Derivatives - hedge accounting and fair value changes of the hedged items in portfolio hedge of interest rate risk

Group and Bank			
	EUR 000	2019	2018
Derivatives - fair value hedge - macro hedging (assets)		843	607
Fair value changes of the hedged items in portfolio hedge of interest rate risk (liabilities)		1.879	602

4.27. Investments in subsidiaries, associates and joint ventures

	Group		Bank	
EUR 000	2019	2018	2019	2018
Other financial institutions	-	-	20,454	20,454
	-	-	20,454	20,454

Bank's investments in subsidiaries	Bank		% of share in capital	
EUR 000	2019	2018	2019	2018
SKB Leasing	20,454	20,454	100.0	100.0
Investments in financial institutions	20,454	20,454		

Consolidated subsidiary:	
Name of the company:	SKB Leasing d.o.o.
Address:	Ajdovščina 4, 1000 Ljubljana
Director:	Don Schoeffmann
Business activity:	finance and operating leasing
Basic equity capital:	16,809 EUR thousand
Shareholder's equity:	31,331 EUR thousand
% of share in capital	100 %
Equity investment as of 31 December 2019	20,454 EUR thousand
Profit for the year ended 31 December 2019	12,656 EUR thousand

4.28.a) Property, plant and equipment

Group											
EUR 000	Land	Build-ings	Com-puter equip-ment	Furniture & fittings	Other equipment	Assets in course of construction	Leasehold improve-ments	Assets leased through operating leases	IFRS 16 - Right of use real estate	IFRS 16 - Right of use - equip-ment	Total
Cost											
At 31 December 2018	2,279	47,208	11,155	12,722	147	237	6,658	9,598	-	-	90,004
Transition to IFRS 16	-	-	-	-	-	-	-	-	4,985	102	5,087
At 1 January 2019	2,279	47,208	11,155	12,722	147	237	6,658	9,598	4,985	102	95,091
Additions	-	345	1,377	140	26	9,244	114	7,344	254	57	18,901
Disposals	(5)	(370)	(2,611)	(678)	(80)	(9,336)	(323)	(8,316)	(126)	-	(21,845)
Transfer*	18	427	-	-	-	-	-	-	-	-	445
At 31 December 2019	2,292	47,610	9,921	12,184	93	145	6,449	8,626	5,113	159	92,592
Depreciation											
At 1 January 2019	-	(22,806)	(9,473)	(11,671)	(107)	-	(5,886)	(2,243)	-	-	(52,186)
Depreciation charge for the year	-	(940)	(939)	(180)	(26)	-	(181)	(1,407)	(1,008)	(55)	(4,736)
Eliminations and disposals	-	176	2,437	639	61	-	290	1,464	21	-	5,088
Transfer*	-	(250)	-	-	-	-	-	-	-	-	(250)
At 31 December 2019	-	(23,820)	(7,975)	(11,212)	(72)	-	(5,777)	(2,186)	(987)	(55)	(52,084)
Impairment											
At 1 January 2019	-	-	-	-	-	-	-	-	-	-	-
Impairment for the year	(489)	(2,961)	-	-	-	-	-	-	-	-	(3,450)
At 31 December 2019	(489)	(2,961)	-	-	-	-	-	-	-	-	(3,450)
Net Book Value	1,803	20,829	1,946	972	21	145	672	6,440	4,126	104	37,058

Group									
EUR 000	Land	Buildings	Computer equipment	Furniture & fittings	Other equipment	Assets in course of construction	Leasehold improvements	Assets leased through operating leases	Total
Cost									
At 1 January 2018	2,288	47,546	10,427	12,959	147	3	6,608	10,524	90,502
Additions	-	96	1,060	174	-	1,561	50	7,693	10,634
Disposals	-	(256)	(332)	(406)	-	(1,327)	-	(8,619)	(10,940)
Transfer to Non-current assets held for sale	(9)	(178)	-	(5)	-	-	-	-	(192)
At 31 December 2018	2,279	47,208	11,155	12,722	147	237	6,658	9,598	90,004
Depreciation									
At 1 January 2018	-	(22,027)	(9,148)	(11,730)	(77)	-	(5,663)	(2,702)	(51,347)
Depreciation charge for the year	-	(982)	(657)	(306)	(30)	-	(223)	(1,589)	(3,787)
Eliminations and disposals	-	113	332	360	-	-	-	2,048	2,853
Transfer to Non-current assets held for sale	-	90	-	5	-	-	-	-	95
At 31 December 2018	-	(22,806)	(9,473)	(11,671)	(107)	-	(5,886)	(2,243)	(52,186)
Net Book Value	2,279	24,402	1,682	1,051	40	237	772	7,355	37,818

*In consolidated financial statements bank's business premises, which are rented by the bank's subsidiary, are transferred from Investment property to Property, plant and equipment.

SKB Group has no pledged assets among Property, plant and equipment.

In year 2019 SKB Group made a valuation of land and buildings according to PPA (Purchase Price Allocation) requirements, due to acquisition of SKB Bank by OTP Bank. Valuation was performed by external, independent experts. Valuations showed the difference between the recoverable and carrying amount, so SKB Group impaired land and buildings in the amount of EUR 3,450 thousand.

Bank									
EUR 000	Land	Buildings	Computer equipment	Furniture & fittings	Assets in course of construction	Leasehold improvements	IFRS 16 - Right of use real estate	IFRS 16 - Right of use equipment	Total
Cost									
At 31 December 2019	2,188	45,718	10,981	12,429	237	6,360	-	-	77,913
Transition to IFRS 16	-	-	-	-	-	-	4,985	76	5,061
At 1 January 2019	2,188	45,718	10,981	12,429	237	6,360	4,985	76	82,974
Additions	-	345	1,368	129	1,806	91	254	30	4,023
Disposals	(5)	(370)	(2,582)	(672)	(1,898)	(323)	(126)	-	(5,976)
At 31 December 2019	2,183	45,693	9,767	11,886	145	6,128	5,113	106	81,021
Depreciation									
At 1 January 2019	-	(22,008)	(9,341)	(11,458)	-	(5,627)	-	-	(48,434)
Depreciation charge for the year	-	(907)	(920)	(169)	-	(174)	(1,008)	(35)	(3,213)
Eliminations and disposals	-	143	2,408	633	-	290	21	-	3,495
At 31 December 2019	-	(22,772)	(7,853)	(10,994)	-	(5,511)	(987)	(35)	(48,152)
Impairment									
At 1 January 2019	-	-	-	-	-	-	-	-	-
Impairment for the year	(489)	(2,919)	-	-	-	-	-	-	(3,408)
At 31 December 2019	(489)	(2,919)	-	-	-	-	-	-	(3,408)
Net Book Value	1,694	20,002	1,914	892	145	617	4,126	71	29,461

Bank								
EUR 000	Land	Buildings	Computer equipment	Furniture & fittings	Other equipment	Assets in course of construction	Leasehold improvements	Total
Cost								
At 1 January 2018	2,197	46,057	10,282	12,705	-	-	6,310	77,551
Additions	-	96	1,032	135	-	1,561	50	2,874
Disposals	-	(257)	(333)	(406)	-	(1,324)	-	(2,320)
Transfer to Non-current assets held for sale	(9)	(178)	-	(5)	-	-	-	(192)
At 31 December 2018	2,188	45,718	10,981	12,429	-	237	6,360	77,913
Depreciation								
At 1 January 2018	-	(21,259)	(9,036)	(11,566)	-	-	(5,412)	(47,273)
Depreciation charge for the year	-	(954)	(637)	(294)	-	-	(215)	(2,100)
Eliminations and disposals	-	115	332	397	-	-	-	844
Transfer to Non-current assets held for sale	-	90	-	5	-	-	-	95
At 31 December 2018	-	(22,008)	(9,341)	(11,458)	-	-	(5,627)	(48,434)
Net Book Value	2,188	23,710	1,640	971	-	237	733	29,479

SKB Bank has no pledged assets among Property, plant and equipment.

In year 2019 SKB Bank made a valuation of land and buildings according to PPA (Purchase Price Allocation) requirements, due to acquisition of SKB Bank by OTP Bank. Valuation was performed by external, independent experts. Valuations showed the difference between the recoverable and carrying amount, so SKB Bank impaired land and buildings in the amount of EUR 3,408 thousand.

Property, plant and equipment	Group		Bank	
EUR 000	2019	2018	2019	2018
Property, plant and equipment owned	32,828	37,818	25,264	29,479
Right of use - real estate	4,126	-	4,126	-
Right of use - equipment (vehicles)	104	-	71	-
	37,058	37,818	29,461	29,479

Lease liabilities	Group		Bank	
EUR 000	2019	2018	2019	2018
Current lease liabilities	1,059	-	1,042	-
Non-current lease liabilities	16	-	3,165	-
	1,075	-	4,207	-

Maturity analysis - contractual undiscounted cash flows	Group		Bank	
EUR 000	2019	2018	2019	2018
Less than one year	1,074	-	1,056	-
One to five years	2,851	-	2,835	-
More than five years	442	-	442	-
	4,367	-	4,333	-

Income / (expense) relating to leases, recognised in income statement	Group		Bank	
EUR 000	2019	2018	2019	2018
Depreciation	-1,063	-	-1,043	-
Interest on lease liability	-51	-	-51	-
Expenses relating to short-term leases	-101	-	-58	-
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	-356	-	-355	-
	-1,571	-	-1,507	-

4.28.b) Investment property

Group			
EUR 000	Land	Buildings	Total
Cost			
At 1 January 2019	209	4,370	4,579
Additions	-	5	5
Disposals	-	(84)	(84)
Transfer*	(19)	(427)	(446)
At 31 December 2019	190	3,864	4,054
Depreciation			
At 1 January 2019	-	(2,297)	(2,297)
Depreciation charge for year	-	(99)	(99)
Eliminations and disposals		84	84
Transfer*		250	250
At 31 December 2019	-	(2,062)	(2,062)
Impairment			
At 1 January 2019	-	(117)	(117)
Impairment for year	(25)	(31)	(56)
At 31 December 2019	(25)	(148)	(173)
Net Book Value	165	1,654	1,819
Cost			
At 1 January 2018	209	4,359	4,568
Additions	-	11	11
At 31 December 2018	209	4,370	4,579
Depreciation			
At 1 January 2018	-	(2,223)	(2,223)
Depreciation charge for year	-	(74)	(74)
At 31 December 2018	-	(2,297)	(2,297)
Impairment			
At 1 January 2018	-	(117)	(117)
At 31 December 2018	-	(117)	(117)
Net Book Value	209	1,956	2,165

*In consolidated financial statements bank's business premises, which are rented by the bank's subsidiary, are transferred from Investment property to Property, plant and equipment.

SKB Group has no pledged assets among investment property.

SKB Group recognised income from operating leases of investment property in the income statement in the amount of EUR 147 thousand (2018: EUR 271 thousand).

In year 2019 SKB Group made a valuation of land and buildings according to PPA (Purchase Price Allocation) requirements, due to acquisition of SKB Bank by OTP Bank. Valuation was performed by external, independent experts. Valuations showed the difference between the recoverable and carrying amount, so SKB Group impaired land and buildings in the amount of EUR 56 thousand.

Bank			
EUR 000	Land	Buildings	Total
Cost			
At 1 January 2019	276	5,860	6,136
Additions	-	5	5
Disposals		(84)	(84)
At 31 December 2019	276	5,781	6,057
Depreciation			
At 1 January 2019	-	(3,095)	(3,095)
Depreciation charge for year	-	(99)	(99)
Eliminations and disposals		84	84
At 31 December 2019	-	(3,110)	(3,110)
Impairment			
At 1 January 2019	-	(117)	(117)
Impairment for year	(25)	(73)	(98)
At 31 December 2019	(25)	(190)	(215)
Net Book Value	251	2,481	2,732
Cost			
At 1 January 2018	276	5,849	6,125
Additions	-	11	11
At 31 December 2018	276	5,860	6,136
Depreciation			
At 1 January 2018	-	(2,991)	(2,991)
Depreciation charge for year	-	(104)	(104)
At 31 December 2018	-	(3,095)	(3,095)
Impairment			
At 1 January 2018	-	(117)	(117)
At 31 December 2018	-	(117)	(117)
Net Book Value	276	2,648	2,924

SKB Bank has no pledged assets among investment property.

SKB Bank recognised income from operating leases of investment property in the income statement in the amount of EUR 265 thousand (2018: EUR 297 thousand).

In year 2019 SKB Bank made a valuation of land and buildings according to PPA (Purchase Price Allocation) requirements, due to acquisition of SKB Bank by OTP Bank. Valuation was performed by external, independent experts and checked by external auditors Deloitte Ljubljana. Valuations showed the difference between the recoverable and carrying amount, so SKB Bank impaired land and buildings in the amount of EUR 98 thousand.

In year 2018 SKB Bank checked indicators for impairment of Investment property, taking into account both external and internal sources of information and determined that there is no need for impairment, because fair values were not significantly different from carrying amounts.

4.29. Intangible assets

Group					
EUR 000	Goodwill	Software	Assets in course of construction	Other intangible assets	Total
Cost					
At 1 January 2019	4,743	17,322	2,168	5	24,238
Additions	-	3,375	1,658	-	5,033
Disposals	(3,453)	(129)	(1,634)	-	(5,216)
At 31 December 2019	1,290	20,568	2,192	5	24,055
Depreciation					
At 1 January 2019	-	(12,199)	-	(5)	(12,204)
Charge for the year	-	(1,612)	-	-	(1,612)
Eliminations and disposals	-	55	-	-	55
At 31 December 2019	-	(13,756)	-	(5)	(13,761)
Impairment					
At 1 January 2019	(500)	-	-	-	(500)
Charge for the year	(2,953)	-	-	-	(2,953)
Disposals	3,453	-	-	-	3,453
At 31 December 2019	-	-	-	-	-
Net Book Value	1,290	6,812	2,192	-	10,294
Cost					
At 1 January 2018	4,743	15,037	1,634	5	21,419
Additions	-	2,295	534	-	2,829
Disposals	-	(10)	-	-	(10)
At 31 December 2018	4,743	17,322	2,168	5	24,238
Depreciation					
At 1 January 2018	-	(10,559)	-	(5)	(10,564)
Charge for the year	-	(1,640)	-	-	(1,640)
Eliminations and disposals	-	-	-	-	-
At 31 December 2018	-	(12,199)	-	(5)	(12,204)
Impairment					
At 1 January 2018	(500)	-	-	-	(500)
At 31 December 2018	(500)	-	-	-	(500)
Net Book Value	4,243	5,123	2,168	-	11,534

Intangible fixed assets consist mainly of software purchased or developed by SKB Group for its own use.

Goodwill arises from the merger of SKB Bank with BSGL (Slovene subsidiary of Société Générale) in year 2001 and from the acquisition of the additional 50 % share of SKB Leasing d.o.o. in January 2003 when SKB Bank became its sole owner. Impairment test of goodwill is performed on an annual basis at the end of year.

Method of the calculation was the net present values of the income and depreciation. The discount factor based on a 10 % ROE was used in the calculation. Impairment test shows that the net present values from 2019 to 2023 is higher as goodwill, so there is no need for impairment of SKB Leasing goodwill. While the test of goodwill arising from SKB Bank merging with BSGL showed, that impairment in the level of remaining amount is required.

Bank					
EUR 000	Goodwill	Software	Assets in course of construction	Other intangible assets	Total
Cost					
At 1 January 2019	3,453	16,003	2,086	-	21,542
Additions	-	3,273	1,601	-	4,874
Disposals	(3,453)	(112)	(1,531)	-	(5,096)
At 31 December 2019	-	19,164	2,156	-	21,320
Depreciation					
At 1 January 2019	-	(11,241)	-	-	(11,241)
Charge for the year	-	(1,486)	-	-	(1,486)
Eliminations and disposals	-	36	-	-	36
At 31 December 2019	-	(12,691)	-	-	(12,691)
Impairment					
At 1 January 2019	(500)	-	-	-	(500)
Charge for the year	(2,953)	-	-	-	(2,953)
Disposals	3,453	-	-	-	3,453
At 31 December 2019	-	-	-	-	-
Net Book Value	-	6,473	2,156	-	8,629
Cost					
At 1 January 2018	3,453	13,918	1,613	-	18,984
Additions	-	2,095	473	-	2,568
Disposals	-	(10)		-	(10)
At 31 December 2018	3,453	16,003	2,086	-	21,542
Depreciation					
At 1 January 2018	-	(9,766)	-	-	(9,766)
Charge for the year	-	(1,475)	-	-	(1,475)
Eliminations and disposals	-	-	-	-	-
At 31 December 2018	-	(11,241)	-	-	(11,241)
Impairment					
At 1 January 2018	(500)	-	-	-	(500)
At 31 December 2018	(500)	-	-	-	(500)
Net Book Value	2,953	4,762	2,086	-	9,801

Intangible fixed assets consist mainly of software purchased or developed by SKB Bank for its own use.

Goodwill arises from the merger of SKB Bank with BSLG (Slovene subsidiary of Société Générale) in year 2001 on the basis of transfer of knowledge about the derivatives and transfer of some big contracts and clients of BSLG. Impairment test of BSLG goodwill is performed on an annual basis at the end of year. In the last years the impairment test was done by Société Générale headquarter.

Method of the calculation was the net present values of the income and depreciation. The discount factor based on a 10 % ROE was used in the calculation. Impairment test shows that the net present values from 2019 to 2023 is higher as goodwill, so there is no need for impairment of SKB Leasing goodwill. While the test of goodwill arising from SKB Bank merging with BSLG showed, that impairment in the level of remaining amount is required.

4.30. Other assets

	Group		Bank	
EUR 000	2019	2018	2019	2018
Receivables for taxes and contributions paid	504	404	39	16
Costs and expenses deferred and paid in advance	13,927	13,746	2,202	2,202
Insurance premium paid in advance	244	152	244	152
Other inventories	451	204	-	-
Advances paid	8,141	20,264	5,335	8,715
Gross exposure	23,267	34,770	7,820	11,085
Provisions	-	-	-	-
Net exposure	23,267	34,770	7,820	11,085

4.31. Non-current assets classified as held for sale

	Group		Bank	
EUR 000	2019	2018	2019	2018
Non-current assets held for sale	304	461	304	461
	304	461	304	461

All non-current assets classified as held for sale are in the process of being sold.

In year 2018 SKB Group and SKB Bank reclassified premises from Property, plant and equipment to Non-current assets classified as held for sale. Land in the amount of EUR 9 thousand and premises in the amount of EUR 88 thousand have been reclassified.

4.32. Financial liabilities measured at amortised cost

	Group		Bank	
EUR 000	2019	2018	2019	2018
Demand deposits				
Banks	1,667	1,678	1,667	1,678
Corporates	574,374	556,792	574,374	556,792
Government	2,729	2,713	2,729	2,713
Financial organisations	9,767	17,260	21,209	26,459
Individuals	819,923	739,794	819,923	739,795
Other	25,834	24,352	25,834	24,352
Sole proprietors	80,026	72,034	80,026	72,034
	1,514,320	1,414,623	1,525,762	1,423,823
Time deposits				
Corporates	227,046	175,405	227,046	175,405
Government	7,603	7,445	7,603	7,445
Financial organisations	6,318	8,842	6,318	8,842
Individuals	899,491	884,841	899,491	884,840
Other	7,866	7,693	7,866	7,693
Sole proprietors	1,560	1,833	1,560	1,833
	1,149,884	1,086,059	1,149,884	1,086,058
Long term loans from banks and corporates	280,307	376,502	280,307	178,502
Other financial liabilities	30,847	37,590	26,420	24,781
	2,975,358	2,914,774	2,982,373	2,713,164

Deposits due to customers include deposits of EUR 521 thousand held as collateral for irrevocable commitments under import letters of credit (2018: EUR 535 thousand).

Demand deposits include restricted deposits in the amount of EUR 2,612 thousand (2018: EUR 2,842 thousand).

4.33. Provisions

	Group		Bank	
EUR 000	2019	2018	2019	2018
Pensions and other post retirement benefit obligations	3,591	3,234	3,360	3,044
Other long-term employee benefits	589	515	545	475
Pending legal issues	-	26	-	11
Off-balance sheet commitments	6,556	7,626	6,556	7,626
Other	413	472	413	472
	11,149	11,873	10,874	11,628

Movement in provisions - Group

EUR 000	Pensions and other post retirement benefit obligations	Other long-term employee benefit	Pending legal issues	S1	Off-balance sheet2 commitments S2	S3	Other	Total
Balance at 1 January 2019	3,234	515	26	1,264	393	5,969	472	11,873
Provisions created during the year	237	231	-	2,968	1,444	13,175	213	18,268
Reversed	-	(38)	(26)	(1,566)	(1,442)	(15,650)	(13)	(18,735)
Utilised (paid)	(127)	(119)	-	-	-	-	(259)	(505)
Exchange gains and losses on foreign denominated items	-	-	-	-	(4)	5	-	1
Actuarial profits, recognized in other comprehensive income	247	-	-	-	-	-	-	247
Balance at 31 December 2019	3,591	589	-	2,666	391	3,499	413	11,149

Movement in provisions - Bank

EUR 000	Pensions and other post retirement benefit obligations	Other long-term employee benefit	Pending legal issues	S1	Off-balance sheet2 commitments S2	S3	Other	Total
Balance at 1 January 2019	3,044	475	11	1,264	393	5,969	472	11,628
Provisions created during the year	222	224	-	2,968	1,444	13,175	213	18,246
Reversed	-	(35)	(11)	(1,566)	(1,442)	(15,650)	(13)	(18,717)
Utilised (paid)	(127)	(119)	-	-	-	-	(259)	(505)
Exchange gains and losses on foreign denominated items	-	-	-	-	(4)	5	-	1
Actuarial profits, recognized in other comprehensive income	221	-	-	-	-	-	-	221
Balance at 31 December 2019	3,360	545	-	2,666	391	3,499	413	10,874

Movement in provisions - Bank

EUR 000	Pensions and other post retirement benefit obligations	Other long-term employee benefit	Pending legal issues	S1	Off-balance sheet2 commitments S2	S3	Other	Total
Balance at 1 January 2018	3,101	553	1,852	1,599	477	4,887	625	13,094
Provisions created during the year	234	51	-	1,637	779	27,149	216	30,066
Reversed	-	(5)	(1,351)	(1,972)	(871)	(26,066)	(17)	(30,282)
Utilised (paid)	(87)	(84)	(475)	-	-	-	(352)	(998)
Exchange gains and losses on foreign denominated items	-	-	-	-	8	(1)	-	7
Actuarial profits, recognized in other comprehensive income	(14)	-	-	-	-	-	-	(14)
Balance at 31 December 2018	3,234	515	26	1,264	393	5,969	472	11,873

Movement in provisions - Bank

EUR 000	Pensions and other post retirement benefit obligations	Other long-term employee benefit	Pending legal issues	S1	Off-balance sheet commitments S2	S3	Other	Total
Balance at 1 January 2018	2,900	512	1,251	1,599	477	4,887	625	12,251
Provisions created during the year	219	48	-	1,637	779	27,149	216	30,048
Reversed	-	-	(1,240)	(1,972)	(871)	(26,066)	(17)	(30,166)
Utilised (paid)	(87)	(85)	-	-	-	-	(352)	(524)
Exchange gains and losses on foreign denominated items	-	-	-	-	8	(1)	-	7
Actuarial profits, recognized in other comprehensive income	12	-	-	-	-	-	-	12
Balance at 31 December 2018	3,044	475	11	1,264	393	5,969	472	11,628

Litigation

As at 31 December, 2019, members of SKB Group and SKB Bank participated in several litigation cases as defendant. General Management of SKB Bank believe that the provisions are adequate and that the losses from litigation will not exceed the provisions made for these purposes.

In years 2018 and 2019 SKB Group didn't made provisions for litigation. In year 2019 SKB Group also didn't utilized provisions for litigation (2018: EUR 475 thousand). In year 2019 SKB Group reversed unused provisions in the amount of EUR 26 thousand (2018: EUR 1,351 thousand), so as at 31 December 2019, SKB Group has no provisions for litigation (2018: EUR 26 thousand).

In years 2018 and 2019 SKB Bank didn't made and didn't utilized provisions for litigation. SKB Bank reversed unused provisions in the amount of EUR 11 thousand (2018: EUR 1,240 thousand), so as at 31 December 2019, SKB Bank has no provisions for litigation (2018: EUR 11 thousand).

Pensions and other postretirement benefit obligations

Provisions for retirement severance pay and seniority awards are calculated by independent actuary. By calculation of provisions for retirement severance pay and seniority awards in SKB Bank and SKB Group the following assumptions have been taken into account:

- discount factor from 0.59 % to 0.90 % per year,
- increase of salaries from 2.5 % per year,
- number of employees,
- fluctuation of employees.

4.34. Other liabilities

	Group		Bank	
EUR 000	2019	2018	2019	2018
Liabilities for taxes and contributions	658	499	423	499
Advances received	5,301	4,368	90	87
Income deferred and paid in advance	5,486	4,859	1,058	1,027
	11,445	9,726	1,571	1,613

4.35. Equity

	Group		Bank	
EUR 000	2019	2018	2019	2018
Capital				
• called capital paid	52,784	52,784	52,784	52,784
	52,784	52,784	52,784	52,784
Share premium	104,061	104,061	104,061	104,061
Accumulated other comprehensive income				
• financial assets at fair value through other comprehensive income	20,050	18,056	20,050	18,057
• actuarial profits / (losses)	(1,001)	(775)	(849)	(647)
	19,049	17,281	19,201	17,410
Reserves from profit (including retained earnings)				
• reserves from profit	29,106	29,106	29,106	29,106
• retained earnings	106,349	95,694	91,378	84,636
	135,455	124,800	120,484	113,742
Profit / (loss) for the year	54,105	57,569	52,084	53,693
	365,454	356,495	348,614	341,690

Reserves from profit includes statutory reserves in the amount of EUR 4,387 thousand (2018: EUR 4,387 thousand) and other reserves from profits in the amount of EUR 24,719 thousand (2018: EUR 24,719 thousand) and according to statute of Bank they cannot be distributed.

EUR 000	Group			Bank		
EUR 000	Retained earnings / (loss)	Income from the current year	Total	Retained earnings / (loss)	Income from the current year	Total
Balance at 1 January 2019	95,694	57,569	153,263	84,636	53,693	138,329
Transfer of profit to retained earnings	57,569	(57,569)	-	53,693	(53,693)	-
Appropriation of (accounting for) dividends	(47,055)	-	(47,055)	(47,055)	-	(47,055)
Net profit / (loss) for the financial year	-	54,105	54,105	-	52,084	52,084
Other*	141	-	141	104	-	104
Balance at 31 December 2019	106,349	54,105	160,454	91,378	52,084	143,462
Balance at 1 January 2017	106,496	43,367	149,863	99,634	40,573	140,207
Transition effects to IFRS 9	1,161	-	1,161	(241)		(241)
Balance at 1 January 2018	107,657	43,367	151,024	99,393	40,573	139,966
Transfer of profit to retained earnings	43,367	(43,367)	-	40,573	(40,573)	-
Appropriation of (accounting for) dividends	(55,530)	-	(55,530)	(55,530)	-	(55,530)
Net profit / (loss) for the financial year	-	57,569	57,569	-	53,693	53,693
Other*	200	-	200	200	-	200
Balance at 31 December 2018	95,694	57,569	153,263	84,636	53,693	138,329

The Bank's distributable profit		
EUR 000	2019	2018
Net profit for the financial year	52,084	53,693
Retained earnings	91,378	84,636
Long-term deferred development costs	(2,154)	(2,078)
Distributable profit	141,308	136,251
Distribution of dividends	-	47,055
Transfer to following year	141,308	89,196

General management decided not to distribute current year result.

4.36. Financial Instruments with Off-Balance Sheet Risk

In the normal course of business, SKB Group and SKB Bank are parties to financial instruments with off-balance sheet risk to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest and currency rates. These financial instruments include credit lines, financial guarantees, commercial letters of credit and forward foreign exchange contracts.

