



**Annual
report
2020**

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I. General information for SKB group

Number of employees - 932	Number of customers - 238.969 SKB bank- 198.889 SKB Leasing Group- 40.080	Number of outlets - 51
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Evolution of SKB Group's balance sheet main items

(in million EUR)	2020	2019	
Balance sheet total	3,656.2	3,385.6	8.0%
Loans to customers ¹	2,453.1	2,505.8	-2.1%
Customers' deposits	3,109.6	2,662.5	16.8%
Equity	406.0	365.5	11.1%
Capital adequacy ratio	15.2%	12.3%	+284 bp ²

Key results and indicators of SKB Group's performance

(in million EUR)	2020	2019	
Net banking income	122.7	124.3	-1.3%
Overhead expenses	-62.2	-62.6	-0.5%
Operating profit	60.5	61.7	-2.0%
Provisions and impairments	-18.6	4.9	
Net profit	34.9	54.1	-35.6%
ROE	9.1%	14.8%	-568 bp
Cost/Income ratio	50.7%	50.3%	+38 bp

Key result drivers

Individual clients' activity indicators	Δ in %	Dec. 2020	Corporate clients' activity indicators	Δ in %	Dec. 2020
• Number of accounts	-0.2%	173,894	• Number of accounts	-1.5%	17,582
- Number of accounts with regular payment	0.9%	129,941	• Number of E-banking users	-0.8%	16,635
• Number of E-banking users	7.6%	129,742	• Number of Moj@SKB users	30.9%	7,937
• Number of Moj@SKB users	25.1%	90,753	• Number of domestic payment transactions ³	-0.1%	13,917,037
• Number of cards	-0.3%	223,941	• Number of international payment transactions	2.3%	1,101,322
• Volume of loans	-0.5%	1,160.7 M EUR	• Volume of loans	-1.8%	836.5 M EUR
- Housing loans	1.8%	911.1 M EUR	- Loans without state	-2.5%	761.2 M EUR
• Volume of leasing	-5.9%	236.5 M EUR	• Volume of leasing	-7.1%	219.3 M EUR
• Volume of deposits	12.7%	1,936.2 M EUR	• Volume of deposits	24.2%	1,173.5 M EUR

¹ Includes loans to customers measured at amortised cost and loans to customers measured at fair value.

² Basis points.

³ Paid transactions.

Significant business events

The year 2020 was for the SKB Group, as well as for the entire banking sector, strongly marked by the COVID-19 epidemic and consequent shutdowns of the economy and public life. The year began full of enthusiasm and optimism due to the change of ownership, joining one of the most successful banking groups in the Central European region. A press conference was organized by SKB Bank in January 2020, where the bank presented itself to the public in new colours and with a new management and owner group. Sandor Csanyi, Chairman of the Management Board of OTP Bank, also attended the conference and welcomed SKB Bank to the OTP Group. At the beginning of 2020, a large part of bank's activities was focused on projects aimed at the integration of operations into the OTP Group.

Shortly after the beginning of the year, the situation caused by the Covid-19 pandemic started affecting the operations of the SKB Group. In addition to regular operations, integration, and development projects of the bank, it was also necessary to establish preventive activities to ensure the health of employees and smooth operations of the bank. Thus, the first preventive measures for the protection against the virus spread began at SKB Bank as early as in February. The complexity of the situation was also felt by some of the SKB Bank's clients. Therefore, at SKB Bank, based on adopted laws and measures at the national level and at the level of the Slovenian banking system, we have constantly made efforts and provided clients with adjustments to the processes and business conditions to the current situation.