Credit risk associated with off-balance sheet financial instruments is defined as the possibility of sustaining a loss due to any other party to a financial instrument failing to perform in accordance with the terms of the contract. SKB Group and SKB Bank use the same credit policies in making commitments and conditional obligations as for the balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

Market risk represents the possibility that the value of financial instruments will change, either positively or negatively, with changes in market prices, such as interest or foreign currency rates.

SKB Group and SKB Bank require collateral to support off-balance sheet financial instruments when it is deemed necessary. Collateral held varies, but may include deposits held in financial institutions, government securities, other marketable securities, and mortgages.

Credit lines are commitments to extend credit, which generally have fixed expiry dates or other termination requirements. Substantially all bank's commitments to extend credit are revocable as they are contingent upon the customers maintaining specific credit standards at the time of loan disbursement. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Financial guarantees are conditional commitments issued by SKB Group and SKB Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing guarantees is essentially the same as that involved in extending facilities to other customers. SKB Group and SKB Bank apply similar principles as those applied in assessing the required allowance for losses under other credit facilities when assessing the likelihood of loss under the guarantee.

A commercial letter of credit represents an extension of credit by SKB Group and SKB Bank to its customer where the customer is usually the buyer/importer of goods and the beneficiary is usually the seller/exporter. As letters of credit are collateralized by the underlying shipments of goods to which they relate, they carry significantly lower risk.

SKB Group's and SKB Bank's exposure regarding commitments to extend credit, guarantees, and commercial letters of credit by original maturity is as follows:

EUR 000	Skupina		Banka	
	2019	2018	2019	2018
Guarantees	211,038	208,862	211,038	208,862
• Service related	103,225	107,512	103,225	107,512
• up to 1 year	12,970	11,685	12,970	11,685
• over 1 year	90,255	95,827	90,255	95,827
• Financial	107,813	101,350	107,813	101,350
• up to 1 year	13,020	17,900	13,020	17,900
• over 1 year	94,793	83,450	94,793	83,450
Undrawn facilities	460,174	457,032	460,196	457,056
• up to 1 year	311,205	257,836	311,227	257,860
• over 1 year	148,969	199,196	148,969	199,196
Spot	35,841	1,540	35,841	1,540
• up to 1 year	35,841	1,540	35,841	1,540
Derivative financial instruments	680,834	843,210	680,834	843,210
• up to 1 year	171,584	355,941	171,584	355,941
• over 1 year	509,250	487,269	509,250	487,269
	1,387,887	1,510,644	1,387,909	1,510,668

For the purpose of secondary liquidity with ECB, securities that are ECB eligible (bonds) amount to EUR 511,095 thousand (2018: EUR 501,524 thousand). In addition ECB eligible loans amount to EUR 45,183 thousand (2018: EUR 48,218 thousand). Together loans and securities eligible for ECB funding at end of 2018 amount to EUR 556,278 thousand (2018: EUR 549,742 thousand).

4.37. Ordinary shares

The total number of issued shares with no par value at 31 December 2019 was 12,649,200 shares (2018: 12,649,200 ordinary shares).

Net assets per share at 31 December 2019 amount to EUR 28.89 (2018: EUR 28.18) for SKB Group and EUR 27.56 (2018: EUR 27.01) for SKB Bank.

4.38. Distribution of dividends

The Bank's management will propose to the General Meeting that the profit for the 2019 financial year will not be paid out.

4.39. Operations on behalf and for the account of third parties

SKB Group and SKB Bank are performing operations on behalf and for the account of third parties in the area securities. These operations are managed on special accounts.

Group and Bank			
	EUR 000	2019	2018
ASSETS		1,568,764	1,016,163
Claims due to customers (settlement and current account)		1,567,792	1,015,913
Due to financial instruments		1,566,559	1,015,233
Due to KDD or settlement (custody) account for sold financial instruments		1,233	556
Due to other or settlement account for sold financial instruments (buyers)		-	124
Cash assets (customers)		972	250
On settlement account		521	108
On current account		451	142
LIABILITIES		1,568,764	1,016,163
Liabilities due to customers (settlement and current account)		1,568,764	1,016,163
Due to customer (cash and financial instruments)		1,567,531	1,016,009
Due to KDD or settlement (custody) account for bought financial instruments		1,233	154
Due to bank or settlement account for commission, fees etc.		-	-
OFF BALANCE SHEET		1,566,559	1,015,233
Customer financial instruments, diverse by services		1,566,559	1,015,233
Assets management services		-	30
Custody services		1,566,559	1,015,203

Group and Bank			
	EUR 000	2019	2018
Income fee and commissions from operating with investments and support investments services for customer		745	623
Securities services		81	111
Custody and similar services		424	339
Monitoring of settlement account		240	173
Expense fee and commissions from operating with investments and support investments services for customer		53	280
Expense fee and commission due to KDD and similar organisations		49	270
Expense fee and commission due to Stock exchange company and similar organisations		4	10

SKB Group and SKB Bank have performed as agent or member of syndicate in performing the syndicate loan in EUR 94,629 thousand (2018: EUR 85,473 thousand).

4.40. Cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprise of the following balances with maturities of less than 90 days:

EUR 000	Group		Bank	
	2019	2018	2019	2018
Cash in hand	31,076	26,813	31,076	26,813
Balances with central banks and other demand deposits	219,170	163,382	219,170	163,382
Loans to banks up to 90 days	3	28,618	3	28,618
	250,249	218,813	250,249	218,813

5. Related party transactions

SKB Group and SKB Bank enter into transactions with related parties in the normal course of business that includes loans, deposits, and foreign currency transactions, which are carried out at normal commercial terms and conditions and at market rates.

Related party transactions with OTP Bank (from purchase on)

EUR 000	Group		Bank	
	2019	2018	2019	2018
Related party transactions with OTP at end of the year				
Time deposits and loans to other banks	1,226	-	1,226	-
EMTN bonds	-	-	-	-
Other borrowed funds	52,297	-	52,297	-
Forward foreign exchange - bought (nominal value)	24,216	-	24,216	-
Forward foreign exchange - sold (nominal value)	24,262	-	24,262	-
Interest rate swap - purchase (nominal value)	-	-	-	-
Interest rate swap - sale (nominal value)	-	-	-	-
Options (caps, floors and collars) - purchase	-	-	-	-
Options (caps, floors and collars) - sale	-	-	-	-
Option bought (nominal value)	-	-	-	-
Option sold (nominal value)	-	-	-	-
Spot Forex bought (nominal value)	35,841	-	35,841	-
Spot Forex sold (nominal value)	35,717	-	35,717	-
Other guarantee granted	-	-	-	-
Credit lines received	280,000	-	280,000	-
Contra guarantees received	-	-	-	-
Related party transactions with OTP in the year				
Interest income from time deposits and loans	6	-	6	-
Interest expense from other borrowed funds	3	-	3	-
Income on interest rate swaps	-	-	-	-
Expense on interest rate swaps	-	-	-	-

Related party transactions with other parties related to OTP Group (from purchase on)

	Group		Bank	
EUR 000	2019	2018	2019	2018
Related party transactions with other parties related to OTP at end of the year				
Time deposits and loans to other banks	1,630	-	1,630	-
Other borrowed funds	34	-	34	-
Other guarantee granted	99	-	99	-
Other unused confirmed lines of credit	-	-	-	-
Related party transactions with other parties related to OTP in the year				
Interest income from time deposits and loans	-	-	-	-
Interest expense from other borrowed funds	-	-	-	-

Related party transactions with Société Générale (untill sale)

	Group		Bank	
EUR 000	2019	2018	2019	2018
Related party transactions with Société Générale at end of the year				
Time deposits and loans to other banks	5,849	63,608	5,849	63,608
EMTN bonds	6,053	5,947	6,053	5,947
Other borrowed funds	220	203,335	220	203,335
Forward foreign exchange - bought (nominal value)	53,517	86,444	53,517	86,444
Forward foreign exchange - sold (nominal value)	54,664	86,459	54,664	86,459
Interest rate swap - purchase (nominal value)	238,790	277,279	238,790	277,279
Interest rate swap - sale (nominal value)	238,790	277,279	238,790	277,279
Options (caps, floors and collars) - purchase	9,903	24,214	9,903	24,214
Options (caps, floors and collars) - sale	-	-	-	-
Option bought (nominal value)	-	259	-	259
Option sold (nominal value)	-	262	-	262
Spot Forex bought (nominal value)	-	1,541	-	1,541
Spot Forex sold (nominal value)	-	1,540	-	1,540
Other guarantee granted	4,200	4,142	4,200	4,142
Credit lines received	-	280,000	-	280,000
Contra guarantees received	-	280,000	-	280,000
Related party transactions with Société Générale in the year				
Interest income from time deposits and loans	759	730	759	730
Interest expense from other borrowed funds	(39)	137	(39)	137
Income on interest rate swaps	5,182	3,595	5,182	3,595
Expense on interest rate swaps	(10,158)	(8,624)	(10,158)	(8,624)

Related party transactions with other parties related to Société Générale Group (until sale)

EUR 000	Group		Bank	
	2019	2018	2019	2018
Related party transactions with other parties related to Société Générale Group at end of the year				
Time deposits and loans to other banks	5,943	2,006	5,943	2,006
Other borrowed funds	238	513	238	513
Other guarantee granted	4,392	4,932	4,392	4,932
Other unused confirmed lines of credit	19	19	19	19
Related party transactions with other parties related to Société Générale Group in the year				
Interest income from time deposits and loans	5	2	5	2
Interest expense from other borrowed funds	-	-	-	-

SKB Group has transferred 193 thousand EUR to SG Paris according to the Agreement on settlement of deferred portion of bonuses for employees detached to SKB Group by SG.

Related party transactions with SKB Leasing

EUR 000	2019	2018
Related party transactions with SKB Leasing at end of the year		
Loans and other financial assets	505,145	309,855
Investment in associates and joint ventures	20,454	20,455
Other assets	-	-
Financial liabilities measured at amortised cost	11,445	9,199
Other liabilities	-	-
Related party transactions with SKB Leasing in the year		
Interest income and similar income	2,912	2,779
Interest expense and similar expense	(1)	(1)
Dividend income	11,530	8,185
Fee and commission income	381	413
Other operating net income	191	188
Impairment of loans and other financial assets	(39)	3

Commonly used interest rates with OTP Group		
	EUR	foreign currency
Borrowing	3M EURIBOR from -0.13 to 1.35 %	Fix IR from -0.60 to -0.55 %
	Fix IR from 0.09 to 0.24 %	
Lending		Fix IR from 0.30 to 0.80 %
	overnight	Fix IR from 0.45 to 2.72 %

Commonly used interest rates with Société Générale Group

	EUR	foreign currency
Borrowing	3M EURIBOR from -0.13 to 1.35 %	Fix IR from -0.60 to -0.55 %
	Fix IR from 0.09 to 0.24 %	
Lending		Fix IR from 0.30 to 0.80 %
overnight		Fix IR from 0.45 to 2.72 %

Remunerations paid to members of the Board of Directors and Key Management Personnel

Remunerations paid to members of the Board of Directors

Group and Bank	2019						
EUR 000	Andre Gardella	Vojka Ravbar	Anita Stojčevska	Milan Žičan	Jean Philippe Guillaume	Pierre - Yves Demoures	Maria Koytcheva Rousseva
Fixed remuneration	154.9	140.9	13.6	72.5	-	-	-
Variable remuneration*	69.5	99.5	-	75.0	-	-	-
In - kind benefits**	142.5	-	-	56.6	-	-	-
Reimbursement of expenses	79.3	11.8	0.1	36.8	-	-	-
Insurance premium	-	2.5	-	-	-	-	-
Other payments	-	1.4	-	-	-	-	-
Meeting fees	-	-	-	-	-	-	-
Monthly fees	-	-	-	-	-	-	-
Deferred payments	140.3	-	-	-	-	-	-
Total	586.5	256.1	13.7	240.9	-	-	-

Group and Bank	2019						
EUR 000	Clara-Elen Grigore	Milorad Katnić	Manica Novak	Zsolt Barna	Imre Bertalan	Draga Cukjati	Anna Mitkova Florova
Fixed remuneration	-	-	-	-	-	-	-
Variable remuneration*	-	-	-	-	-	-	-
In - kind benefits**	-	-	-	-	-	-	-
Reimbursement of expenses	-	25.0	-	-	-	-	-
Insurance premium	-	-	-	-	-	-	-
Other payments	-	-	-	-	-	-	-
Meeting fees	-	1.2	-	-	-	5.0	-
Monthly fees	-	-	-	-	-	-	-
Total	-	26.2	-	-	-	5.0	-

* Variable remuneration contains part of deferred payment since year 2017.

**In line with Société Générale policy the employees who are assigned to work abroad, received some in-kind benefits which are locally considered as fixed remuneration and are presented separately.

Members of the Board of Directors have not received payments in Bank's subsidiary SKB Leasing.

At Bank's shareholders meeting, held on 23 July 2019, it was immediately accepted appointment of Milan Žiaran and Manica Novak as new members of Management board. Along this shareholders were given resignation statements from Jean-Philippe Guillaume, Pierre-Yves Andre Marie Joseph Demoures, Clara-Elen Grigore, Maria Koytcheva Rousseva, Milorad Katnić and Andre Gardella, affecting with Closing date, according to purchase contract between seller Societe Generale and buyer OTP BANK dated at 2. 5. 2019. As new members of Management Board shareholders appointed: Zsolt Barna, Imre Bertalan, Anna Florova Mitkova, Branko Mikša, Draga Cukjati and Anita Stojčevska, with four year mandate, affecting with Closing Date, according to purchase contract between seller Societe Generale and buyer OTP BANK dated at 2 May 2019.

Remunerations paid to members of the Key Management Personnel

Key management personnel consist of employees with influence on planning, guidance and managing the activities of SKB Group and SKB Bank.

	Skupina	Banka
EUR 000	2019	
Fixed remuneration	406.0	286.3
Variable remuneration	301.5	202.0
In - kind benefits*	39.8	39.8
Reimbursement of expenses	45.4	39.6
Insurance premium	7.1	4.7
Other payments	4.1	2.7
Meeting fees	-	-
Monthly fees	-	-
Deferred remuneration	-	-
Total	803.9	575.1

* In line with Société Générale policy the employees who are assigned to work abroad, received some in-kind benefits which are locally considered as fixed remuneration and are presented separately

The difference between remunerations of SKB Group and SKB Bank are remunerations paid to director of subsidiary.

Anita Stojčevska is appointed as Chief Executive Officer of SKB Group from 13 December 2019.

Povezane transakcije s člani Upravnega odbora in ravnateljskega osebja

	Group and Bank	Group	Bank
	2019		
EUR 000	Board of Directors	Key Management Personnel	Key Management Personnel
Related party transactions with the members of the Board of Directors and Key Management Personnel at the end of the year			
Loans and advances	-	258.9	224.2
Loan commitments	9.7	29.7	18.8
Financial liabilities measured at amortised costs	1.109.7	341.5	338.9
Related party transactions with the members of the Board of Directors and Key Management Personnel in the year			
Interest income	-	2.4	1.9
Interest expense	(0.8)	(0.5)	(0.2)
Fee and commission income	0.8	1.5	1.2

* Interest rates were approved according to the SKB Bank's policy. Average interest rate is 1.65 % and represents the average of common or notional (Euribor + margin or fix) interest rate.

Related party transactions with the members of the Board of Directors and Key Management Personnel in the year

	Group	Bank
EUR 000	2019	
Related party transactions with the family members of the members of the Board of Directors and Key Management Personnel at the end of the year		
Loans and advances	19,9	18,5
Loan commitments	12,7	10,5
Financial liabilities measured at amortised costs	286,2	264,9
Related party transactions with the family members of the members of the Board of Directors and Key Management Personnel in the year		
Interest income	1,0	1,0
Interest expense	(0,3)	(0,3)
Fee and commission income	0,8	0,5

The remuneration policy for the members of the Board of Directors, adopted at the 27th session of the General Meeting of Shareholders held on 2 June 2014, was valid till 29 May 2018. As of 29 May 2018, the remuneration policy for the members of the Board of Directors, adopted at the 32nd session of the General Meeting of Shareholders held on 29 May 2018, applies as follows:

All members of the Board of Directors, being considered independent according to the Société Générale rules receive 2,000 EUR (gross) for each session of the Board of Directors.

Presidents of the Committees, being considered independent according to the Société Générale rules, receive 2.000 EUR (gross) for chairing each session.

Members of the Committees, being considered independent according to the Société Générale rules, receive 1.000 EUR (gross) for attendance at each session.

Members of the Board of Directors, not being employed in SKB Group or in Société Générale Group, are entitled to reimbursement of travel and other expenses related to the performance of their function.

SKB d.d. will not pay out the profit sharing or bonuses with options or comparable financial instruments either to the members of the Board of Directors or to the members of the Committees for their work in the Board of Directors or in Committees of the Board of Directors.

Remunerations paid to employees by individual contract

Remunerations paid to employees by individual contract in SKB Group and SKB Bank amounted to EUR 869 thousand.

6. Fair value of financial instruments

The following table summarises the carrying values and fair values of those financial assets and liabilities not presented in the Group's and Bank's statement of financial position at their fair value. This table does not include the fair values of non-financial assets and non-financial liabilities.

Group				
	2019		2018	
EUR 000	Carrying value	Fair value	Carrying value	Fair value
Financial assets not measured at fair value				
Cash, cash balances at the central banks and other demand deposits	250,246	250,246	190,195	190,195
Financial assets at amortised cost	2,751,221	2,959,205	2,726,438	2,872,204
Financial liabilities not measured at fair value				
Financial liabilities measured at amortised cost	2,975,358	2,968,024	2,914,774	2,905,693

Bank				
	2019		2018	
EUR 000	Carrying value	Fair value	Carrying value	Fair value
Financial assets not measured at fair value				
Cash, cash balances at the central banks and other demand deposits	250,246	250,246	190,195	190,195
Financial assets at amortised cost	2,736,167	2,902,918	2,516,404	2,616,017
Financial liabilities not measured at fair value				
Financial liabilities measured at amortised cost	2,982,373	2,975,039	2,713,164	2,707,432

SKB Group and SKB Bank use the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets of liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Group								
	2019				2018			
EUR 000	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE								
Cash, cash balances at the central banks and other demand deposits	250,246	-	-	250,246	190,195	-	-	190,195
Loans	-	-	2,693,705	2,693,705	-	-	2,624,012	2,624,012
Government bonds - listed	-	265,500	-	265,500	-	248,192	-	248,192
ASSETS MEASURED AT FAIR VALUE								
Financial assets held for trading								
Derivative financial instruments								
• Forward	-	1,381	-	1,381	-	892	-	892
• Interest rate swap	-	7,244	-	7,244	-	4,873	-	4,873
• Currency swap	-	-	-	0	-	875	-	875
• Interest rate option	-	21	-	21	-	414	-	414
• Currency option	-	-	-	-	-	-	-	-
	-	8,646	-	8,646	-	7,054	-	7,054
Non-trading financial assets mandatorily at fair value through profit of loss								
Equity instruments	-	-	16,062	16,062	-	-	17,913	17,913
Loans	-	-	8,520	8,520	-	-	17,257	17,257
	-	-	24,582	24,582	-	-	35,170	35,170
Financial assets designated at fair value through profit or loss	-	6,053	-	6,053	-	5,947	-	5,947
Debt securities - listed								
Financial assets at fair value through other comprehensive income	-	267,205	-	267,205	-	258,682	-	258,682
Government bonds - listed								
Non-current assets and disposal groups classified as held for sale	-	-	304	304	-	-	461	461

Group								
	2019				2018			
EUR 000	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE								
Financial liabilities measured at amortised cost	-	-	2,968,024	2,968,024	-	-	2,905,693	2,905,693
LIABILITIES MEASURED AT FAIR VALUE								
Financial liabilities held for trading								
Derivative financial instruments								
• Forward	-	395	-	395	-	1,731	-	1,731
• Interest rate swap	-	7,720	-	7,720	-	5,569	-	5,569
• Currency swap	-	962	-	962	-	2	-	2
• Interest rate option	-	30	-	30	-	414	-	414
• Currency option	-	-	-	0	-	-	-	0
	-	9,107	-	9,107	-	7,716	-	7,716
Financial liabilities designated at fair value through profit or loss	-	6,054	-	6,054	-	5,947	-	5,947
Structured deposit								

Banka								
	2019				2018			
EUR 000	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE								
Cash, cash balances at the central banks and other demand deposits	250,246	-	-	250,246	190,195	-	-	190,195
Loans	-	-	2,637,418	2,637,418	-	-	2,367,825	2,367,825
Government bonds - listed	-	265,500	-	265,500	-	248,192	-	248,192
ASSETS MEASURED AT FAIR VALUE								
Financial assets held for trading								
Derivative financial instruments								
• Forward	-	1,381	-	1,381	-	892	-	892
• Interest rate swap	-	7,244	-	7,244	-	4,873	-	4,873
• Currency swap	-	-	-	-	-	875	-	875
• Interest rate option	-	21	-	21	-	414	-	414
• Currency option	-	-	-	-	-	-	-	0
	-	8,646	-	8,646	-	7,054	-	7,054
Non-trading financial assets mandatorily at fair value through profit of loss								
Equity instruments	-	-	16,062	16,062	-	-	17,913	17,913
Loans	-	-	8,520	8,520	-	-	17,257	17,257
	-	-	24,582	24,582	-	-	35,170	35,170
Financial assets designated at fair value through profit or loss	-	6,053	-	6,053	-	5,947	-	5,947
Debt securities - listed								
Financial assets at fair value through other comprehensive income	-	267,205	-	267,205	-	258,682	-	258,682
Government bonds - listed								
Non-current assets and disposal groups classified as held for sale	-	-	304	304	-	-	461	461

Bank								
	2019				2018			
EUR 000	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE								
Financial liabilities measured at amortised cost	-	-	2,975,039	2,975,039	-	-	2,707,432	2,707,432
LIABILITIES MEASURED AT FAIR VALUE								
Financial liabilities held for trading								
Derivative financial instruments								
• Forward	-	395	-	395	-	1,731	-	1,731
• Interest rate swap	-	7,720	-	7,720	-	5,569	-	5,569
• Currency swap	-	962	-	962	-	2	-	2
• Interest rate option	-	30	-	30	-	414	-	414
• Currency option	-	-	-	0	-	-	-	0
	-	9,107	-	9,107	-	7,716	-	7,716
Financial liabilities designated at fair value through profit or loss	-	6,054	-	6,054	-	5,947	-	5,947
Structured deposit								

Financial assets and liabilities not measured at fair value

In estimating the fair value of SKB Group's and SKB Bank's financial instruments, the following methods and assumptions have been used:

Loans and receivables, financial liabilities measured at amortised cost

The fair value is calculated as the net present value of future cash flows discounted by the risk free rate including liquidity and credit spread. The short end of the risk free rate curve is represented by Euribor rates while the long end is constructed from the interest rate swap rates. Liquidity spread is defined as the liquidity cost of OTP funding, while the bank calculates credit spreads using its internal model (based on client type and rating). Market, liquidity and credit spreads are reflecting the costs in the pricing of loans and receivables and financial liabilities. For the assessment of future cash flows resulting from variable rate products, the bank is using implied forward rates. Fair value of the doubtful loans is considered equal to the book value.

For items with no contractual maturity (i.e. sight deposits, saving accounts, overdrafts and credit cards) fair value is not calculated and equals the carrying amount.

Financial assets and liabilities measured at fair value

For determination of fair value for financial instruments which are recorded at fair value using valuation techniques, the estimation of assumptions that a market participant would make when valuing the instruments is used.

Derivative financial instruments

Derivative products valued using a valuation technique with market observable inputs are mainly foreign exchange forward and swap deals, interest rate derivatives and options such as Interest rate swaps, cap interest rate options or adjusted performance interest rate swaps. The most frequently applied valuation techniques include forward pricing and swap models, using fair value calculations; the model incorporates market data such as spot rates, forward points and interest rate curves.

Securities, loans and deposits

SKB Group and SKB Bank value the securities using valuation models which use discounted cash flow analysis which incorporates either only observable data or both observable and non-observable data. Observable inputs include assumptions regarding current rates of interest; unobservable inputs include assumptions regarding expected future default rates, prepayment rates and market liquidity discounts.

The fair value of financial assets at fair value through other comprehensive income that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and discounted cash flow analysis and option pricing models.

7. Events after the date of the statement of financial position

Due to expanding COVID-19 in Slovenia especially after 10th of March 2020 SKB Bank started crisis activity measures and action plan focused on preservation of health of staff, continuing business activity and especially providing the necessary liquidity for the clients and the bank.

To enable Slovene companies, individuals, sole proprietors, associations and other individual and legal entities to overcome the consequences of the new Corona virus (Covid-19) as much as possible, Slovene Parliament adopted an intervention law obliging the banks to suspend payment obligations and approve corresponding prolongation of repayment schedule from loan agreements (moratorium) for a period of up to 12 months. Some other government measures are also under considerations. In this circumstances the bank is not able to assess the impact on the financial results and on the balance sheet.

VIII. Risk management

1. Introduction

In accordance with Regulation (EU) No. 575/2013 (CRR) of the of the European Parliament and of the Council on the prudential requirements for credit institutions and investment firms the bank is obliged to disclose to the public all relevant information regarded as material, since any omission could influence the assessment of a user relying on that information for the purpose of making economic decisions. Number and completeness of disclosed information related to capital adequacy, exposure towards risks and adequacy of governance and control mechanisms, have the impact to a higher transparency of the bank's operations.

SKB banka d.d. Ljubljana publishes disclosures in a standalone document in the structure compliant to EBA Guidelines on disclosure requirements under Part 8 of Regulation (EU) No. 575/2013. For the disclosures, which are an integral part of the Annual Report 2019 (either business report or accounting report), there is a reference to the respective chapter in the Annual Report 2019.

SKB d.d. as a member of the international banking group OTP designed risk policies on the level of a particular risk as well as comprehensive risk management rules. Risk culture is well developed, the rules and risk management systems are compliant to the local/national legislation and with the guidelines of the parent bank.

2. Risk management, objectives and policies

2.1 General information on risk management, objectives and policies

Reputation risk

By strict following of local/national legislation as well as guidelines of the parent bank the bank operates transparently and does not expose itself to risk of reputation loss or degradation. Management of reputation risk is integral part of all the group's activities. This is achieved through increase of this risk awareness, trainings on this topic, through monitoring of media's publications, analysis and adequate management of clients' complaints.

Risk Appetite

Risk Appetite is defined as the level of risk that the SKB Group is willing to assume in achieving its strategic goals.

It is formalized in two documents (the Risk Appetite Framework and the Risk Appetite Statement) which describe SKB Group-level principles, policies and metrics which establish the Group's Risk Appetite. The Risk Appetite is therefore articulated:

- Qualitatively, through a set of principles and policies applicable to various types of risk;
- Quantitatively, through risk control mechanisms comprising forward-looking targets, limits and alert thresholds.

Risk Appetite is revised annually and adjusted based on the annual risk identification process. It is established at SKB Group level, cascaded operationally down to Business Lines through credit policies and delegations and monitored through defined principles.

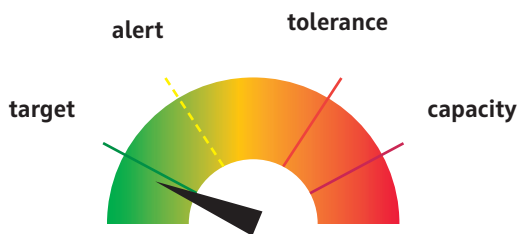
Risk Appetite is design such as to encompass the interactions with major strategic processes in the Group such as budgeting and strategic and financial planning (SFP), the internal capital adequacy assessment process (ICAAP), the internal liquidity adequacy assessment process (ILAAP), the Recovery Plan and the compensation mechanism.

Risk Appetite is monitored through various indicators, defined per major risk types and steered by defined thresholds:

- Risk capacity: is the maximum risk that the bank can absorb without jeopardizing its sustainability
- Risk tolerance: is the maximum negative impact, loss amount, a bank is willing to accept from a specific risk event or series of risk events
- Risk target: is defined as expected level of risk indicators assuming the base macroeconomic scenario and base financial projections of the Group
- Risk alert: the threshold level of the risk indicators which triggers analyses and proposal of potential actions to be taken in order to steer the Group within the risk tolerance

SKB Group monitors five major risk types. Overall, in 2019 the demonstrated strong financial profile with stable levels of main risk types.

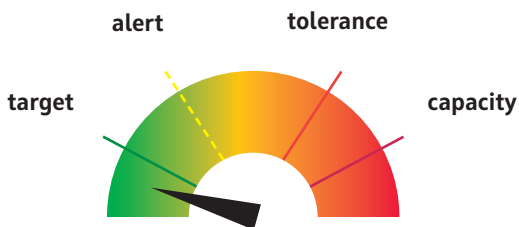
Targeted financial and strategic profile



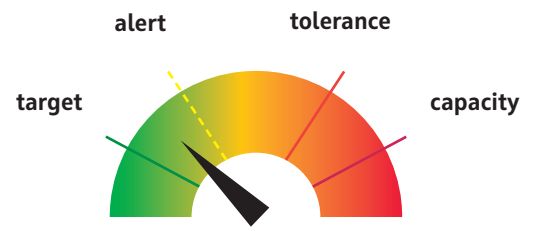
Liquidity and funding risk



Structural risk



Credit risk



Operational risk



2.2 Information on risk management, objectives and policies by risk category

Risk strategy

The risk management strategy of SKB Group takes into account the advanced risk management standards of the OTP Group, together with regulatory norms. The implementation of efficient risk management is crucial for the strategic development of the SKB Group (from hereafter the Group).

The most important objectives of the Group risk management are to protect the financial strength and reputation of the Group while ensuring that capital is well deployed to support business activities and grow value for shareholders.

The Group manages all significant types of risk, including credit, concentration risk, market, liquidity risk, excessive leverage risk, capital risk, operational, reputation and compliance risk.

Principles of risk-management governance

SKB Bank's risk-management governance is based on:

- strong managerial involvement at all levels from the Board of Directors and the General management to operational management teams,
- the independence of risk assessment from commercial operations.

Organization of risk management

The risk management function is supported by the following bodies:

- **Board of Directors**

The Board of Directors defines and monitors the implementation of the Group's risk strategy, which is then transposed to the Group's risk appetite framework.

- **Internal Audit**

Internal Audit is responsible for examining the consistency and compliance of the internal risk monitoring framework with existing procedures and regulatory requirements.

- **Risk committees**

Monitoring the evolution of all important risks for the Group is performed by various committees:

- Credit risk committee for retail,
- Credit risk committee for non-retail,
- Asset liability committee (interest, FX and liquidity risk),
- Operational risk and compliance committee.

- **Risk Division**

SKB Risk Division is primarily responsible for setting methodology for monitoring and managing the Group's credit risks. Together with the business units, Risk division participates at the credit approval process. The Risk Division acts completely independently from the business operating departments and reports directly to the General Management.

- **General Secretariat**

Within the General Secretariat operational risk management function is organized within several departments:

- Operational Risk Management Department, in charge of operational risk management,
- Compliance Department, in charge of all compliance risks,
- Second level of control Department, as one of pillars of SKB Group internal control system.

- **Finance Division**

Finance Division is responsible for the management of structural risks (interest rate risk, foreign exchange and liquidity risk).

The capital risk is managed via the Internal Capital Adequacy Assessment Process (ICAAP), organized in cooperation between the Risk and Finance Division.

Risk-adjusted pricing

Since the end of 2007, SKB Bank has been using the risk-adjusted pricing model, which takes into account credit, liquidity, interest rate and capital risk.

The model is a part of the regular decision-making process for newly granted loans and newly taken deposits, and is being frequently updated to reflect current liquidity situation on the market (market short-term and long-term interest rates and the cost of providing liquidity) and takes into account the capital requirements, required return on equity and customer credit risk. The model is also being used in the process of setting the Group's pricing policy for loans and deposits.

Since 2012 SKB Bank has been using maturity matched internal transfer pricing system, which takes into account current market conditions and strategic guidelines of the bank consequently enabling more efficient management of liquidity risk, allocation of costs and benefits and monthly monitoring of the Bank's operations' effectiveness.

Credit risk

Risk approval

Non-retail

Risk approval is conducted in the Credit Risk Assessment unit and is independent from the operational units (Branches and Commercial Departments). The approval process is based on approving credit limit applications submitted by the business units. Any credit risk undertaking must be based on sound knowledge of the client and a thorough understanding of the client's business, type and nature, the structure and the purpose of the transaction, as well as the sources of repayment.

The final risk profile of the client is defined by the rating and is the basis for the credit decision process and the definition of limits and pricing. The Credit Risk Assessment unit closely co-operates with the operational units in order to support SKB Group's business activities and to make the credit process more efficient, while closely monitoring the quality of SKB Bank's credit portfolio.

Retail

The implemented risk policies in the granting tool for individuals enable precise fine-tuning of risk appetite. The approval decision process, which includes scoring and credit assessment, is based on client knowledge and is tightly monitored at the branch level.

Risk measurement and internal ratings

SKB Bank's rating system is based on three key pillars:

- internal rating models used to measure counterparty risk (expressed as the probability of default by the borrower within the horizon of one year),
- set of procedures and guidelines for the usage of the rating tools and monitoring the usage of the rating system,
- reliance on expert judgment to assess the model results.

Client follow-up and monitoring

Non-retail

Sensitive clients are included on a watch list for regular and systematic follow-up. The main important trigger events to include clients on the watch list are:

- deterioration of credit quality,
- difficulties in the settlement of credit obligations),
- breach of covenants,
- blocked accounts.

Through a client watch list, the Credit Risk Assessment unit is enabled to closely monitor sensitive clients with deteriorating credit qualities and difficulties in the settlement of their debts from an early stage. The development of exposure towards clients on the watch list is regularly reported to the credit risk committee. Clients' follow-up supports the activities for facilities' restructuring and refinancing.

2.3 Qualitative disclosure requirements related to CCR

Counterparty credit risk is the risk arising from the possibility that the counterparty may default on derivative transactions concluded with the bank, which can result to a due closing-out settlement amount based on the actual market value of such transactions. In SKB Group the number of derivative transactions is low and limited to the client driven hedging operations. All derivative deals initiated by the client are closed with back to back deals. Based on agreement within OTP Group, the deals are not executed by using the central clearing institutions in line with European Market Infrastructure Regulation (EMIR).

2.4 Information on governance arrangements

SKB banka d.d. Ljubljana discloses information on management arrangements in accordance with CRR Part 8 Article 435 (2) and guidelines on the disclosure requirements of Part 8 of Regulation (EU) No. 575/2013 in the annual report in Chapter III - Report of the Board of Directors and Committees of the Board of Directors and in point 5.3 – Corporate governance statement of SKB banka d.d. Ljubljana.

3. Information on the scope of application of the regulatory framework

Institution to which the requirements of this Regulation apply is SKB banka d. d. Ljubljana.

Consolidated statements for accounting and prudential purposes consist of SKB Bank, SKB Leasing d. o. o., 100 % owned by the bank, and SKB Leasing Select, 100 % owned by SKB Leasing. Both companies are fully consolidated. There are no differences in consolidated statements for accounting and prudential purposes.

In the group there are no impediments to the transfer of own funds or repayment of liabilities among the parent bank and its subsidiary.

4. Own funds

Capital disclosures as prescribed in the Capital Requirements Regulation (EU) nr. 575 / 2013 and Commission Implementing Regulation (EU) nr. 1423 / 2013

Reconciliation of capital items, filters and deductions from capital to the Statement of financial position

SKB Group		
EUR 000	Statement of financial position	Items' adjustments, necessary for calculation of capital adequacy
Cash, cash balances at central banks and other demand deposits at banks	250,246	
Financial assets held for trading	8,649	
Non trading financial assets mandatorily at fair value through profit or loss	24,582	(25)
Financial assets designated at fair value through profit or loss	6,053	
Financial assets at fair value through other comprehensive income	267,205	(267)
Financial assets at amortised cost	2,751,221	
Derivatives - hedge accounting	843	
Non-current assets and disposal groups classified as held for sale	304	
Property, plant and equipment	37,058	
Investment property	1,819	
Intangible assets	10,294	(10,294)
• goodwill	1,290	(1,290)
• other intangible assets	9,004	(9,004)
Investments in subsidiaries, associates and joint ventures	-	
Tax assets	4,010	-
• current tax assets	802	
• deferred tax assets	3,208	
Other assets	23,267	
Total assets	3,385,551	(10,586)
Financial liabilities held for trading	9,107	
Financial liabilities designated at fair value through profit or loss	6,054	
Financial liabilities measured at amortised cost	2,975,358	
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,879	(2)
Provisions	11,149	
Tax liabilities	5,105	
• current tax liabilities	402	
• deferred tax liabilities	4,703	
Other liabilities	11,445	
Total liabilities	3,020,097	(2)
Capital	52,784	52,784
Share premium	104,061	104,061
Accumulated other comprehensive income	19,049	19,049
Reserves from profit	29,106	29,106
Retained earnings (including income from current year)	160,454	106,246
Total shareholders' equity	365,454	311,246
Total equity and liabilities	3,385,551	311,244
Equity for the purpose of capital adequacy		300,658

Disclosure of the nature and amounts of prudential filters, deductions from capital and a description of all restrictions applied to the calculation of own funds in accordance with the regulation CRR and the instruments, prudential filters and deductions to which those restrictions apply

SKB Group				
	EUR 000	(A) disclosure date	(B) CRR article reference	(C) amounts subject to pre-CRR treatment or CRR prescribed residual amount
Common Equity Tier 1 capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	156,845	26(1), 27, 28, 29, 26(3), seznam EBA	
	of which: Instrument type 1	156,845	26(3), seznam EBA	
2	Retained earnings	106,246	26(1)(c)	
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	48,155	26(1)	
6	Common Equity Tier 1 capital before regulatory adjustments	311,246		-
Common Equity Tier 1 capital: regulatory adjustments				
7	Additional value adjustment (negative amount)	(294)		
8	Intangible assets (net of related tax liability) (negative amount)	(10,294)	36(1)(b), 37, 472(4)	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)		36(1)(c), 38, 472(5)	
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment			
26a	Regulatory adjustments related to unrealised gains and losses pursuant to articles 467 in 468	-		
	of which: unrealised losses on exposures to central governments		467	
	of which: unrealised losses on other exposures		467	
	of which: unrealised gains on exposures to central governments		468	
	of which: unrealised gains on other exposures	-	468	
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	-		
	of which: intangible assets		481	
	of which: deferred tax assets that rely on future profitability excluding those arising from temporary differences		481	
27	Qualifying Additional Tier 1 capital deductions that exceed the Additional Tier 1 capital of the institution (negative amount)		36(1)(j)	
28	Total regulatory adjustments to Common Equity Tier 1 capital	(10,588)		
29	Common Equity Tier 1 capital	300,658		-
Additional Tier 1 capital: instruments				
36	Additional Tier 1 capital before regulatory adjustments			
Additional Tier 1 capital: regulatory adjustments				
41	Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in regulation CRR (EU) 575/2013 (i. e. CRR residual amounts)			

SKB Group				
	EUR 000	(A) disclosure date	(B) CRR article reference	(C) amounts subject to pre-CRR treatment or CRR prescribed residual amount
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of regulation CRR (EU) 575/2013		472, 472(3)(a), 472(4), 472(6), 472(8)(a), 472(9), 472(10)(a), 472(11)(a)	
	of which: intangible assets			
42	Qualifying Tier 2 capital deductions that exceed the Tier 2 capital of the institution (negative amount)		56(e)	
43	Total regulatory adjustments to Additional Tier 1 capital	-		
44	Additional Tier 1 capital	-		
45	Tier 1 capital (Tier 1 capital = Common Equity Tier 1 capital + Additional Tier 1 capital)	300,658		-
Tier 2 capital: instruments and provisions				
51	Tier 2 capital before regulatory adjustments			
Tier 2 capital: regulatory adjustments				
57	Total regulatory adjustments to Tier 2 capital			
58	Tier 2 capital			
59	Total capital (Total capital = Tier 1 capital + Tier 2 capital)	300,658		-
Risk weighted assets				
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in the CRR (EU) 575/2013 (i. e. CRR residual amounts)	8,021		
	of which: deferred tax assets that rely on future profitability and do not arise from temporary differences	-		
	of which: deferred tax assets that rely on future profitability and arise from temporary differences	8,021		
	of which: significant investments in the capital of financial sector entities			
60	Total risk weighted assets	2,439,340		
Capital ratios				
61	Common Equity Tier 1 capital (as a percentage of risk exposure amount)	12.33	92(2)(a), 465	
62	Tier 1 capital (as a percentage of risk exposure amount)	12.33	92(2)(b), 465	
63	Total capital (as a percentage of risk exposure amount)	12.33	92(2)(c)	
Amounts below the thresholds for deduction (before risk weighting)				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10 % threshold and net of eligible short positions)	3,088		
73	Direct and indirect holdings by the institution of the Common Equity Tier 1 capital instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10 % threshold and net of eligible short positions)		36(1)(i), 45, 48, 470, 472(11)	
75	Deferred tax assets arising from temporary differences (amount below 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met)	2,778	36(1)(c), 38, 48, 470, 472(5)	

A description of the main features of the capital categories issued by the Bank

1	Issuer	SKB BANKA D.D. LJUBLJANA
2	Unique identifier	SKBB, ISIN SI0021103013
3	Legislation governing instrument	Act on dematerialised securities
	Regulatory treatment	Banking act
4	Transitional CRR rules	Companies act
5	Post-transitional CRR rules	
6	Eligible at solo / (sub)consolidated / solo and (sub)consolidated	
7	Instrument type	Ordinary shares
8	Amount recognised in regulatory capital	
9	Nominal amount of instrument	No nominal amount - par value share
9a	Issue price	No nominal amount of the issue - par value shares
9b	Redemption price	
10	Accounting classification	
11	Original date of issuance	June 30, 1997
12	Perpetual or dated	
13	Original maturity date	
14	Issuer call subject to prior supervisory approval	
15	Optional call date	
16	Subsequent call dates, if applicable	
	Coupons / dividends	
17	Fixed or variable dividend / coupon interest rate	Variable dividend
18	Coupon interest rate and any related index	
19	Possibility of unpaid earnings	
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	
21	Existence of step up or other incentive to redeem	
22	Noncumulative or cumulative	
23	Convertible or non-convertible	
24	If convertible, conversion trigger(s)	
25	If convertible, fully or partially	
26	If convertible, conversion rate	
27	If convertible, mandatory or optional conversion	
28	If convertible, specify instrument type convertible into	
29	If convertible, specify issuer of instrument it converts into	
30	Write-down features	
31	If write-down, write-down trigger(s)	
32	If write-down, full or partial	
33	If write-down, permanent or temporary	
34	If temporary write-down, description of write-down mechanism	
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	
36	Non-compliant transitioned features	
37	If yes, specify non-compliant features	

SKB Group		
	EUR 000	
	2019	2019
OWN FUNDS	300,658	285,496
TIER 1 CAPITAL	300,658	285,496
COMMON EQUITY TIER 1 CAPITAL	300,658	285,496
Capital instruments eligible as CET1 Capital	156,846	156,846
• Paid up capital instruments	52,784	52,784
• Share premium	104,061	104,061
Retained earnings	106,246	95,492
• Previous years retained earnings	106,246	95,492
• Profit or loss attributable to owners of the parent	54,105	57,569
• Part of interim or year-end profit not eligible	-54,105	-57,569
Accumulated other comprehensive income	19,049	17,281
Other reserves	29,106	29,106
Value adjustments due to the requirements for prudent valuation	-294	-1,696
(-) Goodwill	-1,290	-4,243
(-) Other intangible assets	-9,004	-7,291
(-) Excess of deduction from AT1 items over AT1 Capital	/	/
Other transitional adjustments to CET1 Capital	/	/

5. Capital requirements

The Group measures its credit and operational risks under Basel II Pillar I rules. Capital requirements for credit risk, counterparty credit risk and operational risk are calculated using the standardized approach.

Capital adequacy

The Group monitors the adequacy of its capital using ratios defined by the requirements of the Bank of Slovenia. These ratios measure capital adequacy by comparing the Group's capital with risk-weighted assets.

While the minimum amount of capital required is 8 % of risk weighted assets, the Group sets its internal limit for capital adequacy to 11.50 % of total capital. This internal limit is the alert level set in Risk Appetite Framework and Risk Appetite Statement and is monitored on a quarterly basis on the Board of Directors committee.

Overall in 2019 the capital adequacy of the group decreased; however, it still remains strong and safely above the alert threshold. The main driver for this decrease is the increase of capital requirement from operational risk due to transition of capital requirement calculation method from AMA to standardized approach. Following SKB Group's business plan, capital requirement has also increased on credit risk, particularly on corporates and retail segments.

Minimum Capital requirement for credit risk by exposure segments

Capital solvency structure – SKB Group

Capital requirements are calculated using standardized approach.

Skupina	RWA		Capital requirement	
EUR 000	2019	2018	2019	2018
Central governments or central banks	8,021	7,709	642	617
Regional governments or local authorities	5,310	6,527	425	522
Public sector entities	7,930	10,999	634	880
Institutions	23,366	27,980	1,869	2,238
Corporates	962,614	912,807	77,009	73,025
Retail	1,166,531	1,140,216	93,322	91,217
Exposures in default	24,666	43,951	1,973	3,516
Collective investments undertakings (CIU)	1,727	1,604	138	128
Other items	39,673	41,706	3,174	3,336
Credit value adjustment (CVA)	3,716	2,851	297	228
Equities	3,088	376	247	30
Operational risk	193,872	53,496	15,510	4,280
Total	2,440,514	2,250,222	195,241	180,018

Overview of RWAs

SKB Group	Risk weighted assets		Minimum capital requirements
EUR 000	2019	2018	
Credit risk (excluding CCR)	2,226,221	2,181,693	178,098
• Of which the standardised approach	2,226,221	2,181,693	178,098
• Of which the foundation IRB (FIRB) approach	0	0	0
• Of which the advanced IRB (AIRB) approach	0	0	0
• Of which equity IRB under the simple risk-weighted approach of the IMA	0	0	0
CCR	20,421	15,032	1,634
• of which mark to market	0	0	0
• of which original exposure	0	0	0
• Of which the standardised approach	20,421	15,032	1,634
• Of which the internal model method (IMM)	0	0	0
• Of which risk exposure amount for contributions to the default fund of a CCP	0	0	0
• Of which CVA	3,716	2,851	297
Settlement risk	0	0	0
Securitization exposures in the banking book (after the cap)	0	0	0
• Of which IRB approach	0	0	0
• Of which IRB supervisory formula approach (SFA)	0	0	0
• Of which internal assessment approach (IAA)	0	0	0
• Of which the standardised approach	0	0	0
Market risk	0	0	0
• Of which the standardised approach	0	0	0
• Of which IMA	0	0	0
Large exposures	0	0	0
Operational risk	193,872	53,496	15,510
• Of which basic indicator approach	0	0	0
• Of which standardised approach	193,872	0	15,510
• Of which advanced measurement approach	0	53,496	0
Amounts below the threshold for deduction (subject to 3250 % risk weight)	0	0	0
Floor adjustment	0	0	0
Total	2,440,514	2,250,221	195,241

Solvency ratio

SKB Group			
	EUR 000	2019	2019
CAPITAL REQUIREMENTS		195,241	180,018
Total capital requirements for credit, counterparty credit and dilution risks and free deliveries		179,731	175,510
Total capital requirements for position, foreign exchange and commodity risks		0	0
Position, foreign exchange and commodity risks under standardised approaches (SA)		0	0
Position, foreign exchange and commodity risks under internal models (IM)		0	0
Total capital requirement for operational risk		15,510	4,280
Solvency ratio (%)		12,32	12,69

The internal capital adequacy assessment process

The Group implemented Internal Capital Adequacy Assessment Process (ICAAP) to be able to assess its capital needs in accordance with its risk profile and risk strategy.

The process consists of a qualitative and quantitative assessment. The qualitative part represent the assessment of Group's risk exposure and assessment of its control system, which is performed on an annual basis. The quantitative calculation of the internal estimate of capital needs is performed at SKB Group level on a quarterly basis and reported to the Group's General Management through the ALCO Committee. Internal estimates of capital needs are calculated for all important risks from normative¹⁰ and economic¹¹ perspective. The sum of all internal capital needs represents the internal estimate of capital needs for the SKB Group. The internal estimate of capital needs shows whether the level of the capital is sufficient to absorb all types of risks the Group is exposed.

The ICAAP process is intertwined with the ILAAP process (Internal Liquidity Adequacy Assessment process) by which the Group analyzing liquidity position from qualitative and quantitative perspective, including liquidity metrics which are not specifically defined within liquidity risk section of ICAAP report.

The ICAAP and ILAAP process are intertwined with the Group's main strategic processes, such as Risk Appetite Framework, Risk Appetite Statement and Recovery and resolution plan.

¹⁰ The normative perspective is a multi-year assessment of the institution's ability to fulfil all of its capital-related quantitative regulatory and supervisory requirements and demands, and to cope with other external financial constraints.

¹¹ Economic internal perspective is perspective under which the institution manages its economic capital adequacy by ensuring that its economic risks are sufficiently covered by available internal capital.

6. Counterparty credit risk

6.1 Information on regulatory measures

Counterparty credit risk (CCR in continuation) is a risk arising from the possibility that a counterparty may default on derivative transactions concluded with the bank, which can result to a due closing-out settlement amount based on the actual market value of such transactions. In SKB Group the number of derivative transactions is low and limited to a client driven hedging operations. In line with the agreement within the SKB Group the deals were not executed by using the central clearing institutions in line with European Market Infrastructure Regulation. All derivative deals initiated by ae client are closed with back to back deals.

Analysis of CCR exposure by approach

SKB Group – as per 31.12.2019							
EUR 000	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
Mark to market							
Original exposure							
Standardised approach	655,834					19,817	16,705
IMM (for derivatives and SFTs)							
Of which securities financing transactions							
Of which derivatives and long settlement transactions	655,834					19,817	16,705
Of which from contractual cross-product netting							
Financial collateral simple method (for SFTs)							
Financial collateral comprehensive method (for SFTs)							
Value-at-Risk for SFTs							
Total	655,834					19,817	16,705

SKB Group – as per 31.12.2018

EUR 000	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
Mark to market							
Original exposure							
Standardised approach	778,210					15,566	12,181
IMM (for derivatives and SFTs)							
Of which securities financing transactions							
Of which derivatives and long settlement transactions	778,210					15,566	12,181
Of which from contractual cross-product netting							
Financial collateral simple method (for SFTs)							
Financial collateral comprehensive method (for SFTs)							
Value-at-Risk for SFTs							
Total	778,210					15,566	12,181

Compared to 2018 the exposure deriving from counterparty credit risk decreased by 16 %.

Credit Valuation Adjustment (CVA in continuation) capital charge

SKB Group – as per 31.12.2019		
EUR 000	Exposure value	RWA's
Total portfolios subject to the advanced method		
(i) VaR component (including the 3× multiplier)		
(ii) SVaR component (including the 3× multiplier)		
All portfolios subject to the standardised method	6,048	3,716
Based on the original exposure method		
Total subject to the CVA capital charge	6,048	3,716

SKB Group – as per 31.12.2018		
EUR 000	Exposure value	RWA's
Total portfolios subject to the advanced method		
(i) VaR component (including the 3× multiplier)		
(ii) SVaR component (including the 3× multiplier)		
All portfolios subject to the standardised method	8,969	2,851
Based on the original exposure method		
Total subject to the CVA capital charge	8,969	2,851

The share of exposure deriving from counterparty credit risk is still relatively small within SKB group. CVA capital charge thus represents only 0.31 % of total capital requirement and remains at the similar level as in 2018.

CCR exposures by regulatory portfolio and risk

[illegible]

[illegible]

6.3 Other information on counterparty credit risk

Not applicable for SKB Group (EU CCR5-A, EU CCR5-B, EU CCR6).

7. Macro-prudential supervisory measures

SKB Group considered 2.5 % of conservation capital buffer in the capital adequacy calculation. The geographical distribution of the SKB Group's credit exposures relevant for the calculation of its countercyclical capital buffer is as follows:

Država	Countercyclical capital buffer rate	Exposure values in EUR 000	RWA EUR 000	Bank specific countercyclical capital buffer rate	Countercyclical buffer amount in EUR 000
United Arab Emirates	0	0	0	/	0
Austria	0	1,469	1,409	/	0
Bosnia and Herzegovina	0	9,355	3,613	/	0
Belgium	0	805	771	/	0
Bulgaria	0.005	0	0	/	0
Belarus	0	0	0	/	0
Switzerland	0	0	0	/	0
Czech Republic	0.015	3	0	/	0
Germany	0	2,494	2,409	/	0
Spain	0	0	0	/	0
France	0.0025	157	157	/	0
United Kingdom	0.01	4,844	4,672	/	47
Croatia	0	9	12	/	0
Hungary	0	275	265	/	0
Ireland	0.01	90	84	/	1
Italy	0	0	0	/	0
Japan	0	0	0	/	0
Luxembourg	0	6,163	5,938	/	0
Latvia	0	0	0	/	0
Moldova	0	0	0	/	0
Monte Negro	0	1	0	/	0
Macedonia	0	0	0	/	0
Netherlands	0	5,964	5,745	/	0
Poland	0	2	0	/	0
Portugal	0	0	0	/	0
Serbia	0	6,872	6,624	/	0
Russia	0	0	0	/	0
Sweden	0.025	38	36	/	1
Slovenia	0	2,803,348	2,211,045	/	0
Taiwan	0	55	48	/	0
United States	0	99	96	/	0
TOTAL		2,842,043	2,242,925	/	49

The majority of exposure (98.6 %) is allocated to Slovenian market where no countercyclical buffer is applied. Total institution-specific countercyclical capital buffer rate is 0 %. The total amount of risk-weighted assets in countries, where countercyclical capital buffer is bigger than 0 % is 4,793,000 EUR.

8. Credit risk and general information

8.1 General qualitative information on credit risk

8.1.1. Definition of past due and credit risk adjustment for accounting purpose

Default rules

- The Group is applying the regulatory default definition and is performing the monitoring of the default marking process. In line with EBA requirements defaulted exposures are classified as non-performing assets and are all either individually impaired or impaired by using statistical methods.
- While the group follows the overdue exposures from first day of overdue and regardless the amount of overdue exposure, a materiality threshold is applied for default marking. Thus, only exposures that do not breach materiality threshold while being over 90 days past due can remain in the sound portfolio.

Forborne classification

- In case of financial difficulties of the debtor and subject to still viable underlying business of such debtor, the group primarily seeks to implement restructuring of the financial obligations instead of insolvency procedures. In accordance with group standards, which encompass EBA – regulatory rules and IFRS 9 standards, all such assets are individually impaired and are classified as defaulted. As such they are treated as non-performing loans.
- Following internal rules the Group keeps forborne assets / obligors in non-performing classification at least one year.
- The performing forborne assets / obligors can exit forbearance classification in case of becoming performing assets / obligors. That can take place under two conditions:
- successfully passing the probation period of two years, starting from the date of upgrade from non-performing (defaulted) assets / obligors,
- all required credit quality conditions for facility / debtor are fulfilled.

8.1.2. Description of approach for assessment of specific and general credit risk adjustment Retail

Retail

The Group performs regular monitoring of credit risk quality for individual client. The net cost of risk is monitored monthly for each product, which enables the Group to quickly react on risk profile changes, product by product, if necessary. Specific risk indicators have been introduced to follow up the quality of the portfolio and evolution of overdue facilities. These indicators enable us to measure the quality of monthly production, the effectiveness of soft collection techniques and the management of doubtful loans.

Collective and individual provisioning

The Group regularly monitors its credit portfolio to assess the quality of its assets and impairs its assets in accordance with IFRS 9 rules. Non-retail assets with significant exposure are impaired based on individual assessment of present value of estimated future cash flows to the Group after considering all available information on the expected recovery duration and estimated value of the collateral.

For the remaining non performing non-significant assets, the recovery assumptions are based on homogeneous groups. Each homogeneous group represents group assets with similar risk profiles. The level of impairment is set-up by using statistical models and depends on client segmentation, product type and progressively increases in dependence of time in default.