In 2020, in addition to all the unexpected situations that occurred due to the Covid-19 pandemic, at the SKB Bank we successfully completed the ReBranding and Link projects focused on the integration into the new banking group. We changed our corporate design elements, colours, logo, and ownership and we updated the entire documentation. With the new corporate look, we also refreshed the entire business network and made sure that clients all over Slovenia could get to know us in new colours and under new ownership, but with the same, ambitious goals for the future. In 2020, we also presented ourselves to the public with a completely new, corporate advertising story - one that comes from the individual and motivates them. Through our new slogan, we stand for the individual who makes the right life decisions. In the eyes of the public, our bank stands out as stable and trustworthy, and since clients trust us, we have introduced ourselves in the new campaign as a partner that the client turns to when making decisions - even the vital ones. The SKB Bank presented itself to the public in green colour for the first time in December 2019, with the message: "We are expecting you in new colours, with the same amount of comfort, professionalism and kindness." With the new corporate communication campaign, we entered the market in September as partners of our clients on the way to achieving their goals with the slogan "Supporting your honest decisions". We firmly believe in the diverse capabilities of our clients, employees and our Olympians, as we know that with our support of the right decisions, anyone can achieve their best.

Despite different situation, at the SKB Bank we strived to adapt the offer of products and services, all with the aim of providing the best user experience to our clients. Despite decreased demand for loans, we have constantly offered our clients various special offers of loans with competitive interest rates and offers adjusted to market conditions. In addition, we enabled clients to submit an application for a loan through online or mobile bank, and we also offered to all those unable to settle their obligations due to the consequences of the epidemic, to apply for a loan moratorium via an application available on our website. We are particularly proud of the new advertising approaches in digital media, recording extremely good results and direct contacts of potential clients. Through our contact centre and network, we do our best to reach potential clients and present them with our offer.

Thus, in 2020 we upgraded Moj@SKB mobile bank several times, and at the end of the year we also provided clients with the option of using biometrics (face or fingerprint recognition) when logging in to a mobile bank. During the year, MOJ@SKB mobile bank was upgraded with several useful and new functionalities for easier and more transparent operations. At the end of the year, SKB NET online bank also enabled our clients to display statements in pdf format for personal accounts and credit cards. All SKB NET users have additional insight into their transactions via pdf documents published in the "My Documents" screen. In March 2020, we launched Flik - a mobile application for immediate free transfers among users of different banks in Slovenia. Since then, Flik has become an indispensable tool for transferring cash among users. Currently, SKB Bank has more than 6,000 Flik users, but we anticipate that the number will increase with the introduction of Flik instant payments at points of sale.

In 2020, we celebrated already more than a year since the introduction of banking packages enabling clients to have simple, transparent and cost-effective daily operations with the bank. As many as a quarter of existing clients have already opted for the banking package, while the vast majority of new clients (90 %) opt for one of the banking packages.

In the youth segment, we continued our successful cooperation with partner companies last year, and we also cooperate in a way that SKB bank is advised as a partner bank, which means that a student can be entitled to better and faster treatment at a partner company. We also continued to successfully cooperate with the offer of the partner product SKB ISIC Visa card, which combines the features of debit cards in the benefits of ISIC cards and thus users of additional benefits in discounts in Slovenia and abroad. In 2020, the epidemic of the COVID-19 virus also effected the lives of young people, and SKB Bank in cooperation with two partners, managed to simplify and reduce the business of young people, and at the same time enable them to successfully realize their wishes and goals.

Our ongoing offer of savings and investment products continues to include Moorea investment Funds, which provide the possibility of a quality savings plan with a monthly or one-time payment and a comprehensive diversification of investments. We offer professional support to clients in terms of enrichment of their assets within the Private Banking segment. We create an attractive offer for them and offer them access to exclusive investment products and services. We are proud providers of Amundi funds, which were awarded several times in 2020 by the magazine Moje finance and recognized as the Best Mutual Funds in 2020 in five categories. A client-oriented approach puts Private Banking clients at the centre of our business and we cover many financial situations for them - from everyday banking needs to investment advisory services.

We also upgraded our offer for the segment of entrepreneurs and companies and addressed them with the new slogan "Supporting your business ventures". Together with the new slogan, we prepared numerous benefits for our clients, both in the field of daily banking and long-term financing. We renewed the offer of POS terminals, adjusted the price model, and enabled online retailers' even greater security and compliance with standards in the online payments arena. We have been successfully cooperating with the OTP Group in the field of Retail, on the Organic Growth program which is integrated into the Robin strategic program. Programme Robin represents a strategic initiative of SKB bank, which symbolizes a new beginning, change, goals for future and new growth. Ambition of our strategy is to offer the best digital solutions on the market and to be an example of a bank with high quality and innovative products and services. Programme Robin demands to put the customer first, digitally and mobile and to become an ever-present but invisible financial partner, who responds quickly and effectively to all of the customer's needs.