The approach for the calculation of collective impairments on sound portfolio is described under item Impairment of financial instruments.

8.2 General quantitative information on credit risk

Total and average net amount of exposures

SKB Group				
EUR 000	Net value of exposures per 31.12.2019	Average net exposures over 2019	Net value of exposures per 31.12.2018	Average net exposures over 2018
Central governments or central banks	779,377	746,540	713,703	693,622
Regional governments or local authorities	29,354	35,206	41,058	56,151
Public sector entities	/	/	/	/
Multilateral Development Banks	/	/	/	/
International Organisations	/	/	/	/
Institutions	85,591	116,531	147,472	139,407
Corporates	1,322,950	1,280,108	1,237,266	1,193,767
• Of which SME	558,938	562,796	566,655	538,254
Retail	1,730,109	1,706,203	1,682,296	1,624,226
• Of which SME	231,523	115,694	236,233	234,561
• Of which secured by mortgages on immovable property	893,105	446,553	854,157	816,409
Exposures in default	26,223	9,175	60,602	60,048
Items associated with particular high risk	/	/	/	/
Covered bonds	/	/	/	/
Claims on institutions and corporates with a short-term credit assessment	/	/	/	/
Collective investments undertakings (CIU)	/	/	/	/
Equity	/	/	/	/
Other items	/	/	/	/

Note: exposure value is net value (after exclusion of provisions) of balance and off balance credit risk exposure

The highest share of total exposure, after deduction of specific and general allowance, was at the end of 2019 observed on the retail segment (44 %) and corporate segment (33 %). In comparison to 2018, the biggest increase of exposure was observed on the portfolio of central governments and central banks (9 %), corporate portfolio (7 %) and retail portfolio (3 %). Among the latest, the highest increase is observed on housing loans (5 %). Portfolio was reduced on a regional governments and local authorities segment, institutions and, most evidently, on exposures in default category (57 %).

Concentration of risk

The concentration of risk is managed by client, by geographical region and by industrial sector. SKB Bank precisely monitors concentration of risk by client name, using large exposure analyses, and manages it by defining the limits comparing to the Group's capital. The regular reporting on large exposure and limits is part of the risk management process of the Group. For regular portfolio analyses, the Group also quarterly monitors concentration by the industrial sector as part of ICAAP process.

In terms of geographical breakdown the majority of exposure remains to be allocated on Slovenian market. The portfolio structure on the other hand remains well diversified in respect with client name and by industrial sector.

Geographical breakdown of exposures

SKB Group – as per 31.12.2019					
EUR 000	European Union	Slovenia	South East Europe	Other	Total
Central governments or central banks	779,369	641,674	0	8	779,377
Regional governments or local authorities	29,354	29,354	0	0	29,354
Public sector entities	/	/	/	/	/
Multilateral Development Banks	/	/	/	/	/
International Organisations	/	/	/	/	/
Institutions	76,878	33,605	130	8,583	85,591
Corporates	1,316,091	1,306,591	6,851	7	1,322,950
• Of which SME	558,930	558,688	0	7	558,938
Retail	1,728,575	1,726,533	826	707	1,730,109
• Of which SME	231,523	231,523	0	0	231,523
• Of which secured by mortgages on immovable property	892,250	890,659	235	620	893,105
Exposures in default	17,702	17,677	8,521	0	26,223
Items associated with particular high risk	/	/	/	/	/
Covered bonds	/	/	/	/	/
Claims on institutions and corporates with a short-term credit assessment	/	/	/	/	/
Collective investments undertakings (CIU)	/	/	/	/	/
Equity	/	/	/	/	/
Other items	/	/	/	/	/

SKB Group - as per 31.12.2018

EUR 000	European Union	Slovenia	South East Europe	Other	Total
Central governments or central banks	713,691	576,799	0	12	713,703
Regional governments or local authorities	41,058	41,058	0	0	41,058
Public sector entities	/	/	/	/	/
Multilateral Development Banks	/	/	/	/	/
International Organisations	/	/	/	/	/
Institutions	145,256	30,335	122	2,093	147,472
Corporates	1,234,319	1,225,619	2,421	526	1,237,266
• Of which SME	566,639	566,638	0	16	566,655
Retail	1,680,821	1,678,891	894	581	1,682,296
• Of which SME	236,233	236,233	0	0	236,233
• Of which secured by mortgages on immovable property	853,432	851,921	221	504	854,157
Exposures in default	48,594	48,558	12,008	0	60,602
Items associated with particular high risk	/	/	/	/	/
Covered bonds	/	/	/	/	/
Claims on institutions and corporates with a short-term credit assessment	/	/	/	/	/
Collective investments undertakings (CIU)	/	/	/	/	/
Equity	/	/	/	/	/
Other items	/	/	/	/	/

Note: Exposure value is net value (after exclusion of provisions) of balance and off balance credit risk exposure

The vast majority of Group's exposure at the end of 2019 is allocated on Slovenian debtors (94.5 % of total exposure). Geographical breakdown structure demonstrates no significant change when comparing to 2018.

Concentration of exposures by industry or counterparty types

[illegible]

SKB Group - as per 31.12.2018																
EUR 000	Agriculture and forestry, finshing	Mining	Manufacturing	Electricity, gas and water services	Construction	Commerce	Hotel trading	Traffic, warehousing and communication	Other financial organizations	Real estate	Government	Education	Health and social services	Other public, collective and personal services	Individuals	Total
Central governments or central banks	0	0	0	0	0	0	0	5	133,546	0	443,246	0	0	136,906	0	713,703
Regional governments or local authorities	0	0	0	0	0	825	0	5,052	0	333	32,653	277	1,216	701	0	41,058
Public sector entities	/	/	/	/	/		/	/	/	/	/		/	/	/	/
Multilateral Development Banks	/	/	/	/	/		/	/	/	/	/		/	/	/	/
International Organisations	/	/	/	/	/		/	/	/	/	/		/	/	/	/
Institutions	0	0	0	0	0	0	0	0	147,472	0	0	0	0	0	0	147,472
Corporates	278	7,603	370,937	87,136	63,851	273,253	18,392	247,611	57,088	20,659	0	120	9,900	80,437	0	1,237,266
• Of which SME	278	4,573	181,725	4,843	51,715	146,005	3,755	89,875	225	14,083	0	115	9,900	59,564	0	566,655
Retail	4,321	88	44,854	1,578	40,119	40,074	9,235	57,818	408	1,231	214	865	3,510	31,944	1,446,039	1,682,296
• Of which SME	4,321	88	44,853	1,578	40,076	40,030	9,235	57,818	408	1,231	214	861	3,510	31,939	73	236,233
• Of which secured by mortgages on immovable property	0	0	0	0	32	45	0	0	0	0	0	0	0	4	854,076	854,157
Exposures in default	38	10	2,507	7	1,151	37,035	128	12,621	335	58	9	25	20	832	5,827	60,602
Items associated with particular high risk	/	/	/	/	/		/	/	/	/	/		/	/	/	/
Covered bonds	/	/	/	/	/		/	/	/	/	/		/	/	/	/
Claims on institutions and corporates with a short-term credit assessment	/	/	/	/	/		/	/	/	/	/		/	/	/	/
Collective investments undertakings (CIU)	/	/	/	/	/		/	/	/	/	/		/	/	/	/
Equity	/	/	/	/	/		/	/	/	/	/		/	/	/	/
Other items																

Note: the counterparties have been allocated to the groups according to Standard industry classification. Exposure value is net value (after exclusion of provisions) of balance and off balance credit risk exposure

In 2019 the highest exposure is observed on the Government industry, out of which the majority of exposure (442 million euro) is allocated to Slovenian government bonds. The manufacturing industry follows in the second place, commerce and other financial organizations are in third and fourth. In comparison to 2018, the biggest increase of exposure was observed in the electricity, gas and water services industry (32 %). Construction industry observed 8 % growth in comparison to 2018. At the end of 2019 exposure toward individuals represented 38 % of total exposure and increased by 3.7 % compared to 2018.

Maturity of exposures

SKB Group – as per 31.12.2019					
EUR 000	On demand	Less than 1 year	From 1 to 5 years	More than 5 years	Total
Central governments or central banks	302,630	4,285	214,000	284,779	805,695
Regional governments or local authorities					0
Public sector entities					
Multilateral Development Banks					
International Organisations					
Institutions	34,477	506	6,140	1	41,124
Corporates	44,086	285,130	432,510	97,572	859,299
• Of which SME	18,313	167,453	173,339	24,820	383,924
Retail	26,723	278,009	688,838	538,943	1,532,514
• Of which SME	5,224	64,722	64,452	4,578	138,976
Exposures in default	1,639	17,892	46,196	4,444	70,171
Items associated with particular high risk					
Covered bonds					
Claims on institutions and corporates with a short-term credit assessment					
Collective investments undertakings (CIU)					
Equity					
Other items					

SKB Group - as per 31.12.2018					
EUR 000	On demand	Less than 1 year	From 1 to 5 years	More than 5 years	Total
Central governments or central banks	231,925	40,704	206,963	336,703	816,296
Regional governments or local authorities	1,577	34,513	97,740	59,908	193,738
Public sector entities					
Multilateral Development Banks					
International Organisations					
Institutions	69,501	1,107	6,141	41,381	121,054
Corporates	43,081	326,706	435,207	63,459	868,454
• Of which SME	3,338	32,545	40,335	1,887	78,105
Retail	19,416	184,813	565,530	623,534	1,393,293
• Of which SME	2	21	30	3	55
Exposures in default	4,798	22,407	36,563	15,115	78,882
Items associated with particular high risk					
Covered bonds					
Claims on institutions and corporates with a short-term credit assessment					
Collective investments undertakings (CIU)					
Equity					
Other items					

Presented in the table above is the maturity of exposures of particular items of the balance sheet of the Group. The maturity of exposures considered in this report is as defined for liquidity purposes.

At the end of 2019 the exposures that mature from one to five years represented 42 % of total exposure, whereas the exposures with maturity over 5 years represented 28 % of total exposure of the Group. Maturity wise, the structure of the portfolio did not change in comparison with the previous year.

Credit quality of exposures by exposure class and instrument

SKB Group – as per 31.12.2019							
EUR 000	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non defaulted exposures					
Central governments or central banks	0	779,406	0	29	/	-72	779,377
Regional governments or local authorities	0	29,396	0	43	/	-61	29,354
Public sector entities	/	/	/	/	/	/	/
Multilateral Development Banks	/	/	/	/	/	/	/
International Organisations	/	/	/	/	/	/	/
Institutions	0	85,597	0	7	2	-11	85,591
Corporates	33,020	1,332,932	15,163	11,763	5,260	-24,528	1,322,950
• Of which SME	15,955	565,682	9,235	8,525	5,260	2,114	558,938
Retail	40,736	1,739,267	5,952	33,795	20,595	-4,298	1,730,109
• Of which SME	10,286	234,170	695	9,073	1,410	-792	231,523
• Of which secured by mortgages on immovable property	18,152	896,868	3,001	14,324	1,126	-1,778	893,105
Exposures in default	73,755	/	/	/	/	/	26,223
Items associated with particular high risk	/	/	/	/	/	/	/
Covered bonds	/	/	/	/	/	/	/
Claims on institutions and corporates with a short-term credit assessment	/	/	/	/	/	/	/
Collective investments undertakings (CIU)	/	/	/	/	/	/	/
Equity	/	/	/	/	/	/	/
Other items	/	/	/	/	/	/	/

SKB Group - as per 31.12.2018

EUR 000	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non defaulted exposures					
Central governments or central banks	0	713,803	0	101	/	101	713,703
Regional governments or local authorities	0	41,161	0	103	/	102	41,058
Public sector entities	/	/	/	/	/	/	/
Multilateral Development Banks	/	/	/	/	/	/	/
International Organisations	/	/	/	/	/	/	/
Institutions	0	147,490	0	18	2	18	147,472
Corporates	96,278	1,245,661	41,447	10,007	5,297	-21,822	1,237,266
• Of which SME	18,756	572,508	8,202	7,444	5,297	-5,668	566,655
Retail	42,512	1,691,210	7,498	36,546	20,765	-20,072	1,682,296
• Of which SME	9,415	238,932	927	9,634	1,438	-2,241	236,233
• Of which secured by mortgages on immovable property	20,348	857,597	3,535	15,568	5,535	-5,605	854,157
Exposures in default	138,790	/	/	/	/	/	60,602
Items associated with particular high risk	/	/	/	/	/	/	/
Covered bonds	/	/	/	/	/	/	/
Claims on institutions and corporates with a short-term credit assessment	/	/	/	/	/	/	/
Collective investments undertakings (CIU)	/	/	/	/	/	/	/
Equity	/	/	/	/	/	/	/
Other items	/	/	/	/	/	/	/

Note: exposure value is net value (after exclusion of provisions) of balance and off balance credit risk exposure. Specific credit risk adjustment are the ones that are individually impaired. General credit risk adjustments are the ones, calculated based on statistical model.

At the end of 2019 the share of defaulted exposures represented 1.8 % of the gross exposure of the Group. The level of defaulted exposures was reduced in comparison with 2018 by 47 %. The amount of specific credit risk adjustments was lower by almost 57 % compared with 2018, whereas on the other hand the level of general credit risk adjustments remained practically unchanged. The coverage of the defaulted exposure with provisions also increased when compared with 2018.

Credit quality of exposures by industry or counterparty types

SKB Group – as per 31.12.2019							
EUR 000	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non defaulted exposures					
Agriculture and forestry, fishing	283	4,506	1	236	0	-31	4,552
Mining	0	5,003	0	125	0	35	4,879
Manufacturing	10,689	409,959	5,964	6,519	139	-2,372	408,164
Electricity, gas and water services	125	118,160	102	744	2	-398	117,438
Construction	6,668	113,364	4,289	2,604	5,508	5,511	113,138
Commerce	16,272	346,897	3,261	3,545	14,482	19,537	356,364
Hotel trading	1,475	26,033	495	790	32	-217	26,223
• Traffic, warehousing and communication	3,939	331,267	269	3,360	33	2,586	331,576
Other financial organizations	30	331,333	0	138	31	1,074	331,224
• Real estate	398	23,365	0	555	0	-82	23,208
Government	24	471,612	0	80	0	101	471,556
Education	56	1,332	0	41	1	10	1,346
Health and social services	22	9,446	6	75	15	49	9,385
Other public, collective and personal services	3,271	269,588	1,470	2,050	126	-350	269,339
Individuals	30,503	1,504,736	5,257	24,772	2,851	3,516	1,505,210
Total	73,755	3,966,599	21,115	45,635	23,221	28,969	3,973,603

SKB Group - as per 31.12.2018

EUR 000	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non defaulted exposures					
Agriculture and forestry, fishing	177	4,667	1	205	502	-268	4,636
Mining	19	7,843	0	160	0	-25	7,701
Manufacturing	7,604	420,805	3,708	6,403	2,204	-3,136	418,298
Electricity, gas and water services	131	89,038	111	338	1	-464	88,721
Construction	12,646	104,880	10,064	2,341	843	-3,376	105,121
Commerce	61,587	315,943	23,181	3,162	1,485	-12,961	351,187
Hotel trading	841	27,981	0	1,067	78	124	27,755
• Traffic, warehousing and communication	17,492	311,830	3,287	2,928	657	-3,655	323,107
Other financial organizations	1,385	338,675	995	218	2	120	338,848
• Real estate	362	22,392	0	473	533	-448	22,281
Government	23	476,281	0	181	0	174	476,122
Education	64	1,275	0	52	1	-20	1,287
Health and social services	65	14,711	6	124	0	20	14,646
Other public, collective and personal services	3,239	250,750	1,021	2,149	610	-111	250,820
Individuals	33,156	1,452,255	6,571	26,974	19,146	-17,649	1,451,866
Total	138,790	3,839,326	48,945	46,775	26,063	-41,674	3,882,396

Note: counterparties have been allocated to the groups according to Standard industry classification.

The highest share of defaulted exposures at the end of 2019 was observed in the commerce industry (22 %). Traffic, manufacturing industry took the second place with 14.5 % share of defaulted exposures. A significant reduction of defaulted exposure was observed in the commerce industry as well as traffic, warehousing and communication industry, but increased in manufacturing industry.

At the end of 2019 the manufacturing industry also had the highest share of specific credit risk adjustments (28 %).

Credit quality of exposures by geography
SKB Group – as per 31.12.2019

EUR 000	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non defaulted exposures					
European Union	65,233	3,949,338	21,115	45,487	25,840	28,923	3,947,969
Of which: Slovenia	65,135	3,756,752	21,115	45,339	25,670	28,917	3,755,433
South East Europe	8,522	7,953	0	146	11	43	16,329
Other	0	9,308	0	3	6	4	9,305
Total	73,755	3,966,599	21,115	45,635	25,857	28,969	3,973,603

SKB Group - as per 31.12.2018

EUR 000	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non defaulted exposures					
European Union	126,782	3,832,481	48,945	46,579	26,044	-40,119	3,863,739
Of which: Slovenia	126,677	3,569,954	48,945	46,427	25,884	-39,991	3,601,260
South East Europe	12,008	3,626	0	189	13	-1,556	15,445
Other	0	3,219	0	6	7	-0	3,212
Total	138,790	3,839,326	48,945	46,775	26,063	-41,674	3,882,396

At the end of 2019 the majority of defaulted exposure (more than 90 %) was observed on the debtors from Slovenia, which corresponds to the distribution of the total Group's exposure. The entire amount of specific credit risk adjustment is allocated on Slovenia as well.

Credit quality of exposures by rating buckets

The credit quality of financial assets is managed by using internal credit ratings.

2019 - SKB Group	Bucket 1	Bucket 2	Bucket 3	POCI	Total
Rating group 1					2,538,950
Rating group 2	1,357,346	39,474	0	0	1,396,820
Rating group 3	331	30,498	0	0	30,829
Rating group 4	0	0	73,755	0	73,755
Total gross values	3,865,639	100,960	73,755	0	4,040,354
Risk adjustments	11,072	8,147	47,532	0	66,750
Net values	3,854,567	92,813	26,223	0	3,973,603

2019 - SKB Bank	Bucket 1	Bucket 2	Bucket 3	POCI	Total
Rating group 1	2,699,047	22,479	0	0	2,721,527
Rating group 2	1,191,776	26,533	0	0	1,218,309
Rating group 3	326	10,918	0	0	11,244
Rating group 4	0	0	64,398	0	64,398
Total gross values	3,891,150	59,930	64,398	0	4,015,477
Risk adjustments	9,152	6,037	41,717	0	56,906
Net values	3,881,997	53,893	22,681	0	3,958,571

2018 - SKB Group	Bucket 1	Bucket 2	Bucket 3	POCI	Total
Rating group 1	2,434,744	29,139	0	0	2,463,883
Rating group 2	1,269,554	62,863	0	0	1,332,417
Rating group 3	1,115	41,910	0	0	43,026
Rating group 4	0	0	138,790	0	138,790
Total gross values	3,705,413	133,912	138,790	0	3,978,116
Risk adjustments	9,264	8,267	78,188	0	95,719
Net values	3,696,150	125,645	60,602	0	3,882,396

2018 - SKB Bank	Bucket 1	Bucket 2	Bucket 3	POCI	Total
Rating group 1	2,489,695	21,495	0	0	2,511,190
Rating group 2	1,052,249	47,651	0	0	1,099,901
Rating group 3	1,008	19,768	0	0	20,776
Rating group 4	0	0	124,983	0	124,983
Total gross values	3,542,952	88,914	124,983	0	3,756,850
Risk adjustments	7,200	6,255	71,042	0	84,497
Net values	3,535,753	82,659	53,942	0	3,672,353

Note: exposure value expressed in 000 EUR is gross value of balance and off balance credit risk exposure.

The distribution of portfolio by rating buckets remains very similar to last year's. Noticeable reduction was in comparison to 2018 observed in the worst rating class.

Exposures by exposure categories and by stage

SKB Group - as per 31.12.2019	Gross carrying amount by stage			Credit risk adjustments by stage		
EUR 000	S1	S2	S3	S1	S2	S3
Central governments or central banks	779,406	0	0	-29	0	0
Regional governments or local authorities	29,395	1	0	-43	-0	0
Public sector entities	/	/	/	/	/	/
Multilateral Development Banks	/	/	/	/	/	/
International Organisations	/	/	/	/	/	/
Institutions	85,597	0	0	-7	0	0
Corporates	1,293,006	39,926	33,020	-6,673	-3,309	-16,944
• Of which SME	530,090	35,592	15,955	-3,788	-2,956	-11,016
Retail	1,678,234	61,033	40,736	-4,378	-4,780	-30,588
• Of which SME	212,156	22,014	10,286	-1,364	-1,283	-7,121
• Secured by mortgages on immovable property	840,247	17,350	20,348	-1,579	-2,184	-13,562
Exposures in default	/	/	/	/	/	/
Items associated with particular high risk	/	/	/	/	/	/
Covered bonds	/	/	/	/	/	/
Claims on institutions and corporates with a short-term credit assessment	/	/	/	/	/	/
Collective investments undertakings (CIU)	/	/	/	/	/	/
Equity	/	/	/	/	/	/
Other items	/	/	/	/	/	/

SKB Group - as per 31.12.2018	Gross carrying amount by stage			Credit risk adjustments by stage		
EUR 0000	S1	S2	S3	S1	S2	S3
Central governments or central banks	713,803	0	0	-101	0	0
Regional governments or local authorities	40,708	453	0	-36	-67	0
Public sector entities	/	/	/	/	/	/
Multilateral Development Banks	/	/	/	/	/	/
International Organisations	/	/	/	/	/	/
Institutions	147,490	0	0	-18	0	0
Corporates	1,176,926	68,735	96,278	-4,589	-3,807	-43,058
• Of which SME	533,807	38,701	18,756	-3,061	-2,792	-9,793
Retail	1,626,487	64,724	42,512	-4,520	-4,394	-35,130
• Of which SME	214,949	23,983	9,415	-1,612	-1,087	-7,862
• Secured by mortgages on immovable property	840,247	17,350	20,348	-1,500	-1,939	-15,663
Exposures in default	/	/	/	/	/	/
Items associated with particular high risk	/	/	/	/	/	/
Covered bonds	/	/	/	/	/	/
Claims on institutions and corporates with a short-term credit assessment	/	/	/	/	/	/
Collective investments undertakings (CIU)	/	/	/	/	/	/
Equity	/	/	/	/	/	/
Other items	/	/	/	/	/	/

Note: exposure value is gross value of balance and off balance credit risk exposure

The distribution of portfolio by exposure categories and by stage shows very similar picture as last year, although with even slightly increased share of portfolio in bucket 1.

Ageing of past-due exposures

SKB Group	2019		2018	
	Total loans	Total debt securities	Total loans	Total debt securities
Past due up to 30 days	89,151	/	102,296	/
Past due from 31 to 60 days	24,523	/	20,457	/
Past due from 61 to 90 days	7,524	/	4,835	/
Past due from 91 to 180 days	3,254	/	2,829	/
Past due from 181 to 360 days	3,033	/	4,306	/
Past due more than 360 days	34,033	/	53,138	/
Total past due exposures	161,518	/	187,861	/

Note: Exposure value is gross value of balance and off balance credit risk exposure.

SKB bank	2019		2018	
	Total loans	Total debt securities	Total loans	Total debt securities
Past due up to 30 days	37,688	/	95,704	/
Past due from 31 to 60 days	12,034	/	8,073	/
Past due from 61 to 90 days	4,536	/	2,387	/
Past due from 91 to 180 days	1,973	/	1,904	/
Past due from 181 to 360 days	2,380	/	3,806	/
Past due more than 360 days	31,718	/	50,706	/
Total past due exposures	90,330	/	162,580	/

Note: Exposure value is gross value of balance and off balance credit risk exposure.

The majority of past due exposures (55 %) was at the end of 2019 allocated in the first bucket (up to 30 days of delay). The total amount of past due exposures was in comparison to 2018 reduced by 14 %.

Non-performing and forborne exposures

SKB Group – as per 31.12.2019												
EUR 000	Gross carrying amount of exposures with forbearance measures							Accumulated impairment, accumulated changes in fair value due to credit risk and provisions			Collateral received and financial guarantees received	
	Performing exposures with forbearance measures				Non-performing exposures with forbearance measures						Collateral received on exposures with forbearance measures	Financial guarantees received on exposures with forbearance measures
			Instruments with modifications in their terms and conditions	of which: Performing forborne exposures under probation		of which: Defaulted	of which: Impaired		on performing exposures with forbearance measures	on non-performing exposures with forbearance measures		
Debt securities	/	/	/	/	/	/	/	/	/	/	/	/
Loans and advances	30,447	10,476	10,048	533	19,971	19,971	19,971	-14,672	-68	-14,604	2,005	
Central governments or central banks	/	/	/	/	/	/	/	/	/	/	/	/
Regional governments or local authorities	/	/	/	/	/	/	/	/	/	/	/	/
Institutions	/	/	/	/	/	/	/	/	/	/	/	/
Non-financial corporations	22,739	10,019	9,961	89	12,720	12,720	12,720	-8,291	-47	-8,243	1,717	
• Of which: SME	7,191	89	32	89	7,102	7,102	7,102	-4,620	-5	-4,615	1,161	
Households	7,708	457	86	444	7,251	7,251	7,251	-6,382	-21	-6,361	288	
Debt instruments at amortised cost	30,447	10,476	10,048	533	19,971	19,971	19,971	-14,672	-68	-14,604	2,005	

SKB Group – as per 31.12.2018

EUR 000	Gross carrying amount of exposures with forbearance measures							Accumulated impairment, accumulated changes in fair value due to credit risk and provisions			Collateral received and financial guarantees received	
		Performing exposures with forbearance measures			Non-performing exposures with forbearance measures				on performing exposures with forbearance measures	on non-performing exposures with forbearance measures	Collateral received on exposures with forbearance measures	Financial guarantees received on exposures with forbearance measures
			Instruments with modifications in their terms and conditions	of which: Performing forborne exposures under probation		of which: Defaulted	of which: Impaired					
Debt securities	/	/	/	/	/	/	/	/	/	/	/	/
Loans and advances	43,556	640	150	599	42,916	42,916	42,916	-28,241	-12	-28,230	11,174	
Central governments or central banks	/	/	/	/	/	/	/	/	/	/	/	/
Regional governments or local authorities	246	69		69	177	177	177	-137	0	-137	35	
Institutions	/	/	/	/	/	/	/	/	/	/	/	/
Non-financial corporations	34,900	67	46	67	34,833	34,833	34,833	-21,087	-1	-21,085	10,790	
• Of which: SME	7,038	67	46	67	6,971	6,971	6,971	-4,407	-1	-4,405	1,100	
Households	8,411	504	104	463	7,907	7,907	7,907	-7,018	-10	-7,008	349	

Comparing to 2018 the exposure on accounts with forbearance measures has dropped considerably due to repayments, sale and in smaller part also write-offs of biggest non-performing loans.

Changes in the stock of general and specific credit risk adjustments

The table below represents the changes in the stock of general and specific credit risk adjustments for SKB Group.

SKB Group – as per 31.12.2019		
EUR 000	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment*
Opening balance	43,035	29,203
Increases due to amounts set aside for estimated loan losses during the period	13,263	16,238
Decreases due to amounts reversed for estimated loan losses during the period	-18,049	-19,755
Decreases due to amounts taken against accumulated credit risk adjustments	-1,340	-19,373
Transfers between credit risk adjustments	591	-415
Impact of exchange rate differences	-35	-23
Business combinations, including acquisitions and disposals of subsidiaries	0	0
Other adjustments	-219	935
Closing balance	37,246	6,811
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	0	1,032
Specific credit risk adjustments directly recorded to the statement of profit or loss	0	2,245

SKB Group - as per 31.12.2018		
EUR 000	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment*
Opening balance	56,491	51,088
Increases due to amounts set aside for estimated loan losses during the period	40,635	13,710
Decreases due to amounts reversed for estimated loan losses during the period	-49,878	-15,595
Decreases due to amounts taken against accumulated credit risk adjustments	-4,795	-21,060
Transfers between credit risk adjustments	-8	8
Impact of exchange rate differences	55	37
Business combinations, including acquisitions and disposals of subsidiaries	0	0
Other adjustments	535	1,015
Closing balance	43,035	29,203
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	0	1,098
Specific credit risk adjustments directly recorded to the statement of profit or loss	0	328

* only general credit risk adjustments for defaulted portfolio are taken into consideration

In comparison to 2018, the level of specific and general credit risk adjustment was reduced by 39 %. The reduction is the result of efficient recovery process and accompanied repayments, partially also from write-offs.

Changes in the stock of defaulted and impaired loans and debt securities

SKB Group – as per 31.12.2019	
EUR 000	Gross carrying value defaulted exposures
Opening balance	144,603
Loans and debt securities that have defaulted or impaired since the last reporting period	11,060
Returned to non-defaulted status	-640
Amounts written off	-25,855
Other changes	-21,977
Closing balance	107,190

SKB Group - as per 31.12.2018	
EUR 000	Gross carrying value defaulted exposures
Opening balance	193,273
Loans and debt securities that have defaulted or impaired since the last reporting period	5,787
Returned to non-defaulted status	-1,580
Amounts written off	-17,771
Other changes	-15,013
Closing balance	164,696

Changes in stock between stages

SKB Group as per 31.12.2019						
EUR 000	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3
Loans and advances	40,848	32,896	4,726	996	1,611	7,612
Non-fin. corporations	14,096	13,563	1,963	38	872	7,595
Households	26,732	18,889	2,763	958	740	17

SKB Group as per 31.12.2018						
EUR 000	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3
Loans and advances	24,341	21,409	2,993	1,603	3,879	98

Non-fin. corporations	10,431	8,463	302	194	2,642	4
Households	13,908	12,945	2,691	1,409	1,237	95

Financial instruments at amortized cost

SKB Group – as per 31.12.2019					
Loans and advances to clients other than banks	EUR 000	Stage 1	Stage 2	Stage 3	POCI
Opening balance 01.01.2019		2,298,003	105,943	106,995	/
Transfer to stage 1		40,095	-39,976	-119	/
Transfer to stage 2		-73,103	82,001	-8,898	/
Transfer to stage 3		-1,856	-5,625	7,481	/
Changes due to change in credit risk		-281,780	-57,683	-24,241	/
Increases due to origination and acquisition		858,178	32,869	27,401	/
Decreases due to derecognition		-443,980	-16,025	-19,924	/
Write-offs				-28,349	/
Changes due to update in the institution's methodology					/
Changes due to modifications without derecognition					/
Other adjustments					/
Closing balance 31.12.2019		2,395,557	101,504	60,346	/
Loss allowance 31.12.2019		-8,420	-7,688	-44,029	/

SKB Bank – as per 31.12.2019					
Loans and advances to clients other than banks	EUR 000	Stage 1	Stage 2	Stage 3	POCI
Opening balance 01.01.2019		2,298,003	105,943	106,995	/
Transfer to stage 1		40,095	-39,976	-119	/
Transfer to stage 2		-44,068	52,966	-8,898	/
Transfer to stage 3		-1,782	-4,202	5,984	/
Changes due to change in credit risk		-212,220	-28,771	-20,668	/
Increases due to origination and acquisition		900,122	20,292	27,206	/
Decreases due to derecognition		-396,552	-798	-17,496	/
Write-offs				-28,188	/
Changes due to update in the institution's methodology					/
Changes due to modifications without derecognition					/
Other adjustments					/
Closing balance 31.12.2019		2,421,419	60,509	51,115	/

Loss allowance 31.12.2019	-6,501	-5,564	-38,238	/
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SKB Group – as per 31.12.2018					
Loans and advances to clients other than banks	EUR 000	Stage 1	Stage 2	Stage 3	POCI
Opening balance 01.01.2018		2,178,271	63,743	143,341	/
Transfer to stage 1		18,474	-18,930	456	/
Transfer to stage 2		-50,173	45,069	5,104	/
Transfer to stage 3		-1,218	1,713	-495	/
Changes due to change in credit risk		-294,382	-19,688	1,624	/
Increases due to origination and acquisition		876,119	45,017	69,441	/
Decreases due to derecognition		-429,088	-10982	-86,620	/
Write-offs				-25,855	/
Changes due to update in the institution's methodology					/
Changes due to modifications without derecognition					/
Other adjustments					/
Closing balance 31.12.2018		2,298,004	105,942	106,995	/
Loss allowance 31.12.2018		-7,863	-7,872	-72,117	/

SKB Bank – as per 31.12.2018					
Loans and advances to clients other than banks	EUR 000	Stage 1	Stage 2	Stage 3	POCI
Opening balance 01.01.2018		2,019,778	49,981	129,360	/
Transfer to stage 1		26,037	-26,001	-36	/
Transfer to stage 2		-50,173	44,920	5,253	/
Transfer to stage 3		-1,218	1,713	-495	/
Changes due to change in credit risk		-198,726	-28,248	-5,540	/
Increases due to origination and acquisition		708,770	24,674	57,878	/
Decreases due to derecognition		-368,644	-6041	-67,853	/
Write-offs				-25,272	/
Changes due to update in the institution's methodology					/
Changes due to modifications without derecognition					/
Other adjustments					/
Closing balance 31.12.2018		2,135,824	60,998	93,294	/

Loss allowance 31.12.2018	-5,799	-5,832	-64,987	/
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SKB Group – as per 31.12.2019

Debt instruments	EUR 000	Stage 1	Stage 2	Stage 3	POCI
Opening balance 01.01.2019		253,829			/
Transfer to stage 1					/
Transfer to stage 2					/
Transfer to stage 3					/
Changes due to change in credit risk		-4,549			/
Increases due to origination and acquisition					/
Decreases due to derecognition					/
Write-offs					/
Changes due to update in the institution's methodology					/
Changes due to modifications without derecognition					/
Other adjustments					/
Closing balance 31.12.2019		249,280			/
Loss allowance 31.12.2019		-11			/

SKB Bank – as per 31.12.2019

Debt instruments	EUR 000	Stage 1	Stage 2	Stage 3	POCI
Opening balance 01.01.2019		253,829			/
Transfer to stage 1					/
Transfer to stage 2					/
Transfer to stage 3					/
Changes due to change in credit risk		-4,549			/
Increases due to origination and acquisition					/
Decreases due to derecognition					/
Write-offs					/
Changes due to update in the institution's methodology					/
Changes due to modifications without derecognition					/
Other adjustments					/
Closing balance 31.12.2019		249,280			/

Loss allowance 31.12.2019	-11	0	0	/
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SKB Group – as per 31.12.2018

Debt instruments	EUR 000	Stage 1	Stage 2	Stage 3	POCI
Opening balance 01.01.2018		199,435			/
Transfer to stage 1					/
Transfer to stage 2					/
Transfer to stage 3					/
Changes due to change in credit risk		-2,822			/
Increases due to origination and acquisition		76,664			/
Decreases due to derecognition		-19,448			/
Write-offs					/
Changes due to update in the institution's methodology					/
Changes due to modifications without derecognition					/
Other adjustments					/
Closing balance 31.12.2018		253,829			/
Loss allowance 31.12.2018		-32	0	0	/

SKB Bank – as per 31.12.2018

Debt instruments	EUR 000	Stage 1	Stage 2	Stage 3	POCI
Opening balance 01.01.2018		199,435			/
Transfer to stage 1					/
Transfer to stage 2					/
Transfer to stage 3					/
Changes due to change in credit risk		-2,822			/
Increases due to origination and acquisition		76,664			/
Decreases due to derecognition		-19,448			/
Write-offs					/
Changes due to update in the institution's methodology					/
Changes due to modifications without derecognition					/
Other adjustments					/
Closing balance 31.12.2018		253,829			/
Loss allowance 31.12.2018		-32	0	0	/

SKB Group – as per 31.12.2019

Loans and advances to banks	EUR 000	Stage 1	Stage 2	Stage 3	POCI
Opening balance 01.01.2019		45,318	0	0	/
Transfer to stage 1					/
Transfer to stage 2					/
Transfer to stage 3					/
Changes due to change in credit risk		68			/
Increases due to origination and acquisition		94,350			/
Decreases due to derecognition		-139,197			/
Write-offs					/
Changes due to update in the institution's methodology					/
Changes due to modifications without derecognition					/
Other adjustments					/
Closing balance 31.12.2019		539	0	0	/
Loss allowance 31.12.2019		0	0	0	/

SKB Bank – as per 31.12.2019

Loans and advances to banks	EUR 000	Stage 1	Stage 2	Stage 3	POCI
Opening balance 01.01.2019		45,318	0	0	/
Transfer to stage 1					/
Transfer to stage 2					/
Transfer to stage 3					/
Changes due to change in credit risk		68			/
Increases due to origination and acquisition		94,350			/
Decreases due to derecognition		-139,197			/
Write-offs					/
Changes due to update in the institution's methodology					/
Changes due to modifications without derecognition					/
Other adjustments					/
Closing balance 31.12.2019		539	0	0	/

Loss allowance 31.12.2019	0	0	0	/
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SKB Group – as per 31.12.2018					
Loans and advances to banks	EUR 000	Stage 1	Stage 2	Stage 3	POCI
Opening balance 01.01.2019		22,609			/
Transfer to stage 1					/
Transfer to stage 2					/
Transfer to stage 3					/
Changes due to change in credit risk		2			/
Increases due to origination and acquisition		76,219			/
Decreases due to derecognition		-53,512			/
Write-offs					/
Changes due to update in the institution's methodology					/
Changes due to modifications without derecognition					/
Other adjustments					/
Closing balance 31.12.2019		45,318	0	0	/
Loss allowance 31.12.2019		-2	0	0	/

SKB Bank – as per 31.12.2018					
Loans and advances to banks	EUR 000	Stage 1	Stage 2	Stage 3	POCI
Opening balance 01.01.2019		22,609			/
Transfer to stage 1					/
Transfer to stage 2					/
Transfer to stage 3					/
Changes due to change in credit risk		2			/
Increases due to origination and acquisition		76,219			/
Decreases due to derecognition		-53,512			/
Write-offs					/
Changes due to update in the institution's methodology					/
Changes due to modifications without derecognition					/
Other adjustments					/
Closing balance 31.12.2019		45,318	0	0	/

Loss allowance 31.12.2019	-2	0	0	/
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SKB Group and SKB Bank– as per 31.12.2019

Debt instruments through other comprehensive income	Stage 1	Stage 2	Stage 3	POCI
Opening balance 01.01.2019	258,682			/
Transfer to stage 1				/
Transfer to stage 2				/
Transfer to stage 3				/
Changes due to change in credit risk	2,033			/
Increases due to origination and acquisition	27,809			/
Decreases due to derecognition	-21,319			/
Write-offs				/
Changes due to update in the institution's methodology				/
Changes due to modifications without derecognition				/
Other adjustments				/
Closing balance 31.12.2019	267,205			/
Loss allowance 31.12.2019	-18	0	0	/

SKB Group and SKB Bank– as per 31.12.2018

Debt instruments through other comprehensive income	Skupina 1	Skupina 2	Skupina 3	POCI
Opening balance 01.01.2018	212,032			/
Transfer to stage 1				/
Transfer to stage 2				/
Transfer to stage 3				/
Changes due to change in credit risk	24,892			/
Increases due to origination and acquisition	36,908			/
Decreases due to derecognition	-15,149			/
Write-offs				/
Changes due to update in the institution's methodology				/
Changes due to modifications without derecognition				/

Other adjustments				/
Closing balance 31.12.2018	258,682			/
Loss allowance 31.12.2018	-43	0	0	/

Movement of provisions for fin. assets measured at fair value through OCI

Group and Bank	Debt securities
EUR 000	12 - months expected credit loss S1
Balance at 1. 1. 2019	(43)
Increase due to origination and acquisition	(3)
Decrease due to recognition	2
Changes due to credit risk (net)	26
decrease due to writte-offs	
Other adjustments	
Balance at 31. 12. 2019	(18)

Group and Bank	Debt securities
EUR 000	12 - months expected credit loss S1
Balance at 1. 1. 2018	(49)
Increase due to origination and acquisition	(10)
Decrease due to recognition	2
Changes due to credit risk (net)	14
decrease due to writte-offs	
Other adjustments	
Balance at 31. 12. 2018	(43)

Movement of provisions for financial assets measured at amortized cost

Bank								
	Debt securities	Loans to banks		Loans to non-bank customers			Other financial assets	
	12-month expected credit losses	12-month expected credit losses	12-month expected credit losses	Lifetime ECL	Lifetime ECL	12-month expected credit losses	Lifetime ECL	Lifetime ECL
EUR 000	S1	S1	S1	S2	S3	S1	S2	S3
Balance at 1 January 2019	(32)	(2)	(5,799)	(5,832)	(64,987)	(4)	(1)	(105)
Increase due to origination and acquisition	(2)	(12)	(3,503)	(4,969)	(15,124)	-	(3)	
Decreases due to derecognition	-	12	2,186	5,096	33,503	-	5	104
Changes due to credit risk (net)	23	2	(2,989)	2,310	(9,876)	(10)	(1)	(2)
Decreases due to writte-offs	-	-	-	-	20,558	-	-	-
Other adjustments	-	-	1	(4)	(875)	-	-	-
Transition S1-S2	-	-	3,043	(3,043)	-	-	-	-
Transition S1-S3	-	-	639	-	(639)	-	-	-
Transition S2-S1	-	-	(79)	79	-	-	-	-
Transition S2-S3	-	-	-	802	(802)	-	-	-
Transition S3-S1	-	-	-	-	-	-	-	-
Transition S3-S2	-	-	-	(4)	4	-	-	-
Balance at 31 December 2019	(11)	0	(6,501)	(5,565)	(38,238)	(14)	0	(3)

Bank								
	Debt securities	Loans to banks		Loans to non-bank customers			Other financial assets	
	12-month expected credit losses	12-month expected credit losses	12-month expected credit losses	Lifetime ECL	Lifetime ECL	12-month expected credit losses	Lifetime ECL	Lifetime ECL
Balance at 1 January 2018	(30)	(3)	(6,237)	(4,830)	(99,655)	(4)	(1)	(422)
Increase due to origination and acquisition	-	(2)	(2,957)	(5,809)	(30,793)	-	(1)	(19)
Decreases due to derecognition	-	16	2,502	3,798	54,594	1	2	316
Changes due to credit risk (net)	(2)	(13)	2,528	(64)	(13,376)	(1)	(1)	(29)
Decreases due to writte-offs	-	-	-	-	25,224	-	-	49
Other adjustments	-	-	(12)	(6)	(1,525)	-	-	-
Transition S1-S2	-	-	360	(360)		-	-	-
Transition S1-S3	-	-	58		(58)	-	-	-
Transition S2-S1	-	-	(1,272)	1,272		-	-	-
Transition S2-S3	-	-		192	(192)	-	-	-
Transition S3-S1	-	-	(769)		769	-	-	-
Transition S3-S2	-	-		(25)	25	-	-	-
Balance at 31 December 2018	(32)	(2)	(5,799)	(5,832)	(64,987)	(4)	(1)	(105)

Movement of provisions for financial assets measured at amortized cost

Group								
	Debt securities	Loans to banks		Loans to non-bank customers			Other financial assets	
	12-month expected credit losses	12-month expected credit losses	12-month expected credit losses	Lifetime ECL	Lifetime ECL	12-month expected credit losses	Lifetime ECL	Lifetime ECL
EUR 000	S1	S1	S1	S2	S3	S1	S2	S3
Balance at 1 January 2019	(32)	(2)	(7,863)	(7,872)	(72,117)	(4)	(3)	(121)
Increase due to origination and acquisition	(2)	(12)	(5,456)	(8,922)	(19,945)	-	(3)	(4)
Decreases due to derecognition	-	12	2,849	7,600	37,954	-	5	26
Changes due to credit risk (net)	23	2	(3,744)	3,621	(6,089)	(11)	1	86
Decreases due to writte-offs	-	-	-	-	20,713	-	-	-
Other adjustments	-	-	3	(1)	(868)	-	-	-
Transition S1-S2	-	-	4,769	(4,769)	-	-	-	-
Transition S1-S3	-	-	1,220	-	(1,220)	-	-	-
Transition S2-S1	-	-	(198)	198	-	-	-	-
Transition S2-S3	-	-	-	2,465	(2,465)	-	-	-
Transition S3-S1	-	-	-	-	-	-	-	-

Transition S3-S2	-	-	-	(8)	8	-	-	-
Balance at 31 December 2019	(11)	0	(8,420)	(7,688)	(44,029)	(15)	0	(13)

Group								
	Debt securities	Loans to banks		Loans to non-bank customers			Other financial assets	
	12-month expected credit losses	12-month expected credit losses	12-month expected credit losses	Lifetime ECL	Lifetime ECL	12-month expected credit losses	Lifetime ECL	Lifetime ECL
EUR 000	S1	S1	S1	S2	S3	S1	S2	S3
Balance at 1 January 2018	(30)	(3)	(8,256)	(5,682)	(107,143)	(4)	(1)	(436)
Increase due to origination and acquisition	-	(2)	(3,137)	(9,054)	(46,112)	-	(2)	(19)
Decreases due to derecognition	-	16	3,226	4,988	69,687	3	1	316
Changes due to credit risk (net)	(2)	(13)	2,153	687	(13,400)	(3)	(1)	(29)
Decreases due to writte-offs	-	-	-	-	25,807	-	-	47
Other adjustments	-	-	31	(5)	(1,642)	-	-	-
Transition S1-S2	-	-	580	(580)	-	-	-	-
Transition S1-S3	-	-	76	-	(76)	-	-	-
Transition S2-S1	-	-	(1,576)	1,576	-	-	-	-
Transition S2-S3	-	-	-	223	(223)	-	-	-
Transition S3-S1	-	-	(960)	-	960	-	-	-
Transition S3-S2	-	-	-	(25)	25	-	-	-
Balance at 31 December 2018	(32)	(2)	(7,863)	(7,872)	(72,117)	(4)	(3)	(121)

8.3 General qualitative information on CRM

The Group uses collaterals and other credit enhancements to optimize the risk on credit assets. In accordance with the collateral policy, the main types of collaterals are:

- cash collateral which are used in full amount or with potential maturity mismatch adjustment for capital adequacy purposes,
- state guarantees; which are used in full amount for capital adequacy purposes,
- real estate.

Real estate is the main type of collateral for housing loans portfolio. The evaluations are done either by internal or external evaluators or taken from official real estate data-base. Starting January 2019 the initial evaluation has always been performed by the internal or external evaluators, which are accordingly licensed and in case of the external ones, their valuation reports are regularly monitored by the internal ones. All values are re-evaluated on yearly basis in case of significant price variation on the market. Real estate collaterals are not taken into account for capital adequacy purposes.

The group does not use the close-out netting agreements on derivatives for reporting purposes.

The group does not use any credit derivatives for credit risk mitigation purposes.

The Group doesn't have any significant increase of concentration risk due to CRM techniques. An increase is primarily seen on sovereign

exposures (Republic of Slovenia) and some insurance companies for individual loan portfolio.

8.4 General quantitative information on CRM

SKB Group – as per 31.12.2019					
EUR 000	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	3,110,189	127,489	4,156	123,333	-
Total debt securities	522,556	-	-	-	-
Total exposures	3,632,745	127,489	4,156	123,333	-
Of which defaulted	66,132	7,490	637	6,853	-

SKB Group – as per 31.12.2018					
EUR 000	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	3,132,119	107,290	6,441	100,849	-
Total debt securities	518,501	-	-	-	-
Total exposures	3,650,620	107,290	6,441	100,849	-
Of which defaulted	124,351	12,330	296	12,034	-

The table represents only collaterals eligible for regulatory reporting purposes. Share of secured exposure in total exposure was at the end of 2019 3.5 % and has slightly increased in comparison to 2018.

When presenting information on collateralized portfolio, the data is the same for SKB Bank and SKB Group.

Overview of collateralized portfolio by segment and collateral type

SKB Group – as per 31.12.2019			
EUR 000	Primary collateral	Gross Exposure of collateralized loans	Collateral value
Banks	Guarantees (except state)	13,328	13,347
Territorial authorities	Deposits	39	37
	Commercial RE	0	0
	Guarantees (except state)	64	68
Large enterprises	State guarantee	63,009	62,293
	Deposits	2,747	1,302
	Commercial RE	84,447	123,271
	Shares	0	0
	Guarantees (except state)	72,296	73,054
SME	State guarantee	18,264	13,100
	Deposits	21,024	3,135
	Residential RE	7,566	5,630
	Commercial RE	132,828	187,878
	Shares	879	2,725
	Guarantees (except state)	34,944	51,137
Retail/SME	State guarantee	4,736	3,337
	Deposits	5,369	1,605
	Residential RE	2,574	5,892
	Commercial RE	6,736	19,827
	Insurance company	0	0
	Guarantees (except state)	7,726	8,896
Retail/Individuals	Deposits	304	574
	Residential RE	736,042	1,214,499
	Commercial RE	5,793	9,645
	Insurance company	86,378	86,932
	Guarantees (except state)	50,063	56,502

Total		1,357,158	1,944,685
SKB Group – as per 31.12.2018			
EUR 1000	Primary collateral	Gross Exposure of collateralized loans	Collateral value
Banks	Guarantees (except state)	9,123	9,119
Territorial authorities	Deposits	36	36
	Commercial RE	69	1,520
	Guarantees (except state)	105	169
Large enterprises	State guarantee	68,736	67,184
	Deposits	2,845	1,247
	Commercial RE	108,855	148,713
	Shares	899	0
	Guarantees (except state)	343,622	421,760
SME	State guarantee	20,368	14,524
	Deposits	21,281	3,355
	Residential RE	4,707	4,511
	Commercial RE	110,912	145,868
	Shares	1,538	2,725
	Guarantees (except state)	34,491	54,953
Retail/SME	State guarantee	5,470	3,861
	Deposits	5,474	1,591
	Residential RE	3,273	7,647
	Commercial RE	6,971	19,535
	Insurance company	6	14
	Guarantees (except state)	5,313	9,682
Retail/Individuals	Deposits	503	792
	Residential RE	720,254	1,165,351
	Commercial RE	6,674	10,281
	Insurance company	70,750	106,508
	Guarantees (except state)	49,256	96,991
Total		1,601,530	2,297,938

Overall gross exposure of collateralized loans was reduced when comparing to previous year. The main reason of this reduction was the

modification of valuation method for guarantees and insurance company collaterals.

9. Encumbered Assets

An asset is treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralize or credit enhance any transaction from which it cannot be freely withdrawn. At the end of the year 2019 SKB Group's encumbrance ratio stood at the level of 1.30 % as the Group had EUR 44 million of encumbered assets compared to EUR 42 million encumbered assets and 1.27 % encumbered ratio as at 31.12.2018.

Encumbered assets consist of government bonds which are held by the bank for the purpose of Single Resolution Fund established in Slovenia in the amount of EUR 16 million, government bonds reserved due to Market in Financial Instruments Act (ZTFI) in the amount of EUR 2 million and European Central Bank (ECB) required mandatory reserve which has to be held on the Bank of Slovenia target account in the amount of EUR 26 million.

Tabela A: Sredstva

Group - as of 31 December 2019		Carrying amount of encumbered assets	Fair value of en- cumbered assets	Carrying amount of unencumbered assets	Fair value of unen- cumbered assets
EUR 000		10	40	60	90
010	Assets of the reporting institution	43,852		3,341,698	
020	Loans on demand	25,960	-	193,210	-
030	Equity instruments	-	-	16,062	16,062
040	Debt securities	17,892	17,892	504,635	410,358
100	Loans and advances other than loans on demand	-	-	2,510,475	-
120	Other assets	-		117,316	

Group - as of 31 December 2018		Carrying amount of encumbered assets	Fair value of en- cumbered assets	Carrying amount of unencumbered assets	Fair value of unen- cumbered assets
EUR 000		10	40	60	90
010	Assets of the reporting institution	42,034		3,271,914	
020	Loans on demand	23,954	-	139,429	-
030	Equity instruments	-	-	17,913	17,913
040	Debt securities	18,080	18,080	500,346	500,346
100	Loans and advances other than loans on demand	-	-	2,489,898	-

120	Other assets	-	124,329
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Table B: Collateral received

Group - as of 31 December 2019		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
EUR 000		010	040
130	Collateral received by the reporting institution	-	-
150	Equity instruments	-	-
160	Debt securities	-	-
230	Other collateral received	-	-
240	Own debt securities issued other than own covered bonds or ABSs	-	-

Group - as of 31 December 2018		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
EUR 000		010	040
130	Collateral received by the reporting institution	-	-
150	Equity instruments	-	-
160	Debt securities	-	-
230	Other collateral received	-	-
240	Own debt securities issued other than own covered bonds or ABSs	-	-

Table C: Sources of encumbrance

Group - as of 31 December 2019		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
			030
010	Carrying amount of selected financial liabilities	0,300	2,060

Group - as of 31 December 2018		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
			030
010	Carrying amount of selected financial liabilities	0,300	2,122

10. Credit risk and crm in a standardized approach

10.1 Qualitative information on the use of a standardized approach

The nominated ECAIs are Fitch, Moody's and S&P and are used for exposure classes' Central government, Central Bank and institutions.

The RWA, calculated by ECAI, is 47 million € on the SKB Group level.

The risk weights are defined based on client's external ratings and corresponding scale for standardized approach in credit risk regulation.

10.2 Quantitative information on the use of a standardized approach

Credit risk exposure and CRM effects

The table below demonstrates the effect of risk mitigation techniques and credit conversion factors on exposure values by exposure classes.

SKB Group – as per 31.12.2019	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
EUR 000	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
Central governments or central banks	764,144	22,695	823,485	10,186	8,021	1 %
Regional governments or local authorities	26,550	30	26,550	0	5,310	20 %
Public sector entities	1,845	970	15,135	726	7,930	50 %
Multilateral Development Banks						
International Organisations						
Institutions	22,188	19,569	22,188	37,360	23,366	39 %
Corporates	851,120	502,247	784,796	254,761	962,614	93 %
Retail	1,585,826	127,508	1,585,826	14,847	1,166,531	73 %
Secured by mortgages on immovable property						
Exposures in default	27,523	1,584	20,667	679	24,666	116 %
Items associated with particular high risk						
Covered bonds						
Claims on institutions and corporates with a short-term credit assessment						
Collective investments undertakings (CIU)	12,974	0	12,974	0	1,727	13 %
Equity	3,088	0	3,088	0	3,088	100 %
Other items	69,777	0	69,777	0	39,673	57 %

SKB Group - as per 31.12.2018	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
EUR 000	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
Central governments or central banks	669,999	50,466	736,542	25,233	7,709	1 %
Regional governments or local authorities	32,620	32	32,620	16	6,527	20 %
Public sector entities	7,196	1,247	21,142	856	10,999	50 %
Multilateral Development Banks						
International Organisations						
Institutions	47,017	43,222	47,017	50,168	27,980	29 %
Corporates	825,652	464,459	756,757	225,395	912,807	93 %
Retail	1,554,980	136,063	1,554,079	13,872	1,140,216	73 %
Secured by mortgages on immovable property						
Exposures in default	49,485	6,623	37,451	3,091	43,951	108 %
Items associated with particular high risk						
Covered bonds						
Claims on institutions and corporates with a short-term credit assessment						
Collective investments undertakings (CIU)	12,915	0	12,915	0	1,604	12 %
Equity	376	0	376	0	376	100 %
Other items	67,356	0	67,356	0	41,706	62 %

Comment:

CCF – credit conversion factor

CRM – credit risk mitigation

At the end of 2018 the credit risk mitigation effect amounted to 127 million euros in total. The mentioned effect resulted in the increase of exposure in the amount of 59 million euros on central governments and central bank category, 31 million euros in institutions category and 14 million on public sector entities.

The major part of this increase arrives from corporate segment, where total credit risk mitigation effect amounted to 103 million euros.

Credit conversion factors had the biggest effect on the off-balance exposure on Corporates and Retail categories.

The risk weighted assets have increased by 3 % in comparison to previous year. The majority of RWA is attributed to retail and corporates exposures.

The highest RWA density (average risk weight) was observed on the following categories: exposures in default, equity, corporates and retail.