We also followed the legislative and regulatory requirements that brought many changes and innovations in client business: the PSD2 Directive in the field of online payments and online retailers, the SRD II Directive (Shareholder Rights Directive II) in the field of financial instruments, e-invoices with a new standard, cross-border payments with additional requirements in terms of transparency to clients.

Compared to the entire banking system, SKB Bank's clients express an above average level of satisfaction, and the value of the SKB brand is growing. This is also evidenced by the fact that in 2020, for the ninth time in ten years, SKB Bank won the award "Bank of the Year 2020 in Slovenia", presented by the internationally acclaimed magazine The Banker. In addition, SKB Bank also got the award "Best Bank in Slovenia 2020" in the category of countries in Central and Eastern Europe, according to the journal Global Finance. At SKB Bank, we are also proud that our brand is one of the "Superbrands Slovenia", since the public recognizes it as a quality and trustworthy brand.

In 2020, out of respect for preventive measures and care for the health of our clients and employees, SKB Bank did not organize events for clients. Rather, we demonstrated to them our deepest gratitude in the form of original gifts from the Slovenian manufacturers and thus supported Slovenian companies. In 2020, we participated in several (virtual) professional events and by doing so, we showed our support to the economy, expanded our knowledge and shared our experiences, while at the same time taking advantage of opportunities for new acquaintances. We are aware that banks are key to the relaunch and recovery of the Slovenian economy. The Bank's management was present at key economic events, such as Finančna konferenca, Poslovna konferenca and Podjetniški forum, organized by Akademija Finance.

During the year 2020, we were also very active in the projects we support as a sponsor, thus continuing to develop the #Vztrajam movement. We organized several challenges and sports activities for both employees and the general public to encourage physical activity live or remotely, at times when it was considered better to stay at home. We continue to be proud main sponsor of the Olympic Committee of Slovenia for the period until 2024 and the personal sponsor of one of the best Slovenian athletes, Maruša Mišmaš. In 2020, we also showed our support for Slovenian culture and became a proud sponsor of the 2020/2021 season at SNG Opera in ballet Ljubljana. We are placing more and more attention to sustainable development. Thus, in 2020, we produced 57 kilograms of honey with our urban beehive and brought back a piece of nature to the beautiful urban environment of Ljubljana. We are aware of how demanding this year was, so at the end of the year we decided to make a donation to Zveza prijateljev mladine Slovenije (Friends of Youth of Slovenia Association), so that we could continue to fulfill our mission and contribute to the quality of life of children, adolescents and families.



Presentation of the SKB Group

SKB Group

SKB Group consists of the SKB Bank and SKB Leasing Group, which includes SKB Leasing and SKB Leasing Select.

SKB is a development-oriented universal bank that provides a comprehensive and diverse range of quality banking products and services through various sales channels, including 51 branches throughout Slovenia and via digital banking channels such as online and mobile banking, as well as the network of ATMs, payment and credit cards. SKB Bank operates in the retail segment on one hand, and with small, medium-sized and large companies on the other hand, and offers them a wide range of financial services. However, it does not trade in financial instruments for its own account.

SKB Leasing and SKB Leasing Select are upgrading banking services with leasing products. SKB Leasing and SKB Leasing Select offer individuals and companies all leasing products, except real estate leasing, in a network of bank branches located in all major regional centres in Slovenia and through the help of sales representatives. SKB Leasing, SKB Leasing Select and SKB Bank successfully recognize and take advantage of all possible synergies.

At the SKB Bank, we operate in accordance with our key values and support the right decisions of individuals. We stand by their side in making those decisions, even the most important ones in life, such as the decision for a new home and investments in the future. We believe that with our support we can help individuals and companies achieve their goals and thus contribute to the environment in which we operate and create healthy long-term business relationships. We create a client-oriented bank by adapting banking services to the wishes and needs of our clients.