11. Market risk

Structural foreign exchange risk

Foreign exchange risk represents potential loss arising from an open foreign exchange position and from changes in foreign exchange rates. In 2019 SKB Group monitored its foreign exchange risk in accordance with the requirements of its parent bank Société Générale and optimizes its foreign exchange risk within the approved limits. In 2020 this will be done in accordance with OTP Group requirements. The main goal of SKB Group is to minimize foreign exchange risk exposure by matching foreign exchange positions per each currency with minimal exposure against given limits.

Foreign exchange structural position (as defined internally) is managed daily for each currency by the Financial market and liquidity department, monitored by the Treasury Middle/Back office department. Structural position is monitored by the Assets and liabilities management department (ALM) on a monthly basis and managed within prescribed foreign exchange limits.

All foreign exchange positions of SKB are monitored as a part of structural risk management. The trading book is not relevant to SKB due to the following reasons:

- There is no proprietary trading, neither by SKB bank nor by its subsidiaries.
- All derivative deals initiated by the client are closed with back to back deals, therefore having practically no open position from derivative deals on a daily basis.
- If needed SKB bank uses derivative instruments with the purpose to hedge structural risks arising from balance sheet mismatches. Decisions for structural portfolio hedging are passed by ALCO Committee, which is regularly informed about the level of risk exposure.
- Securities initiated by ALM and bought for hedging, liquidity and interest rate risk management are part of the banking book. Securities bought/sold for clients are fully backed on a daily basis.
- FX spot operations are part of the banking book.

Foreign exchange sensitivity analysis

The table below show the SKB Group sensitivity to exchange rate changes by +/- 5 %:

in EUR	USD	CHF	GBP	Other
Impact on P&L +5 %	(1,983,506)	(6,194,644)	(97,684)	(791,539)
Impact on P&L -5 %	1,623,194	(6,208,544)	(97,884)	(824,939)

*mainly SEK, PLN, HRK

Foreign exchange sensitivity analysis is the same for SKB Group and SKB Bank.

Methods of capital requirement calculation

The bank is using the standardized approach for market risks and foreign exchange risk.

In accordance with Annex III DIRECTIVE 2006/49/EC banks do not report capital requirements for an open foreign exchange position if the sum of the overall net foreign exchange position does not exceed 2 % of its total own funds.

The tables below present the Group's foreign exchange risk exposure by currency as of the end of the year.

Group - As of 31 December 2019						
EUR 000	EUR	USD	CHF	GBP	Other	Total
ASSETS						
Cash, cash balances at central banks and other demand deposits at banks	227,495	4,929	7,231	4,703	5,888	250,246
Financial assets held for trading	8,649	-	-	-	-	8,649
Non-trading financial assets mandatorily at fair value through profit or loss	24,582	-	-	-	-	24,582
Financial assets designated at fair value through profit or loss	6,053	-	-	-	-	6,053
Financial assets at fair value through other comprehensive income	267,205	-	-	-	-	267,205
Financial assets at amortised cost	2,733,547	549	16,646	-	479	2,751,221
• debt securities	249,269	-	-	-	-	249,269
• loans to banks	60	-	-	-	479	539
• loans to non-bank customers	2,480,077	546	16,646	-	-	2,497,269
• other financial assets	4,141	3	-	-	-	4,144
Derivatives - hedge accounting	843	-	-	-	-	843
Other assets	76,752	-	-	-	-	76,752
Total financial assets	3,345,126	5,478	23,877	4,703	6,367	3,385,551
LIABILITIES						
Financial liabilities held for trading	9,107	-	-	-	-	9,107
Financial liabilities designated at fair value through profit or loss	6,054	-	-	-	-	6,054
Financial liabilities measured at amortised cost	2,900,103	40,831	23,738	4,701	5,985	2,975,358
• deposits from banks and central banks	1,667	-	-	-	-	1,667
• deposits from non-bank customers	2,590,292	40,256	21,421	4,608	5,960	2,662,537
• loans from banks and central banks	208,004	-	2,299	-	-	210,303
• loans from non-bank customers	70,004	-	-	-	-	70,004
• debt securities	-	-	-	-	-	-
• other financial liabilities	30,136	575	18	93	25	30,847
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,879	-	-	-	-	1,879
Other liabilities and equity	392,393	714	1	-	45	393,153
Total financial liabilities	3,309,536	41,545	23,739	4,701	6,030	3,385,551
Net balance sheet position	35,590	(36,067)	138	2	337	

Group - As of 31 December 2018

	EUR 000	EUR	USD	CHF	GBP	Other	Total
ASSETS							
Cash, cash balances at central banks and other demand deposits at banks		176,138	919	6,117	765	6,256	190,195
Financial assets held for trading		7,054	-	-	-	-	7,054
Non-trading financial assets mandatorily at fair value through profit or loss		35,170	-	-	-	-	35,170
Financial assets designated at fair value through profit or loss		5,947	-	-	-	-	5,947
Financial assets at fair value through other comprehensive income		258,682	-	-	-	-	258,682
Financial assets at amortised cost		2,662,167	38,933	18,429	5,096	1,813	2,726,438
• debt securities		253,797	-	-	-	-	253,797
• loans to banks		3	38,404	-	5,096	1,813	45,316
• loans to non-bank customers		2,404,138	522	18,429	-	-	2,423,089
• other financial assets		4,229	7	-	-	-	4,236
Derivatives - hedge accounting		607	-	-	-	-	607
Other assets		89,856	-	-	-	-	89,856
Total financial assets		3,235,621	39,852	24,546	5,861	8,069	3,313,949
LIABILITIES		-	-	-	-	-	-
Financial liabilities held for trading		7,719	-	-	-	-	7,719
Financial liabilities designated at fair value through profit or loss		5,947	-	-	-	-	5,947
Financial liabilities measured at amortised cost		2,838,488	39,642	24,550	5,844	6,250	2,914,774
• deposits from banks and central banks		1,678	-	-	-	-	1,678
• deposits from non-bank customers		2,428,775	39,165	19,156	5,812	6,096	2,499,004
• loans from banks and central banks		371,167	-	5,335	-	-	376,502
• loans from non-bank customers		-	-	-	-	-	-
• debt securities		-	-	-	-	-	-
• other financial liabilities		36,868	477	59	32	154	37,590
Fair value changes of the hedged items in portfolio hedge of interest rate risk		602	-	-	-	-	602
Other liabilities and equity		384,677	165	-	15	50	384,907
Total financial liabilities		3,237,433	39,807	24,550	5,859	6,300	3,313,949
Net balance sheet position		(1,812)	45	(4)	2	1,769	-

The tables below present the Bank's foreign exchange risk exposure by currency as of the end of the year.

Bank - As of 31 December 2019						
EUR 000	EUR	USD	CHF	GBP	Other	Total
ASSETS						
Cash, cash balances at central banks and other demand deposits at banks	227,495	4,929	7,231	4,703	5,888	250,246
Financial assets held for trading	8,649	-	-	-	-	8,649
Non-trading financial assets mandatorily at fair value through profit or loss	24,582	-	-	-	-	24,582
Financial assets designated at fair value through profit or loss	6,053	-	-	-	-	6,053
Financial assets at fair value through other comprehensive income	267,205	-	-	-	-	267,205
Financial assets at amortised cost	2,718,493	549	16,646	-	479	2,736,167
• debt securities	249,269	-	-	-	-	249,269
• loans to banks	60	-	-	-	479	539
• loans to non-bank customers	2,465,548	546	16,646	-	-	2,482,740
• other financial assets	3,616	3	-	-	-	3,619
Derivatives - hedge accounting	843	-	-	-	-	843
Other assets	71,430	-	-	-	-	71,430
Total financial assets	3,324,750	5,478	23,877	4,703	6,367	3,365,175
LIABILITIES						
Financial liabilities held for trading	9,107	-	-	-	-	9,107
Financial liabilities designated at fair value through profit or loss	6,054	-	-	-	-	6,054
Financial liabilities measured at amortised cost	2,907,118	40,831	23,738	4,701	5,985	2,982,373
• deposits from banks and central banks	1,667	-	-	-	-	1,667
• deposits from non-bank customers	2,601,734	40,256	21,421	4,608	5,960	2,673,979
• loans from banks and central banks	208,004	-	2,299	-	-	210,303
• loans from non-bank customers	70,004	-	-	-	-	70,004
• debt securities	-	-	-	-	-	-
• other financial liabilities	25,709	575	18	93	25	26,420
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,879	-	-	-	-	1,879
Other liabilities and equity	365,002	714	1	-	45	365,762
Total financial liabilities	3,289,160	41,545	23,739	4,701	6,030	3,365,175
Net balance sheet position	35,590	(36,067)	138	2	337	

Bank - As of 31 December 2018

	EUR 000	EUR	USD	CHF	GBP	Other	Total
ASSETS							
Cash, cash balances at central banks and other demand deposits at banks	176,138	919	6,117	765	6,256	190,195	
Financial assets held for trading	7,054	-	-	-	-	7,054	
Non-trading financial assets mandatorily at fair value through profit or loss	35,170	-	-	-	-	35,170	
Financial assets designated at fair value through profit or loss	5,947	-	-	-	-	5,947	
Financial assets at fair value through other comprehensive income	258,682	-	-	-	-	258,682	
Financial assets at amortised cost	2,452,133	38,933	18,429	5,096	1,813	2,516,404	
• debt securities	253,797	-	-	-	-	253,797	
• loans to banks	3	38,404	-	5,096	1,813	45,316	
• loans to non-bank customers	2,194,548	522	18,429	-	-	2,213,499	
• other financial assets	3,785	7	-	-	-	3,792	
Derivatives - hedge accounting	607	-	-	-	-	607	
Other assets	75,034	-	-	-	-	75,034	
Total financial assets	3,010,765	39,852	24,546	5,861	8,069	3,089,093	
LIABILITIES							
Financial liabilities held for trading	7,719	-	-	-	-	7,719	
Financial liabilities designated at fair value through profit or loss	5,947	-	-	-	-	5,947	
Financial liabilities measured at amortised cost	2,636,878	39,642	24,550	5,844	6,250	2,713,164	
• deposits from banks and central banks	1,678	-	-	-	-	1,678	
• deposits from non-bank customers	2,437,974	39,165	19,156	5,812	6,096	2,508,203	
• loans from banks and central banks	173,167	-	5,335	-	-	178,502	
• loans from non-bank customers	-	-	-	-	-	-	
• debt securities	-	-	-	-	-	-	
• other financial liabilities	24,059	477	59	32	154	24,781	
Fair value changes of the hedged items in portfolio hedge of interest rate risk	602	-	-	-	-	602	
Other liabilities and equity	361,431	165	-	15	50	361,661	
Total financial liabilities	3,012,577	39,807	24,550	5,859	6,300	3,089,093	
Net balance sheet position	(1,812)	45	(4)	2	1,769	0	

12. Operational risk

Operational risk exists in bank's day to day operations. It is inherent to all bank's products, activities, procedures and systems and is normally accepted as a necessary consequence of doing business. It is influenced by both internal and external variables, such as advanced internal processes, complex products, rising regulatory requirements and severe economic circumstances.

Operational risk management can have a major influence on bank's costs, its competitiveness, compliance and image. SKB Group therefore act preventively and identify and manage the risk before operational events occur, increasing the chances for our success and diminishing possible mistakes and losses. Great emphasis is also devoted to the collection and monitoring of operational losses linked to credit risk, monitoring action plans defined to mitigate the operational risk, and the identification and prevention of fraud.

SKB Group is very well aware of the importance of good operational risk management, increased awareness, better comprehension and appropriation of operational risks, and the potential impact of concrete manifestations of these risks. Thus a lot of attention is given to improve and strengthen our internal control system and to operational risk training for SKB Group employees and to preventive measures to mitigate these risks.

Definition

The regulatory definition defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or external events. The official definition includes legal risk but excludes strategic and reputation risks. However, SKB Group also includes reputation risk in its definition.

Under the Basel II rules, an operational loss event is an event that results in loss and is associated with any of the following seven operational loss event categories: internal fraud; external fraud; employment practices and workplace safety; clients, products and business practices, damage to physical assets, business disruption and system failures. Specific examples of loss events include robberies, internal fraud, processing errors and physical losses from natural disasters.

Operational Risk Framework

SKB Group has acknowledged that operational risk is an integral component of prudent business operations and has adopted an operational risk framework to ensure that operational risks are consistently and comprehensively identified, assessed, managed and controlled. Our framework defines the management governance model, monitoring and control system as well as the reporting on information relevant to operational risk.

The primary goal is prevention, early identification, measurement, assessment, monitoring and mitigation of operational risk. To this end, SKB Group performs regular training for all employees. A bank can only manage effectively the things that can be known and measured well.

Operational units

At SKB Group each individual operational unit and management level takes responsibility for its own operational risks and the provision of adequate resources and procedures for the management and mitigation of those risks. Operational risk is thus controlled through a network of controls, procedures, reports and responsibilities.

Independent operational risk management function implemented in the Bank consists of:

- **The Operational Risk and Compliance Committee** is responsible for overseeing the operational risk framework at the Bank level, for defining the scope of monitoring and control, the analysis of operational risk losses, the following up of corrective measures and all actions related to operational risk – resulting in early warnings of identified weaknesses, and a quick and timely approach to mitigating the risk. It is composed of both executive directors of the Bank and all directors of divisions as well as representatives from all relevant functions. The Security Committee, Permanent Supervision, Compliance and Anti-Money-Laundering officers report regularly to the Operational Risk and Compliance Committee. The Operational Risk and Compliance Committee meets quarterly and reports to the General Management of the Bank and to the Audit Committee of the Board of Directors.
- **Operational Risk Manager** is responsible for implementation and consistent application of operational risk policies, processes, procedures and controls, proper identification, measurement and management of operational risk throughout the entire Bank, and reports to General Management of the bank, Board of Directors, Operational Risk and Compliance Committee and parent bank. The Operational Risk Manager is also responsible for providing adequate support to business units in all operational risk issues. It also coordinates and advises in performing Risk and Control Self-Assessment exercise and scenario analysis.
- **Operational Risk Correspondent** coordinates collection of recorded losses submitted by various departments. Correspondent also coordinates the quarterly performing of Key Risk Indicators and incidents and follows the realization of the defined corrective measures and action plans.
- **Internal Audit** verifies the reliability of risk-profile assessments. This includes the periodic audit of the compliance and relevance of declarations of internal losses and all tools implemented by the Bank for assessing and managing operational risks across the organization.

- **General Management** of SKB Group develops and guides the operational risk framework, strategies, policies, practices and defines major changes in the management of operational risk.
- **External Audit** performs regular reviews of the operational risk management processes. This review includes both the activities of the business units and of the independent operational risk management function.

Advanced Measurement Approach of operational risk

The methodology implemented by the SKB Group for management of operational risk fulfilled all the requirements for the Advanced Measurement Approach (AMA) under the Basel II framework and in 2008 the Bank of Slovenia granted SKB Group approval to use AMA for calculation and allocation of operational risk capital requirements.

On 13 December, 2019, the OTP Group successfully completed the acquisition process for SKB Group. After the transfer of ownership, SKB Group applied to the ECB for permission to change the approach for calculating the capital requirement from Advanced to Standardized approach.

In compliance with ECB approval SKB Group calculated its capital requirement as per 31 December 2019 under Standardized approach.

Use of insurance policies and other risk transfer techniques for reduction of operational risk

SKB Group does not use insurance policies or other risk transfer techniques for reduction of operational risk. Capital requirement for operational risk under AMA approach is calculated based on internal model by the parent bank and allocated to its entities. In accordance with regulations, Société Générale Group incorporates risk cover provided by insurance policies when calculating regulatory capital requirements for operational risks also for its entities. These insurance policies cover part of the SG Group's major risks, i.e. civil liability, fraud, fire and theft, as well as systems interruptions and operating losses due to a loss of operating environment.

The set of tools and measurement techniques that SKB Group has implemented within the AMA approach and shall use further also within Standardized approach consist of:

- **An operational loss database**

Operational loss is the financial impact associated with an operational event that is recorded in the institution's financial statements in line with International Financial Reporting Standards (IFRS).

SKB Group implemented the collection of operational losses in 2003. The implemented procedure requests a rigorous collection of loss data in order to take corrective actions to minimize the possibility of recurrence. In 2010, SKB Group extended the collection of data on operational risk events also to include near misses and gains.

Business line managers are responsible for the declaration of losses to the Operational Risk department if they exceed the defined threshold.

The bank also established reporting and analysis of operational risk events with no financial impact or with impact below the threshold defined for reporting of operational losses.

All losses are regularly presented to General Management of the bank, Board of Directors, Operational Risk and Compliance Committee and reported to parent bank.

- **Key Risk Indicators**

A Key Risk Indicator (KRI) is an objective and measurable piece of information that prompts the Bank to assess one or more key risks and to manage such risks more effectively.

Monitoring of indicators, such as employee turnover, training rates, transaction breaks, cash errors and system failures provide early warnings of increased risk of future losses. Monitoring of these indicators is regularly presented to General Management of the bank, Board of Directors, Operational Risk and Compliance Committee and parent bank. Operational Risk and Compliance Committee analyses the received information and defines adequate measures to be taken.

- **Scenario analysis and stress tests**

An operational risk stress test is the evaluation of the maximum financial impact a bank could face. To evaluate this kind of stress test, scenario analysis is mandatory to determine all factors which could lead to such a loss.

Scenario analysis is a strategy that involves the assessment of various potential future events and the development of scenarios regarding the probability of occurrence if various combinations of those events did take place.

SKB Group uses scenario analysis and stress tests to challenge the operational efficiency, cover estimated high risk areas, identify main action plans to avoid similar losses, and calculate regulatory capital.

The results of a performed scenario analysis are reviewed and discussed by the General Management of SKB Group and the Operational Risk and Compliance Committee and are presented to parent bank.

- **Risk and control self-assessment (RCSA)**

The aim of RCSA is to identify the intrinsic risk to which SKB Group is exposed by the nature of the activity, to evaluate the quality of the prevention and control system and to mitigate the residual risk to which the Bank is exposed.

The assessment is done on a bi-annual basis with full determination of weak zones within processes and controls. The completed exercise is followed by an action plan of corrective measures. The monitoring of the realization is under the full responsibility of the Operational Risk and Compliance Committee.

- **Monitoring of corrective measures**

Corrective measures are taken to minimize the possibility of an operational event recurrence. The realization of defined measures is strictly followed by the Operational Risk Manager and the Operational Risk Correspondent and is reported regularly to the Operational Risk and Compliance Committee.

- **Exhaustive reporting**

In the year 2007, SKB Group also implemented an exhaustive report on declared operational losses, in which the senior management certified the declaration of all known losses in their area of operations.

Permanent supervision

SKB Group started with the implementation of permanent supervision in the period from 2003 to 2005. It is defined as a set of controls and measures on the first level applied on a daily basis to guarantee the regularity, security, and validity of operations performed and processed at an operational level, Permanent supervision on the first level consists of the following:

- Day-to-day security of daily tasks and activities performed by all employees by correct and consistent application of the rules and internal operational procedures and processes, including the simultaneous elimination of irregularities,
- Formalised supervision by heads of the organisational units of the Bank in the form of periodic verifications of the correct application of working procedures and accounts considered as sensitive, and in accordance with control guidelines, in formalised registers and with hierarchical reports.

Permanent supervision in the SKB Group includes all divisions and departments.

At the end of the year, SKB Group introduced a second level of control for compliance, finance and risk areas. The goal is to ensure on a regular basis that controls of first level exist, to be effective and properly implemented. Second level controls have two components:

- Quantitative and qualitative overview of the results of the first level of controls (if they have led to the identification of anomalies or not), both in terms of the performance and frequency of anomalies, as well as the analysis of larger anomalies;
- Review of the quality of the implementation of controls and monitoring of anomalies with the aim of checking the design of controls, the quality of their implementation and monitoring activities related to detected anomalies.

Business continuity and crisis management

The main purpose of Business Continuity Management (BCM) and Crisis Management (CM) activities is to ensure the presence of written procedures and adequately trained employees, as well as to have resources ready and properly tested, to be ready for immediate activation in case of a crisis.

The complete BCM operational team has been trained, as well as the BCM IT team and new members of the Crisis Management team.

BCP, IT and CM tests, prepared in advance, have been tested on-site – such as:

- branch network closure, a Head Office closure with users directed to a recovery site, IT support from a back-up site, and a Head Office disaster recovery plan test,
- BCM IT test has been performed as a technical test of application restoration on the back-up servers,
- CM routines were executed in four different types of tests, namely as a Notification test, Notification and Meeting test, Crisis Room test and Evacuation of the Head Office test.

13. Liquidity risk

Liquidity risk represents the risk that the Group will not be able to meet its payment obligations associated with its financial liabilities at maturity, replace the financial sources in case of sudden outflows and meet its contractual obligations. Funding risk is defined as risk that SKB Group will not be able to finance its business model on level, which is aligned with commercial plans, also taking into account cost effectiveness in comparison to competitors.

Liquidity management procedures, responsibilities and reporting are defined in the Memorandum on liquidity management, containing also the general principles on liquidity management in the Group, liquidity risk limit system, primary and secondary liquidity sources, stress tests scenarios and contingency funding plan.

SKB Group respects the following principles of liquidity management:

- establishing the strategy and policies related to the management of liquidity,
- establishing an adequate information system to effectively execute the liquidity strategy and internal control system,
- establishing agreed day-to-day management of liquidity,
- establishing a process for the ongoing measurement and monitoring of funding requirements,
- ensuring sufficient diversification of funding sources,
- monitoring and management of liquidity in foreign currencies.

SKB bank monitors and manages liquidity risk on the Group level, consisting of SKB bank, SKB Leasing and SKB Leasing Select.

The Corporate Banking and Financial markets Division with its Financial market and liquidity department (FML) is responsible for management of the Group's daily and intra-day liquidity. Finance Division with its Assets and liabilities management department (ALM) is responsible for management of the Group's global, structural and regulatory liquidity.

Liquidity management

For the purpose of liquidity risk management, SKB Group continuously monitors future cash flows as well as calculates and analyses short, medium and long term liquidity gaps arising from balance and off balance sheet items. SKB Group optimizes liquidity flows and respects regulatory requirements (liquidity ratios, obligatory reserves), which are reported to the Asset and Liability Committee (ALCO) on a monthly basis. In addition to regulatory liquidity ratios, SKB Group monitors and regularly discusses a number of internal liquidity indicators on ALCO committees. Eventual deterioration of liquidity indicators are also used as early warning signals indicating potential liquidity crisis.

Group - liquidity indicators	At 31 December 2019	At 31 December 2018
Customer loans / Customer deposits	94 %	98 %
Liquid assets / Total assets	22 %	22 %
Sight deposits / Total deposits	57 %	57 %
Short term deposits / Total deposits	40 %	37 %
Long term deposits / Total deposits	3 %	6 %

SKB maintains daily Class I and Class II liquidity ratio above the recommended level. Class I liquidity ratio is calculated as assets maturing within 30 days compared to liabilities maturing within 30 days, while Class II liquidity ratio takes into account assets and liabilities maturing within 180 days. Class I liquidity ratio stood at 1.0 as at 31 December 2019.

SKB bank fully implemented Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) reporting and analysis in line with the Capital Requirements Regulation (CRR) and the new Delegated Act No. 2015/61.

SKB bank regularly reports and monitors LCR which requires that the bank maintains an adequate level of unencumbered, high-quality liquid assets to survive a significant stress scenario lasting 30 calendar days. LCR is calculated daily and monthly as high-quality liquid assets compared to total net cash outflows within the next 30 days under a financial stress scenario. From 1st of January 2019 LCR ratio must be above 100 %, while the internal threshold for LCR ratio is set above 120 %.

As at 31.12.2019 SKB bank's liquidity buffer amounted to EUR 701 million, while the net cash outflows amounted to EUR 296 million resulting in LCR of 237 %.

SKB bank solo	Total unweighted value (average)				Total weighted value (average)			
EUR million								
Quarter ending on	31.3.19	30.6.19	30.9.19	31.12.19	31.3.19	30.6.19	30.9.19	31.12.19
Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS								
Total high-quality liquid assets (HQLA)					609	628	668	695
CASH-OUTFLOWS								
Retail deposits and deposits from small business customers, of which:	1,898	1,966	2,028	2,076	131	136	140	144
• Stable deposits	1,438	1,480	1,519	1,554	72	74	76	78
• Less stable deposits	460	486	509	522	59	62	64	66
Unsecured wholesale funding	341	346	360	365	148	152	157	158
• Operational deposits (all counterparties) and deposits in networks of cooperative banks	0	0	0	0	1	0	0	1
• Non-operational deposits (all counterparties)	341	346	360	365	148	152	157	158
• Unsecured debt	0	0	0	0	0	0	0	1
Secured wholesale funding					1	0	0	1
Additional requirements	436	439	436	435	35	34	34	34
• Outflows related to derivative exposures and other collateral requirements	0	0	0	0	1	0	0	1
• Outflows related to loss of funding on debt products	0	0	0	0	1	0	0	1
• Credit and liquidity facilities	436	439	436	435	35	34	34	34
Other contractual funding obligations	0	0	0	0	1	0	0	1
Other contingent funding obligations	202	201	207	209	14	14	14	14
TOTAL CASH OUTFLOWS					328	336	345	350
CASH-INFLOWS								
Secured lending (eg reverse repos)	0	0	0	0	1	0	0	1
Inflows from fully performing exposures	114	117	121	121	90	92	95	96
Other cash inflows	276	282	284	285	0	0	0	0
TOTAL CASH INFLOWS	390	399	405	406	90	92	95	96
• Fully exempt inflows	0	0	0	0	1	0	0	0
• Inflows Subject to 90 % Cap	0	0	0	0	1	0	0	1
• Inflows Subject to 75 % Cap	390	399	405	406	90	92	95	96
LIQUIDITY BUFFER					609	628	668	695
TOTAL NET CASH OUTFLOWS					238	244	250	254
LIQUIDITY COVERAGE RATIO (%)					256 %	257 %	267 %	274 %

NSFR requires that the bank maintains a minimum amount of stable funding in relation to the amount of required stable funding to at least 100 % over one year horizon. NSFR internal threshold for SKB bank is set above 110 %. SKB reports and analyses NSFR on a quarterly basis.

SKB bank solo	31.3.19	30.6.19	30.9.19	31.12.19
NSFR ratio (%)	143 %	142 %	147 %	139 %
Available amount of stable funding (in million EUR)	2,647	2,706	2,766	2,830
Required amount of stable funding (in million EUR)	1,850	1,904	1,887	2,034

Within regular reports to the Bank of Slovenia SKB Group calculates additional monitoring metrics (AMM) for liquidity reporting which includes different reports: concentration of funding by counterparty, concentration of funding by product type, prices for various lengths of funding, roll-over of funding, concentration of secondary liquidity on issuer/counterparty and maturity ladder.

SKB Group continuously monitors future cash flows as well as calculates and analyses short term, medium term and long term liquidity gaps arising from balance and off balance sheet items Assets and liabilities maturity mismatch is measured monthly, based on maturity gaps per liquidity time buckets. In 2019 SKB Group used liquidity profiles for non-maturing items and models for early repayment of loans which are defined by Société Générale Group. In future SKB group will use profiles and modes in line with OTP group norms, taking in consideration regulatory guidelines.

Management of liquidity risk is also integrated in Internal Liquidity Adequacy Assessment Process (ILAAP), Internal Capital Adequacy Assessment Process (ICAAP), Risk Appetite Statement (RAS) and Recovery and Resolution plan.

Funding sources

The global liquidity position of the Group is monitored and managed through annual business plans which include the level of refinancing with the parent bank and all other funding sources. Short term and long term funding limits are in line with its liquidity risk management policy set by (OTP group) and SKB Group within the annual budget process.

SKB Group's liquidity position was highly sufficient in the year 2019, consisting mainly of customer deposits in the amount of EUR 2,944 million as at 31 December 2019, which represents 87 % of the Group's total liabilities.

The Group maintained a sound liquidity position through diversification of funding sources. The Group has EUR 122 million funding taken from OTP group, EUR 125 million funding taken from The European Investment Bank (EIB) and additional EUR 33 million of funding from The Council of Europe Development Bank (CEB) as at 31 December 2019.

SKB bank maintained a sufficient and diversified pool of ECB unencumbered liquid assets in amount of EUR 556 million as at 31 December 2019. The collateral for central bank funding mainly consist of marketable assets (government bonds) and non-marketable assets (loans to the state, state owned entities, state guaranteed loans and Bank of Slovenia ICAS¹² eligible loans). At the end of December 2019 SKB Group took no funding from ECB.

Liquidity stress testing and contingency liquidity risk management

The Group ensures sufficient liquidity in case of extraordinary liquidity circumstances based on measured effects of liquidity risk, which are based on assumptions of different stress scenarios: idiosyncratic stress scenario, market based scenario and combined scenario. The scenarios are analysed on a quarterly basis through different time periods (survival periods for which the size of the liquidity buffer should be sufficient to withstand the volume of the Group's liquidity needs under scenario assumptions): a short acute phase of stress (up to one week) followed by a longer period of less acute, but more persistent stress (up to one month, up to three months and up to twelve months).

The liquidity stress tests are interconnected with a contingency funding plan evaluating liquidity sources which can be obtained under stress scenarios. Bank regularly monitors assumptions of stress scenarios, which are based on different liquidity indicators, which indicated various types of crisis scenarios. Contingency funding plan provides a detailed overview of the funding sources availability, its impact on the Group's profitability, depending on the severity of an eventual liquidity crisis. It serves as an estimation of readily available liquidity transactions and defines the amount of additional funding sources that can be collected in times of crisis. Liquidity transactions summarize potential interbank, money market and commercial funding sources which can be used in a liquidity contingency scenario.

¹² In-house Credit Assessment System

Internal Liquidity Adequacy Assessment Process (ILAAP)

Internal liquidity adequacy review for the year 2019 was performed simultaneously with the ICAAP process (Internal Capital Adequacy Assessment Process) on the Group level and verified by ALCO Committee, the General Management and Board of Directors.

The review was performed from a qualitative and quantitative perspective, taking into account the overall liquidity risk management and measurement in SKB Group, including description of systems, processes and methodologies for measuring liquidity and funding risk.

ILAAP outcomes were presented within the Self-assessment documentation and evaluated in line with the bank's overall liquidity risk management framework considering liquidity risk tolerance limits in accordance to the Risk Appetite Framework and Risk Appetite Statement.

Risk adjusted pricing model and internal profitability

When granting new loans, deposits or leasing deals SKB Group uses pricing tool that compares incomes from customer to the main costs of particular deal. This process allows SKB Group, before the contract is signed, to determine the margins taking into account the cost of funding, capital cost, customer credit risk and direct overhead expenses.

Pricing tool is a part of the daily decision making process and is therefore being frequently updated to reflect current liquidity situation on the market (market short-term and long-term interest rates and liquidity cost). It takes into account normative capital requirements and return on equity and applicable credit risk associated with the client and the facility. The model is also being used in the process of setting the Group's overall pricing policy for loans, leasing deals and deposits.

Besides a forward looking model SKB bank has also established an internal profitability analysis, which measures a profitability of the stock of the portfolios per client(s), organisational units(s), segment(s), product(s) taking into account maturity matched transfer pricing and allocation of fees, overhead expenses and cost of risk. This enables the bank to better monitor implementation of strategic guidelines and execution of policies of the bank, consequently enabling more efficient management of liquidity risk, allocation of costs and benefits and monthly monitoring of the bank's operations' profitability.

The tables below summarize the maturity profile of the Group's financial liabilities contractual undiscounted repayment obligations, including future interest payments, based on balance sheet structure as of the end of the year.

Group						
EUR 000	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
As of 31 December 2019						
Financial liabilities held for trading	9,107	-	-	-	-	9,107
Financial liabilities designated at fair value through profit or loss	(85)	-	-	6,139	-	6,054
Financial liabilities measured at amortised cost	2,467,676	73,913	157,459	216,447	52,593	2,968,088
Derivatives - hedge accounting	-	-	-	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,879	-	-	-	-	1,879
Other liabilities	11,445	-	-	-	-	11,445
Total undiscounted financial liabilities	2,490,022	73,913	157,459	222,586	52,593	2,996,573
As of 31 December 2018						
Financial liabilities held for trading	7,719	-	-	-	-	7,719
Financial liabilities designated at fair value through profit or loss	(207)	-	-	6,154	-	5,947
Financial liabilities measured at amortised cost	2,274,933	162,858	119,338	339,178	26,088	2,922,395
Derivatives - hedge accounting	-	-	-	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	602	-	-	-	-	602
Other liabilities	9,726	-	-	-	-	9,726
Total undiscounted financial liabilities	2,292,773	162,858	119,338	345,332	26,088	2,946,389

Bank						
EUR 000	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
As of 31 December 2019						
Financial liabilities held for trading	9,107	-	-	-	-	9,107
Financial liabilities designated at fair value through profit or loss	(85)	-	-	6,139	-	6,054
Financial liabilities measured at amortised cost	2,474,718	73,913	157,457	216,432	52,579	2,975,099
Derivatives - hedge accounting	-	-	-	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,879	-	-	-	-	1,879
Other liabilities	1,571	-	-	-	-	1,571
Total undiscounted financial liabilities	2,487,190	73,913	157,457	222,571	52,579	2,993,710
As of 31 December 2018						
Financial liabilities held for trading	7,719	-	-	-	-	7,719
Financial liabilities designated at fair value through profit or loss	(207)	-	-	6,154	-	5,947
Financial liabilities measured at amortised cost	2,268,300	149,741	99,170	176,407	26,088	2,719,706
Derivatives - hedge accounting	-	-	-	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	602	-	-	-	-	602
Other liabilities	1,613	-	-	-	-	1,613
Total undiscounted financial liabilities	2,278,027	149,741	99,170	182,561	26,088	2,735,587

Contractual expiry by maturity of the Group's contingent financial liabilities and commitments:

2019						
EUR 000	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Contingent financial liabilities and commitments	453,482	23,875	52,436	102,553	38,866	671,212

2018						
EUR 000	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Contingent financial liabilities and commitments	421,379	17,675	90,611	103,298	32,931	665,894

Contractual expiry by maturity of the Bank's contingent financial liabilities and commitments:

2019						
EUR 000	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Contingent financial liabilities and commitments	453,505	23,875	52,436	102,553	38,866	671,235

2018						
EUR 000	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Contingent financial liabilities and commitments	421,403	17,675	90,611	103,298	32,931	665,918

All loan commitments are presented as commitments "On demand" while all other commitments are based on contractual maturity. SKB expects that majority of the contingent financial liabilities or commitments (especially related to guarantees) will be drawn at maturity.

Maturity analysis of contractual cash flows of assets and liabilities

Group - As of 31 December 2019							
EUR 000	Demand	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
ASSETS							
Cash, cash balances at central banks and other demand deposits at banks	53,203	197,043	-	-	-	-	250,246
Financial assets held for trading	-	8,649	-	-	-	-	8,649
Non-trading financial assets mandatorily at fair value through profit or loss	-	128	289	1,618	20,335	2,212	24,582
Financial assets designated at fair value through profit or loss	-	(86)	-	-	6,139	-	6,053
Financial assets at fair value through other comprehensive income	-	49,644	-	-	89,247	128,314	267,205
Financial assets at amortised cost	49,840	91,814	96,607	409,756	1,196,657	906,547	2,751,221
Derivatives - hedge accounting	-	843	-	-	-	-	843
Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	-	-
Other assets	-	23,267	-	-	-	-	23,267
Total financial assets	103,043	371,302	96,896	411,374	1,312,378	1,037,073	3,332,066
LIABILITIES							
Financial liabilities held for trading	-	9,107	-	-	-	-	9,107
Financial liabilities designated at fair value through profit or loss	-	(86)	-	-	6,140	-	6,054
Financial liabilities measured at amortised cost	1,515,592	358,648	119,723	292,340	516,402	172,653	2,975,358
Derivatives - hedge accounting	-	-	-	-	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	1,879	-	-	-	-	1,879
Other liabilities	-	11,445	-	-	-	-	11,445
Total financial liabilities	1,515,592	380,993	119,723	292,340	522,542	172,653	3,003,843
Net balance sheet position	(1,412,549)	(9,691)	(22,827)	119,034	789,836	864,420	328,223

Group - As of 31 December 2018

EUR 000	Demand	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
ASSETS							
Cash, cash balances at central banks and other demand deposits at banks	56,664	133,531	-	-	-	-	190,195
Financial assets held for trading	-	7,054	-	-	-	-	7,054
Non-trading financial assets mandatorily at fair value through profit or loss	-	192	455	2,544	10,879	21,100	35,170
Financial assets designated at fair value through profit or loss	-	(207)	-	-	6,154	-	5,947
Financial assets at fair value through other comprehensive income	-	27,661	19,995	-	61,334	149,692	258,682
Financial assets at amortised cost	76,261	68,624	101,141	410,598	1,172,101	897,713	2,726,438
Derivatives - hedge accounting	-	607	-	-	-	-	607
Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	-	-
Other assets	-	34,770	-	-	-	-	34,770
Total financial assets	132,925	272,232	121,591	413,142	1,250,468	1,068,505	3,258,863
LIABILITIES							
Financial liabilities to central banks	-	7,719	-	-	-	-	7,719
Financial liabilities held for trading	-	(207)	-	-	6,154	-	5,947
Financial liabilities designated at fair value through profit or loss	1,413,916	308,687	124,165	317,132	606,821	144,053	2,914,774
Derivatives - hedge accounting	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	-	602	-	-	-	-	602
Other liabilities	-	9,726	-	-	-	-	9,726
Total financial liabilities	1,413,916	326,527	124,165	317,132	612,975	144,053	2,938,768
Net balance sheet position	(1,280,991)	(54,295)	(2,574)	96,010	637,493	924,452	320,095

Bank - As of 31 December 2019

EUR 000	Demand	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
ASSETS							
Cash, cash balances at central banks and other demand deposits at banks	53,203	197,043	-	-	-	-	250,246
Financial assets held for trading	-	8,649	-	-	-	-	8,649
Non-trading financial assets mandatorily at fair value through profit or loss	-	128	289	1,618	20,335	2,212	24,582
Financial assets designated at fair value through profit or loss	-	(86)	-	-	6,139	-	6,053
Financial assets at fair value through other comprehensive income	-	49,644	-	-	89,247	128,314	267,205
Financial assets at amortised cost	49,840	73,001	65,836	337,395	1,223,313	986,782	2,736,167
Derivatives - hedge accounting	-	843	-	-	-	-	843
Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	20,454	20,454
Other assets	-	7,820	-	-	-	-	7,820
Total financial assets	103,043	337,042	66,125	339,013	1,339,034	1,137,762	3,322,019
LIABILITIES							
Financial liabilities to central banks	-	9,107	-	-	-	-	9,107
Financial liabilities held for trading	-	(86)	-	-	6,140	-	6,054
Financial liabilities designated at fair value through profit or loss	1,527,034	354,252	119,723	292,337	516,388	172,639	2,982,373
Derivatives - hedge accounting	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	-	1,879	-	-	-	-	1,879
Other liabilities	-	1,571	-	-	-	-	1,571
Total financial liabilities	1,527,034	366,723	119,723	292,337	522,528	172,639	3,000,984
Net balance sheet position	(1,423,991)	(29,681)	(53,598)	46,676	816,506	965,123	321,035

Bank - As of 31 December 2018

EUR 000	Demand	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
ASSETS							
Cash, cash balances at central banks and other demand deposits at banks	56,664	133,531	-	-	-	-	190,195
Financial assets held for trading	-	7,054	-	-	-	-	7,054
Non-trading financial assets mandatorily at fair value through profit or loss	-	192	455	2,544	10,879	21,100	35,170
Financial assets designated at fair value through profit or loss	-	(207)	-	-	6,154	-	5,947
Financial assets at fair value through other comprehensive income	-	27,661	19,995	-	61,334	149,692	258,682
Financial assets at amortised cost	76,261	49,547	68,676	311,294	1,085,117	925,509	2,516,404
Derivatives - hedge accounting	-	607	-	-	-	-	607
Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	20,454	20,454
Other assets	-	11,085	-	-	-	-	11,085
Total financial assets	132,925	229,470	89,126	313,838	1,163,484	1,116,755	3,045,598
LIABILITIES							
Financial liabilities to central banks	-	7,719	-	-	-	-	7,719
Financial liabilities held for trading	-	(207)	-	-	6,154	-	5,947
Financial liabilities designated at fair value through profit or loss	1,423,116	292,877	117,165	291,132	444,821	144,053	2,713,164
Derivatives - hedge accounting	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	-	602	-	-	-	-	602
Other liabilities	-	1,613	-	-	-	-	1,613
Total financial liabilities	1,423,116	302,604	117,165	291,132	450,975	144,053	2,729,045
Net balance sheet position	(1,290,191)	(73,134)	(28,039)	22,706	712,509	972,702	316,553

Maturity analysis of assets and liabilities according to expected cash flows

The tables below show an analysis of the Group's assets' and liabilities' expected cash flows as of the end of the year.

Group - As of 31 December 2019			
EUR 000	Within 12 months	After 12 months	Total
ASSETS			
Cash, cash balances at central banks and other demand deposits at banks	250,246	-	250,246
Financial assets held for trading	8,649	-	8,649
Non-trading financial assets mandatorily at fair value through profit or loss	2,035	22,547	24,582
Financial assets designated at fair value through profit or loss	(86)	6,139	6,053
Financial assets at fair value through other comprehensive income	49,644	217,561	267,205
Financial assets at amortised cost	684,048	2,067,173	2,751,221
Derivatives - hedge accounting	843	-	843
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-
Investments in subsidiaries, associates and joint ventures	-	-	-
Property, plant and equipment	1,941	35,117	37,058
Investment property	-	1,819	1,819
Intangible assets	129	10,165	10,294
Tax assets	2,406	1,604	4,010
Other assets	23,267	-	23,267
Non-current assets and disposal groups classified as held for sale	304	-	304
Total financial assets	1,023,426	2,362,125	3,385,551
LIABILITIES			
Financial liabilities held for trading	9,107	-	9,107
Financial liabilities designated at fair value through profit or loss	(86)	6,140	6,054
Financial liabilities measured at amortised cost	323,582	2,651,776	2,975,358
Derivatives - hedge accounting	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,879	-	1,879
Provisions	3,773	7,376	11,149
Tax liabilities	5,105	-	5,105
Other liabilities	11,445	-	11,445
Total financial liabilities	354,805	2,665,292	3,020,097
Net balance sheet position	668,621	(303,167)	365,454

Group - As of 31 December 2018

EUR 000	Within 12 months	After 12 months	Total
ASSETS			
Cash, cash balances at central banks and other demand deposits at banks	190,227	(32)	190,195
Financial assets held for trading	7,054	-	7,054
Non-trading financial assets mandatorily at fair value through profit or loss	3,191	31,979	35,170
Financial assets designated at fair value through profit or loss	(207)	6,154	5,947
Financial assets at fair value through other comprehensive income	47,656	211,026	258,682
Financial assets at amortised cost	690,431	2,036,007	2,726,438
Derivatives - hedge accounting	607	-	607
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-
Investments in subsidiaries, associates and joint ventures	-	-	-
Property, plant and equipment	674	37,144	37,818
Investment property	-	2,165	2,165
Intangible assets	424	11,110	11,534
Tax assets	1,554	1,554	3,108
Other assets	34,770	-	34,770
Non-current assets and disposal groups classified as held for sale	461	-	461
Total financial assets	976,842	2,337,107	3,313,949
LIABILITIES			
Financial liabilities held for trading	7,719	-	7,719
Financial liabilities designated at fair value through profit or loss	(207)	6,154	5,947
Financial liabilities measured at amortised cost	362,606	2,552,168	2,914,774
Derivatives - hedge accounting	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	602	-	602
Provisions	4,289	7,584	11,873
Tax liabilities	6,813	-	6,813
Other liabilities	9,726	-	9,726
Total financial liabilities	391,548	2,565,906	2,957,454
Net balance sheet position	585,294	(228,799)	356,495

Bank - As of 31 December 2019

EUR 000	Within 12 months	After 12 months	Total
ASSETS			
Cash, cash balances at central banks and other demand deposits at banks	250,246	-	250,246
Financial assets held for trading	8,649	-	8,649
Non-trading financial assets mandatorily at fair value through profit or loss	2,035	22,547	24,582
Financial assets designated at fair value through profit or loss	(86)	6,139	6,053
Financial assets at fair value through other comprehensive income	49,644	217,561	267,205
Financial assets at amortised cost	567,133	2,169,034	2,736,167
Derivatives - hedge accounting	843	-	843
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-
Investments in subsidiaries, associates and joint ventures	2,045	18,409	20,454
Property, plant and equipment	1,383	28,078	29,461
Investment property	-	2,732	2,732
Intangible assets	-	8,629	8,629
Tax assets	1,416	614	2,030
Other assets	7,820	-	7,820
Non-current assets and disposal groups classified as held for sale	304	-	304
Total financial assets	891,432	2,473,743	3,365,175
LIABILITIES			
Financial liabilities held for trading	9,107	-	9,107
Financial liabilities designated at fair value through profit or loss	(86)	6,140	6,054
Financial liabilities measured at amortised cost	319,184	2,663,189	2,982,373
Derivatives - hedge accounting	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,879	-	1,879
Provisions	3,745	7,129	10,874
Tax liabilities	4,703	-	4,703
Other liabilities	1,571	-	1,571
Total financial liabilities	340,103	2,676,458	3,016,561
Net balance sheet position	551,329	(202,715)	348,614

Bank - As of 31 December 2018

EUR 000	Within 12 months	After 12 months	Total
ASSETS			
Cash, cash balances at central banks and other demand deposits at banks	190,227	(32)	190,195
Financial assets held for trading	7,054	-	7,054
Non-trading financial assets mandatorily at fair value through profit or loss	3,191	31,979	35,170
Financial assets designated at fair value through profit or loss	(207)	6,154	5,947
Financial assets at fair value through other comprehensive income	47,656	211,026	258,682
Financial assets at amortised cost	542,641	1,973,763	2,516,404
Derivatives - hedge accounting	607	-	607
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-
Investments in subsidiaries, associates and joint ventures	2,045	18,409	20,454
Property, plant and equipment	-	29,479	29,479
Investment property	-	2,924	2,924
Intangible assets	295	9,506	9,801
Tax assets	415	415	830
Other assets	11,085	-	11,085
Non-current assets and disposal groups classified as held for sale	461	-	461
Total financial assets	805,470	2,283,623	3,089,093
LIABILITIES			
Financial liabilities held for trading	7,719	-	7,719
Financial liabilities designated at fair value through profit or loss	(207)	6,154	5,947
Financial liabilities measured at amortised cost	346,796	2,366,368	2,713,164
Derivatives - hedge accounting	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	602	-	602
Provisions	4,258	7,370	11,628
Tax liabilities	6,730	-	6,730
Other liabilities	1,613	-	1,613
Total financial liabilities	367,511	2,379,892	2,747,403
Net balance sheet position	437,959	(96,269)	341,690

14. Equity instruments not included in the trading book (CRR, article 447)

In accordance with the bank's business model all equity investments not included in the trading book are classified as »financial assets mandatorily measured at fair value through profit or loss«. Gains and losses arising from equity investments are disclosed in the income statement under the item "net gains / losses from financial assets mandatorily measured at fair value through profit or loss not held for trading".

Based on the purpose of acquisition equity instruments are divided into:

- Equity instruments acquired due to regulatory reasons;
- Equity instruments held for strategic reasons; these are long term equity instruments associated with SKB Group's core business objectives;
- Non-strategic equity instruments; temporarily held equity instruments available for sale;
- Equity instruments obtained through debt to equity swap of some non-performing assets. SKB Group holds these financial instruments temporarily with the aim to sell them after considering appropriate offer.

The book value of all equity instruments is equal to their fair value.

Issuer	Fair value in 000 EUR as at 31.12.2019	Fair value in 000 EUR as at 31.12.2018
Equity instruments acquired through debt to equity swap	0	1,914
Intereuropa, d.d.	-	1,914
Peko, d.d.	0	0
Non-strategic equity instruments	0	0
Slovenski raziskovalni inštitut za management	-	0
Ustanova Slovenska znanstvena fundacija	-	0
Strategic equity instruments	3,088	3,083
Bankart, d.o.o.	2,437	2,437
Pokojninska družba A, d.d.	630	630
S.W.I.F.T.	22	17
Equity instruments acquired for regulatory reasons	12,974	12,915
Sklad za reševanje bank	12,974	12,915
Total equity investments	16,062	17,913

The consortium of banks sold its investments in Intereuropa in November 2019. On the day of the sale SKB Bank owned 2,254,980 shares of Intereuropa (8.20 % share).

Investment in Peko (in insolvency proceedings) was acquired through debt to equity swap, its fair value equals to 0 EUR.

In 2019 SKB Bank initiated procedures for withdrawal from membership in Slovenski raziskovalni inštitut za management, as this investment was not in line with the bank's long-term strategy. In December 2019 the bank excluded this investment from its books, the fair value of the investment was 0 EUR.

The equity investment in Ustanova Slovenska znanstvena fundacija, with fair value of 0 EUR, was also excluded from the bank's books in 2019.

In the table below the total realized gains in 2019 from dividends, sale of equity investments and fair value valuation are presented.

1. Dividends received	Realized gains in 000 EUR in 2019	Realized gains in 000 EUR in 2018
Total	257	252
Bankart, d.o.o.	241	235
Pokojninska družba A, d.d.	16	17
2. Sale of equity investments		
Total	3,201	23
Intereuropa, d.d.	3,201	-
IEDC - Poslovna šola Bled, d.o.o.	-	23
TURIZEM BLED, zavod za pospeševanje turizma Bled	-	1
Koperinvest d.o.o.	-	-1
3. Effect from the FV valuation		
Total	-1,850	4,601
Intereuropa, d.d.	-1,914	1,914
S.W.I.F.T.	5	-3
Sklad za reševanje bank	59	-9
Bankart, d.o.o.	-	2,073
Pokojninska družba A, d.d.	-	626

In 2019, SKB Bank recognized revenues from the sale of equity investment in Intereuropa and on the other hand cancelled the fair value of the investment.

15. Structural interest rate risk

The structural interest rate risk arises from mismatches among items of the balance sheet and off balance sheet and volatility of market interest rates, affecting net interest income and the economic value of SKB Group's capital. The main purpose of structural interest rate risk management is to maintain interest rate risk within defined limits and to limit volatility of financial results of SKB Group on the long term.

SKB Group successfully managed interest rate risk in the year 2019 despite the adverse financial market conditions and low interest rates environment. For the purpose of structural interest rate risk management SKB Group followed the procedures and methods for control, measurement, analysis and interest rate risk reporting which are defined in the Memorandum on the interest rate risk management. Management of structural interest rate in banking book is done within Assets and liabilities management within Finance division. Activities of managing interest rate risk are done on monthly basis or quarterly basis on level of SKB Group, which includes SKB bank, SKB leasing and SKB leasing select and are regularly reported on ALCO.

SKB Group has implemented new requirements regarding the interest rate risk in the banking book (IRRBB) published by European Banking Authority and Basel Committee on Banking Supervision. Monitoring of SKB Group IRRBB is broken down into three components:

- Gap risk related to the term structure of the assets and liabilities items of the banking book and arising from the timing of rate changes. The extent of the gap risk depends on whether changes to the term structure occur consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk).
- Basis risk refers to the impact of relative changes in interest rates for financial instruments that have similar tenors but are priced using different interest rate indices. SKB Group is exposed to basis risk which arises when assets are financed by liabilities of different indexes or discrepancies related to different repricing frequencies of the same index. Basis risk is assessed by splitting all the balance and off balance sheet items per currencies and the related interest rate indexes in order to obtain an index gap per repricing time buckets.
- Optionality risk arises from option derivative positions or optional elements embedded in the bank's assets, liabilities and/or off balance sheet items, where the bank or its customer can alter the level and timing of their cash flows.

Assets and liabilities management department monitors interest rate risk sensitivity only on Group level based on regulation. IR sensitivity is monitored based on the following methods:

- SKB Group calculates Economic value of equity sensitivity (EVE) based on new EBA IRRBB methodology. Interest rate sensitivity is calculated based on eight interest rate shock scenarios (sudden parallel shift of +/- 200 basis points; parallel shock up/down; steepener shock (short rates down and long rates up); flattener shock (short rates up and long rates down); short rates shock up/down) for interest bearing balance and off balance sheet items. SKB Group manages EVE interest sensitivity within regulatory limits.

Scenarios	Thresholds / limit	31.12.2019	
		Sensitivity in 000 EUR	% vs capital
Scenarios Parallel -200 bp shift	20 % of total capital*	-7,367	2.5 %
Scenarios Parallel +200 bp shift	20 % of total capital*	1,244	-
Scenarios Parallel Down	15 % of Tier 1 capital*	-6,163	2.0 %
Scenarios Parallel Up	15 % of Tier 1 capital*	811	-
Scenarios Flattener	15 % of Tier 1 capital*	-2,367	0.8 %
Scenarios Steepener	15 % of Tier 1 capital*	1,437	-
Scenarios Short rates Down	15 % of Tier 1 capital*	-912	0.3 %
Scenarios Short rates Up	15 % of Tier 1 capital*	-791	0.3 %

* only for negative amount of sensitivity

- Net interest margin (NIM sensitivity) based on the new EBA IRRBB requirements. NIM calculates the impact of different interest rate shock scenarios to SKB Group net interest margin over a three-year rolling horizon. NIM sensitivity is calculated based on six interest rate shock scenarios prescribed by the EBA (parallel shock up/down; steepener shock (short rates down and long rates up); flattener shock (short rates up and long rates down); short rates shock up/down) and based on five internally defined shock scenarios.

in MEUR		Regulatory defined by EBA					
NIM sensitivity	Central scenario	Parallel_up	Parallel_down	Flattening	Steepening	Short_up	Short_down
NIM in each scenario							
Year 1 (Dec 2019 - Nov 2020)	83.30	102.38	80.22	94.77	81.01	100.29	80.39
Year 2 (Dec 2020 - Nov 2021)	81.93	106.63	78.30	87.87	80.60	95.25	78.73
Year 3 (Dec 2021 - Nov 2022)	82.37	110.17	78.14	83.06	84.06	91.03	78.94
NIM sensitivity*							
Year 1 (Dec 2019 - Nov 2020)	-	19.08	-3.08	11.47	-2.29	16.99	-2.91
Year 2 (Dec 2020 - Nov 2021)	-	24.71	-3.63	5.94	-1.33	13.32	-3.20
Year 3 (Dec 2021 - Nov 2022)	-	27.80	-4.23	0.69	1.69	8.66	-3.43

* difference between NIM in central scenario and stress tests. Scenarios with negative rate shocks resulted in negative NIM results, while positive rate shocks resulted in higher net interests.

- SKB Group calculates Net present value sensitivity (NPV) on changes of interest rates on monthly basis using repricing dates or maturity dates for receivables, liabilities and certain off-balance sheet items (using different interest rate shocks; parallel 10 basis points rise in the yield curve, parallel 10 basis points fall in the yield curve, an immediate non-parallel yield curve shock to the upside corresponding to stressed values defined currency by currency ("NIRUP" scenario) and an immediate non-parallel yield curve shock to the downside corresponding to stressed values defined currency by currency ("NIRDW" scenario)). Interest rate sensitivity using +10 b.p. shock in December 2019 amounted to EUR 0,1 million for EUR currency and EUR 0,004 million for foreign currencies, which is within set limits.
- Interest rate sensitivity using an internal method calculates the effect of interest rate changes (parallel increase of interest rate curves by 100 basis points) on the Group's net interest income for the period of 1 year. Effect calculated per 31.12.2019 was positive in amount of EUR 3,5 million.
- For measuring interest rate risk in the banking book based on normative perspective for ICAAP (Internal Capital Adequacy Assessment Process) the SKB Group calculates Net interest margin (NIM) sensitivity taken into account base budget and adverse scenarios for 3-year period. Net interest margin sensitivity under ICAAP assumptions calculates the impact of -200 basis points parallel shift of interest curve on the Group's net interest margin based on central budget and adverse scenarios.

SKB Group analyses and estimates the interest rate risk profile of non-maturing products on annual basis. Models are defined by the parent bank based on data provided by SKB Group. Interest rate profiles are defined for cash, mandatory reserves, credit cards, overdrafts, deposit agreements, sight deposits, saving accounts, off balance sheet items, early repayment of loans, while for non-performing loans we use internal SKB methodology. Models are back tested on a yearly basis and approved by ALCO.

Asset and Liability Committee (ALCO) approves and regularly discusses all actions needed for managing interest rate risk within set limits. SKB group monitors interest risk exposure with aim to manager interest rate sensitivity within the acceptable levels defined in the SKB Group Risk Appetite Statement, the Risk Appetite Framework and in the Internal Capital Adequacy Assessment Process (ICAAP).

Interest rate policy

The main goal of the interest rate policy in 2019 was to manage the negative interest rate environment while maintaining the competitive position of SKB Group by offering a quality product mix to its clients at acceptable, win-win prices for the clients and the bank.

SKB Group optimizes the interest rate risk exposure, considering the structure of the Group's balance sheet in terms of variable rate and fixed rate products with different maturities. SKB Group uses different hedging strategies for the purpose of interest rate risk management.

Realized interest rates (in %) by currency for SKB bank:

As of 31 December 2019	Domestic currency	Foreign currency
Assets		
Cash and balances with central banks	-0.4 %	0.0 %
Due from banks	-0.4 %	2.0 %
Loans and advances to customers	2.4 %	1.2 %
Debt securities	1.9 %	-
Derivatives - hedge accounting	22.8 %	-
Other assets	-	-
Liabilities		
Due to banks	-0.1 %	0.0 %
Due to customers	-0.1 %	0.6 %
Debt securities in issue	-	-
Other borrowed funds	-	-

As of 31 December 2018	Domestic currency	Foreign currency
Assets		
Cash and balances with central banks	-0.3 %	0.0 %
Due from banks	-0.3 %	1.5 %
Loans and advances to customers	2.3 %	1.6 %
Debt securities	2.2 %	-
Derivatives - hedge accounting	194.9 %	-
Other assets	-	-
Liabilities		
Due to banks	-0.1 %	0.6 %
Due to customers	-0.1 %	0.0 %
Debt securities in issue	-	-
Other borrowed funds	-	-

Interest rate risk

The tables below represent the Group's assets and liabilities at carrying amounts, categorized by the earlier of the contractual repricing or the maturity dates.

Group - As of 31 December 2019								
EUR 000	Demand	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
ASSETS								
Cash, cash balances at central banks and other demand deposits at banks	53,203	197,043	-	-	-	-	-	250,246
Financial assets held for trading	-	8,649	-	-	-	-	-	8,649
Non-trading financial assets mandatorily at fair value through profit or loss	-	128	289	1,618	20,335	2,212	-	24,582
Financial assets designated at fair value through profit or loss	-	-	-	-	6,139	-	(86)	6,053
Financial assets at fair value through other comprehensive income	-	20,004	-	-	89,247	128,314	29,640	267,205
Financial assets at amortised cost	49,840	528,310	754,451	465,092	413,648	534,237	5,643	2,751,221
Derivatives - hedge accounting	-	-	-	-	-	-	843	843
Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	23,267	23,267
Total financial assets	103,043	754,134	754,740	466,710	529,369	664,763	59,307	3,332,066
LIABILITIES								
Financial liabilities held for trading	-	9,107	-	-	-	-	-	9,107
Financial liabilities designated at fair value through profit or loss	-	-	-	-	6,140	-	(86)	6,054
Financial liabilities measured at amortised cost	1,515,592	510,037	592,867	274,270	74,809	7,783	-	2,975,358
Derivatives - hedge accounting	-	-	-	-	-	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-	1,879	1,879
Other liabilities	-	-	-	-	-	-	11,445	11,445
Total financial liabilities	1,515,592	519,144	592,867	274,270	80,949	7,783	13,238	3,003,843
Net balance sheet position	(1,412,549)	234,990	161,873	192,440	448,420	656,980	46,069	328,223

Group - As of 31 December 2018

EUR 000	Demand	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
ASSETS								
Cash and cash balances with central banks	56,664	133,531	-	-	-	-	-	190,195
Financial assets held for trading	-	7,054	-	-	-	-	-	7,054
Financial assets designated at fair value through profit or loss	-	192	455	2,544	10,879	21,100	-	35,170
Available-for-sale financial assets	-	-	-	-	6,154	-	(207)	5,947
Derivatives - hedge accounting	-	-	19,995	-	61,334	149,692	27,661	258,682
Loans and receivables	76,261	513,131	818,356	437,055	392,125	483,905	5,605	2,726,438
Held-to-maturity investments	-	-	-	-	-	-	607	607
Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	34,770	34,770
Total financial assets	132,925	653,908	838,806	439,599	470,492	654,697	68,436	3,258,863
LIABILITIES								
Financial liabilities to central banks	-	7,719	-	-	-	-	-	7,719
Financial liabilities held for trading	-	-	-	-	6,154	-	(207)	5,947
Financial liabilities designated at fair value through profit or loss	1,413,916	495,646	656,751	277,024	66,417	5,020	-	2,914,774
Derivatives - hedge accounting	-	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	-	-	-	-	-	-	602	602
Other liabilities	-	-	-	-	-	-	9,726	9,726
Total financial liabilities	1,413,916	503,365	656,751	277,024	72,571	5,020	10,121	2,938,768
Net balance sheet position	(1,280,991)	150,543	182,055	162,575	397,921	649,677	58,315	320,095

Bank - As of 31 December 2019

EUR 000	Demand	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
ASSETS								
Cash and cash balances with central banks	53,203	197,043	-	-	-	-	-	250,246
Financial assets held for trading	-	8,649	-	-	-	-	-	8,649
Financial assets designated at fair value through profit or loss	-	128	289	1,618	20,335	2,212	-	24,582
Available-for-sale financial assets	-	-	-	-	6,139	-	(86)	6,053
Derivatives - hedge accounting	-	20,004	-	-	89,247	128,314	29,640	267,205
Loans and receivables	49,840	456,576	866,840	459,150	366,871	531,247	5,643	2,736,167
Held-to-maturity investments	-	-	-	-	-	-	843	843
Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	-	20,454	20,454
Other assets	-	-	-	-	-	-	7,820	7,820
Total financial assets	103,043	682,400	867,129	460,768	482,592	661,773	64,314	3,322,019
LIABILITIES								
Financial liabilities to central banks	-	9,107	-	-	-	-	-	9,107
Financial liabilities held for trading	-	-	-	-	6,140	-	(86)	6,054
Financial liabilities designated at fair value through profit or loss	1,527,034	505,643	592,866	274,267	74,795	7,768	-	2,982,373
Derivatives - hedge accounting	-	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	-	-	-	-	-	-	1,879	1,879
Other liabilities	-	-	-	-	-	-	1,571	1,571
Total financial liabilities	1,527,034	514,750	592,866	274,267	80,935	7,768	3,364	3,000,984
Net balance sheet position	(1,423,991)	167,650	274,263	186,501	401,657	654,005	60,950	321,035

Bank - As of 31 December 2018

EUR 000	Demand	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
ASSETS								
Cash and cash balances with central banks	56,664	133,531	-	-	-	-	-	190,195
Financial assets held for trading	-	7,054	-	-	-	-	-	7,054
Financial assets designated at fair value through profit or loss	-	192	455	2,544	10,879	21,100	-	35,170
Available-for-sale financial assets	-	-	-	-	6,154	-	(207)	5,947
Derivatives - hedge accounting	-	-	19,995	-	61,334	149,692	27,661	258,682
Loans and receivables	76,261	449,054	749,817	416,443	338,037	481,187	5,605	2,516,404
Held-to-maturity investments	-	-	-	-	-	-	607	607
Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	-	20,454	20,454
Other assets	-	-	-	-	-	-	11,085	11,085
Total financial assets	132,925	589,831	770,267	418,987	416,404	651,979	65,205	3,045,598
LIABILITIES								
Financial liabilities to central banks	-	7,719	-	-	-	-	-	7,719
Financial liabilities held for trading	-	-	-	-	6,154	-	(207)	5,947
Financial liabilities designated at fair value through profit or loss	1,423,116	443,836	499,751	277,024	64,417	5,020	-	2,713,164
Derivatives - hedge accounting	-	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	-	-	-	-	-	-	602	602
Other liabilities	-	-	-	-	-	-	1,613	1,613
Total financial liabilities	1,423,116	451,555	499,751	277,024	70,571	5,020	2,008	2,729,045
Net balance sheet position	(1,290,191)	138,276	270,516	141,963	345,833	646,959	63,197	316,553

16. Remuneration policy

16.1. Information on the decision – making process used in determining remuneration policy

The remuneration policy is adopted by the Management Board on a proposal from the Compensation Committee. The consistency of remuneration policies and practices is subject to annual review by the Internal Audit.

The Compensation Committee met four times in 2019, at three regular meetings chaired by Mr. Jean-Philippe Guillaume, a representative of the Societe Generale and one meeting, in a new composition chaired by Mr. Imre Bertalan, a representative of OTP Bank. The committee also had several consultations with the Bank's management.

At its sessions in 2019, the Committee discussed the remuneration of employees who fall under its domain and proposed changes to Remuneration policy which has been put in line with the requirements arising from national and European legislation.

Compensation Committee performs the following tasks:

- performs professional and independent evaluations of compensation policies and practices and forms, on their basis, the initiatives for measures for improvement of the bank's risk management, capital and liquidity,
- prepares the proposals for decisions of the governing body regarding the compensations, including those having an impact on risk and risk management of the bank,
- supervises the compensations of senior management which performs the risk management function and compliance function.

When preparing the above mentioned decisions, the Compensation Committee takes into consideration the long-term interests of shareholders, investors and other interested parties.

The Compensation Committee has a president and two members.

16.2 Information on the link between remuneration and performance

The amount of funds dedicated for variable part (yearly bonus) is depended on the bank's business results. The Bank's management checks the potential effects of the planned pay out of yearly bonus on a yearly basis with the projected financial statements. The decision on pay out of the yearly bonus is in the responsibility of the Compensation Committee and the Bank's Management

Performance appraisal criteria and their weight in the amount of the annual bonus are subject to annual audit and performance appraisal. These may be modified in order to adjust the amount of the annual bonus in regard of bank's risk inclination and the financial results of the bank.

The list of main criteria used for the assessment is the following (but not limited to):

- KPIs set on SKB Group's level:
 - financial performance of SKB Group (ROE, C/I);
 - customer satisfaction on SKB Group's level(NPS).
- KPIs set on the banks level:
 - financial performance (ROE, C/I);
 - customer satisfaction;
 - processes and efficiency.
- Individual behavioural objectives.

Employees for which the remuneration policy foresees the variable remuneration are (but not limited) executive directors and employees who have a significant influence within the scope of their competence on the risk profile of the bank or fall into this category according to the quantitative criteria of the CRD IV guidelines.

The variable part of the remuneration of the Chief Executive Officer and the Deputy Chief Executive Officer do not exceed 100 % of the fixed remuneration and is in accordance with the remuneration policy of the SKB Group. Depending on the amount of the variable part of the remuneration, these are formed in cash and deferred payment, which is both cash and equity related instruments.

The Compensation Committee also addresses and determines fixed and variable remuneration of employees who have a significant influence within the scope of their competence on the risk profile of the bank or fall into this category according to the quantitative criterion of the CRD IV guidelines.

At the bank's level, there were 12 such persons in 2019, including the Chief Executive Officer and the Deputy Chief Executive Officer.

The Chief Executive Officer was paid a remuneration in the amount for which SKB Group's remuneration policy and applicable regulations set limits on cash payment (data are disclosed in the financial report - chapter Remunerations paid to members of the Board of Directors and Key Management Personnel).

16.3 The most important features of the design of the remuneration system

The purpose of the remuneration policy is to define, in a transparent way, the types of remuneration, criteria and rules for the execution of remuneration payment and their beneficiaries. At the same time, the execution of the policy provides an adequate level of control and proportionality of the height of remuneration of employees in regard to their tasks and responsibilities in order to reduce the Bank's potential risk from a long-term perspective.

The amount of funds for employee's remuneration is planned on the basis of annual and multi-annual plans, based on SKB Group's business objectives. They are regularly and critically compared with the expected results of SKB Group during the observed period. Special attention is paid to the core capital of SKB Bank and capital adequacy requirements required by the regulator - the Bank of Slovenia.

The amount of funds dedicated for variable part (yearly bonus) is depended on the bank's business results. The SKB Bank's management checks the potential effects of the planned pay out of yearly bonus on a yearly basis with the projected financial statements. The decision on pay out of the yearly bonus is in the responsibility of the Compensation Committee and the Bank's Management.

There is no direct or automatic connection between the commercial and financial results of each employee and the amount of yearly bonus. Employees are assessed on the basis of the achieved operational objectives and the way operational objectives are achieved. The operational objectives are set in the way they are; precise, measurable, accessible, relevant and time-bound (SMART methodology). When assessing the way the objectives were achieved, however, the quality of risk management, the behaviour that employee displays in his individual and team work, as well as the consideration of the interests of clients and their satisfaction with the service offered are taken into account.

Performance evaluation criteria are as follows:

- the extent of the individual's work responsibilities over the estimated period;
- creativity in the execution of tasks, independence and innovation;
- accuracy and consistency in carrying out the tasks and objectives set;
- the impact of the work of an individual on the work of a division, sector or department;
- meeting the plans adopted;
- act in accordance with applicable law and internal rules;
- risk awareness.

Remuneration is designed in such a way that it does not encourage employees to take disproportionate risks irresponsibly. This is ensured by the appropriate ratio of fixed to variable remuneration for all categories of employees. The risk of disproportionate or inadequate ratio between fixed and variable part of remuneration is reduced by limiting the amount of the yearly bonus, which is limited to three monthly salaries of an individual, and by the process of annual planning of labor costs, which also includes the evaluation of all foreseeable risks.

16.4 Ration between fixed and variable remuneration

SKB Bank was a part of the Societe Generale Group until December 13, 2019 and followed the Societe Generale Group's remuneration policy and the principles that followed from the policy.

The principles applicable to the payment of the variable part of the remuneration (annual remuneration) are as follows:

The lower threshold for applying the following principles of remuneration is the total variable remuneration amount exceeding EUR 100,000.00 (in accordance with the SG Group remuneration policy):

- variable components of remuneration cannot exceed fixed components of remuneration, the maxim ratio of 1:1 should be respected;
- variable remuneration is not contractual and therefore can be reduced or cancelled in case of important financial loss, insufficient capital base of the bank, collective or individual underperformance, individual excessive risk taking or misconduct: subject to application of malus and clawback;
- minimum 60 % of the variable remuneration is deferred over 5 years;
- minimum 50 % of the variable remuneration should be awarded in share-linked instruments (by reason of SKB is not a listed company, SG Group share-linked instruments are used for this purpose). The value of the share-linked instruments on award and payment dates is established in accordance with the SG Group internal rules;
- retention period of one year is set up for the share-linked instruments, beneficiary is prohibited from using personal hedging strategies during the vesting and retention period;
- variable remuneration is paid if both performance and employment conditions are met at the date of payment.

Given that the bonus is paid for performance in year N-1 the schedule of instalments is the following:

Allocation	Payment		Vesting date	Date of payment
	%	Type		
40 % on spot	20.00 %	cash	March N	March N
	20.00 %	SGTP	March N	March N+1
60 % deferred	12.00 %	cash	March N+1	March N+1
	12.00 %	cash	March N+2	March N+2
	12.00 %	SGTP	March N+3	March N+4
	12.00 %	SGTP	March N+4	March N+5
	12.00 %	SGTP	March N+5	March N+6

16.5 Consolidated quantitative information on remuneration

The information on remuneration is disclosed in the financial statement in the chapter Remunerations paid to members of the Board of Directors and Key Management Personnel.

The severance pay in 2019 was paid in accordance with the Labor Relations Act and the Collective Bargaining Agreement.

17. Leverage ratio

Management of the risk of excessive leverage ratio

SKB Group			
	EUR 000	2019	2018
Total Leverage Ratio exposure - using a transitional definition of Tier 1 capital		3,688,290	3,589,973
• Tier 1 capital - transitional definition		300,658	285,496
• Leverage Ratio -using a transitional definition of Tier 1		8.15	7.95

Leverage ratio according to Commission Delegated Regulation (EU) 2015/62

CRR Leverage Ratio - SKB Group - 2019 - EUR 000		
Summary reconciliation of accounting assets and leverage ratio exposures		
1	Total assets as per published financial statements	4,045,857
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	0
4	Adjustments for derivative financial instruments	0
5	Adjustments for securities financing transactions "SFTs"	0
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	-346,509
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	0
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	0
7	Other adjustments	-10,588
8	Total leverage ratio exposure	3,688,760

Leverage ratio common disclosure – 2019 – EUR 000

		CRR leverage ratio exposures
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	3,365,034
2	(Asset amounts deducted in determining Tier 1 capital)	-10,588
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	3,354,446
	Derivatives exposures	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	19,817
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	0
EU-5a	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	Total derivative exposures (sum of lines 4 to 10)	19,817
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	0
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	0
15	Agent transaction exposures	0
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	0
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	0
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	661,005
18	(Adjustments for conversion to credit equivalent amounts)	-346,509
19	Other off-balance sheet exposures (sum of lines 17 to 18)	314,496
	Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)	
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
	Capital and total exposures	
20	Tier 1 capital	300,658
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	3,688,760
	Leverage ratio	
22	Leverage ratio	0,0815
	Choice on transitional arrangements and amount of derecognised fiduciary items	
EU-23	Choice on transitional arrangements for the definition of the capital measure	
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	

Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	3,365,034
EU-2	Trading book exposures	0
EU-3	Banking book exposures, of which:	3,365,034
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	764,144
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	28,394
EU-7	Institutions	22,188
EU-8	Secured by mortgages of immovable properties	0
EU-9	Retail exposures	1,585,826
EU-10	Corporate	851,120
EU-11	Exposures in default	27,523
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	85,839

Leverage ratio – qualitative information

1	Description of the processes used to manage the risk of excessive leverage	The risk of leverage ratio is managed in the bank on regular bases. It is based on the evolution of the solvency capital and the balance sheet, which might trigger the risk of excessive leverage ratio. The bank makes the assessment on a quarterly basis if the risk to leverage ratio has significantly increased so that corrective measures can be taken. Risk is responsible for assessing the stress tests impacts on the leverage ratio in the framework of annual stress test process for ICAAP. In the case the leverage ratio under stress scenario falls under 3 %, additional capital needs under Pillar II is reported. The bank defines as prudential threshold for leverage ratio not lower than 3.5 %.
2	Description of the factors that had an impact on the leverage Ratio during the period to which the disclosed leverage Ratio refers	In year 2019 there were no special events which would have a significant influence on the leverage ratio. The reduction in the leverage ratio corresponds to the planned portfolio growth.

18. Statements

Skb banka d.D. Ljubljana - Risk Management statement

Management of all material risks of SKB Group (SKB Bank and its subsidiaries SKB Leasing and SKB Leasing Select) is integrated in the overall risk and business strategy and is a part of Internal Capital Adequacy Assessment Process (ICAAP), Risk Appetite Framework (RAF) and Risk Appetite Statement (RAS), Recovery plan and Internal Liquidity Adequacy Assessment Process (ILAAP) for liquidity risk position and management.

Risk profile of SKB Group incorporates all important risks to which SKB Group is exposed. ICAAP process includes quantitative and qualitative elements of risk management process. The qualitative part represent the assessment of SKB Group's risk exposure and assessment of its control system, which is performed on an annual basis. The purpose of risk assessment is to allocate economic capital among the relevant risks (credit risk, market risk, interest rate risk, liquidity risk, operational risk, non-compliance risk, strategic risk, reputation risk, profitability risk and capital risk).

The total residual risk evaluation for SKB Group decreased from 1,55 in 2018 to 1,51 in 2019. Average assessment of residual risk for credit and interest rate decreased, while assessment of capital, operational, compliance, liquidity, strategic and reputational risk slightly increased. Average assessment of residual risk for profitability and market risk remained on same level as in 2018.

SKB GROUP'S RESIDUAL RISK ASSESSMENT <i>in year 2019</i>		85,6%	3,5%	3,5%	3,3%	1,7%	0,5%	0,5%	0,5%	0,5%	0,5%
RISK AREA	BUSINESS ACTIVITY	CREDIT RISK	OPERATIONAL RISK	COMPLIANCE RISK	INTEREST RATE RISK	LIQUIDITY RISK	PROFITABILITY RISK	STRATEGIC RISK	REPUTATION RISK	CAPITAL RISK	MARKET RISK
	Retail business (RETAL)	1,39	2,93	1,74	0,00	0,00	0,00	0,00	0,00	0,00	0,00
	Corporate business - facilities and treasury (CORP)	1,79	2,76	1,59	0,00	0,00	0,00	0,00	0,00	0,00	1,00
	Joint functions - finance (FIN)	0,00	1,62	1,35	1,60	1,45	2,34	0,00	0,00	1,55	0,00
	Joint functions - central back offices and payments system (CBS)	0,00	2,81	2,24	0,00	0,00	0,00	0,00	0,00	0,00	0,00
	Joint functions - management structure (general management and Board of Directors)	0,00	0,00	1,67	0,00	0,00	0,00	2,55	2,11	0,00	0,00
	Joint functions - risks and bad debts (RISK)	1,20	1,34	1,67	0,00	0,00	0,00	0,00	0,00	0,00	0,00
	Joint functions - informatics, technology, organization (GMS)	0,00	3,05	2,02	0,00	0,00	0,00	0,00	0,00	0,00	0,00
	Subsidiaries - SKB Leasing	1,80	1,96	2,10	0,00	0,00	0,00	0,00	0,00	0,00	0,00
	Subsidiaries - SKB Leasing Select	1,64	1,84	1,67	0,00	0,00	0,00	0,00	0,00	0,00	0,00
	Average assessment by type of risk	1,46	2,29	1,78	1,60	1,45	2,34	2,55	2,11	1,55	1,00
Total weighted assessment by the type of risk		1,51 Calculated residual risk for 2019 (acceptable)									
		1,55 Calculated residual risk for 2018 (acceptable)									

The quantitative calculation of the internal estimate of capital needs is performed at SKB Group level on a quarterly basis and reported to SKB Group's General Management through the ALCO Committee. The ICAAP is reported to the Board of Directors on a yearly basis. Internal estimates of capital needs are calculated for all important risks from economic¹³ and normative¹⁴ perspective with 3 year horizon, taking into account base budget and stress budget scenarios. The sum of all internal capital needs represents the internal estimate of capital needs for the SKB Group. The internal estimate of capital needs show whether the level of the regulatory capital is sufficient to absorb all types of risks SKB Group is exposed to including stress test scenarios.

¹³ Economic internal perspective is perspective under which the institution manages its economic capital adequacy by ensuring that its economic risks are sufficiently covered by available internal capital.

¹⁴ The normative perspective is a multi-year assessment of the institution's ability to fulfil all of its capital-related quantitative regulatory and supervisory requirements and demands, and to cope with other external financial constraints.

The table below shows the internal assessment of capital needs for all important risks from the economic and normative perspective and the capital buffer, which shows that the level of regulatory capital is sufficient to absorb all types of risks to which SKB Group is exposed, including stress test scenarios.

SKB Group d.d. Ljubljana	Economic perspective	Normative perspective - base scenario			Normative perspective - adverse scenario		
CAPITAL ADEQUACY (in %)	31.12.19	31.12.20	31.12.21	31.12.22	31.12.20	31.12.21	31.12.22
Total capital ratio	12,32%	15,23%	15,89%	16,52%	15,09%	15,28%	15,51%
CAPITAL in MEUR	31.12.19	31.12.20	31.12.21	31.12.22	31.12.20	31.12.21	31.12.22
Capital (own funds) of the group:	300,7	361,4	394,8	430,3	341,4	349,0	366,3
Tier 1 capital of which	300,7	361,4	394,8	430,3	341,4	349,0	366,3
- Common equity tier 1 capital	300,7	361,4	394,8	430,3	341,4	349,0	366,3
INTERNAL ESTIMATE OF CAPITAL NEEDS in MEUR	31.12.19	31.12.20	31.12.21	31.12.22	31.12.20	31.12.21	31.12.22
Material risks	217,7	225,4	236,4	247,8	225,5	227,1	232,6
Credit risk	179,7	189,8	198,7	208,3	180,9	182,7	189,0
Concentration risk	10,8	11,4	11,9	12,5	18,1	18,3	18,9
Operational risk	15,5	15,9	16,2	16,4	15,6	15,5	15,1
Interest rate risk	7,4	3,3	4,4	5,3	3,1	3,9	4,3
Liquidity risk	3,7	3,8	3,9	4,1	3,7	3,7	3,7
Model risk	0,6	1,2	1,3	1,2	4,0	3,1	1,6
Stress tests	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Capital needs for non-material risks	5,6	5,8	6,1	6,4	5,8	5,8	6,0
Overall capital requirements / internal estimate of capital needs	223,3	231,2	242,5	254,2	231,3	233,0	238,6
Capital buffer	77,4	130,2	152,3	176,2	110,0	116,0	127,7

The ICAAP process is intertwined with the ILAAP process (Internal Liquidity Adequacy Assessment process) by which SKB Group analyzing liquidity position from qualitative and quantitative perspective, taking into account the overall liquidity risk management and measurement. ILAAP outcomes were presented within the Self-assessment documentation and evaluated in line with the bank's overall liquidity risk management framework considering liquidity risk tolerance limits in accordance to the Risk Appetite Framework and Risk Appetite Statement.

As seen from the table below, the Liquidity coverage ratio (LCR) and Net stable funding ratio (NSFR) were and will be in line with the regulatory required limits under economic and normative perspective.

LIQUIDITY RATIOS for SKB bank standalone	Economic perspective	Normative perspective - base scenario			Normative perspective - adverse scenario		
(in %)	31.12.2019	31.12.2020	31.12.2021	31.12.2022	31.12.2020	31.12.2021	31.12.2022
Liquidity Coverage Ratio	237%	233%	225%	218%	234%	238%	235%
Net Stable Funding Ratio	139%	140%	138%	137%	140%	138%	137%

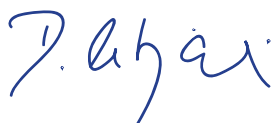
By signing this statement, we, the undersigned members of the General Management and Board of Directors of the bank, hereby confirm, that SKB banka d.d. Ljubljana has in place a sound risk management system in line with its risk tolerance and limits set within the Risk Appetite Framework, Risk Appetite Statement and in accordance to its business strategy on SKB Group level.

Members of the Board of Directors**Signature**

Imre Bertalan



Draga Cukjati



Anna Mitkova Florova



Zsolt Barna



Vojka Ravbar



Anita Stojčevska



Ljubljana, 31 March 2020

Anita Stojčevska
Chief Executive Officer

A declaration on the adequacy of risk management arrangements of skb banka d.D., Ljubljana providing assurance that the risk management systems put in place are adequate with regards to skb banka d.D., Ljubljana risk profile and strategy on skb group level

By signing this statement, we, the undersigned members of the general management and board of directors of the bank, hereby confirm, that skb banka d.D., Ljubljana has in place a sound risk management system in line with its risk tolerance and limits set within the risk appetite framework, risk appetite statement and in accordance to its business strategy on skb group level and are adequate with regards to the bank's risk profile and business strategy based on the article 435(1.E) of the regulation (eu) no.575/2013 On prudential requirements for credit institutions and investment firms.

The following documentation has been submitted by skb banka d.D. Ljubljana to the bank of slovenia:

- Qualitative and quantitative analysis icaap with all appendixes,
- Qualitative and quantitative ilaap analysis.

Members of the Board of Directors**Signature**

Imre Bertalan



Draga Cukjati



Anna Mitkova Florova



Zsolt Barna



Vojka Ravbar



Anita Stojčevska



Ljubljana, 31 March 2020



Anita Stojčevska
Chief Executive Officer

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