We pay special attention to creating comprehensive and long-term business relationships and care for the environment. We improve the quality of our services, based on excellent performance and professional advisory, by responding quickly to the wishes and needs of clients, as well as by constantly searching for the optimal location of our banking network on the business map of Slovenia. This allows us to meet the financial needs of existing clients and at the same time attract new individuals, sole proprietors, and small and medium-sized enterprises. For each client segment, we have products designed specifically for them with appropriate sales approaches and orientations. With the development of each individual offer, we strive to create a useful banking product for a wider circle of clients and to introduce a standardized approach.

Picture 1: Business network



OTP Group

OTP Group is one of the largest financial service providers in Central and Eastern Europe with a comprehensive range of banking services for individuals and legal entities. By entering the Slovenian market, OTP Group is now present in 11 countries in this region. With more than 40,000 employees, OTP Group offers services to more than 19 million customers and has a network of more than 1,700 branches (data from the third quarter of 2020). OTP bank is the largest commercial bank in Hungary with a 26 % market share.

The OTP Group currently operates in 11 countries in the region: Hungary (OTP Bank), Albania (OTP Bank Albania), Bulgaria (DSK Bank), Croatia (OTP banka d.d.), Romania (OTP banka Romania), Serbia (Vojvodanska banka, OTP banka Srbija), Ukraine (CJSC OTP banka), Russia (OAO OTP banka), Moldova (Mobiasbanca), Montenegro (Crnogorska komercijalna banka) and Slovenia (SKB Banka) through subsidiaries.

Despite the challenges that acted as a consequences of the pandemic, in 2020 the overall operation of OTP Group remained uninterrupted. In 2020 the accounting profit of OTP Group amounted to 739,2 million EUR. Including adjusting items, the adjusted consolidated profit amounted to 883,3 EUR (-31 % y-o-y). The adjusted ROE stood at 13 %.



II. Statement by Chief executive officer



Due to the change in the ownership, the beginning of the year 2020 had been full of enthusiasm and optimism. All activities were directed into integration with the OTP Group. However, due to the Covid-19 epidemic we needed to establish prevention activities to ensure the health of our employees and continuous operations of the Bank beside the Bank's regular operations, integration projects and development projects.

Starting in March, week after week the epidemiologic situation has brought on changes, to which we at the SKB Bank adopted to promptly and very effectively. The modern technology enabled us effective operations, for the most part also remotely, while remaining in contact by an in-depth internal communication in the close work groups as well as on the level of the entire SKB Group and towards our clients. Our past business results and numerous awards received from the expert community are an indicator of a good and effective execution of our mission. Proof of successful operations, high quality of service and a high level of clients' trust are among other also the received recognition for the »Bank of the Year 2020 in Slovenia« presented by the internationally renowned The Banker magazine and the award »Best Bank of 2020 in Slovenia« issued by the Global Finance. The Slovenian public also acknowledges us as a high-quality and trustworthy bank, as our brand is a holder of the Superbrands title in Slovenia.

On 13 December 2019, the SKB Bank joined one of the most successful banking groups in the region, the OTP Group. Alongside all the unexpected situations we due to the Covid-19 epidemic in 2020, we were also able to successfully complete some of the important consolidation projects to successfully integrate into the new banking group and establish new systems which enabled a transition from the previous owner to the new one while not disrupting the operations for our clients. With a new colour and a new corporate identity, we refreshed the business network and made sure that our clients can recognise us throughout Slovenia in new colours and with a new owner but with the same ambitious goals for the future. We remain a stable and trustworthy bank for our clients and with our newest advertising corporate campaign supported with a new slogan »We support the right decisions« we make a promise to our clients to remain their partner on their path towards fulfilling their goals and dreams.

Despite the complexity of last year's situation, the SKB Bank continued to successfully respond to a fast-changing banking environment and growing clients' needs. With an improved offer of the banking services and products we were competitive in the market and we enabled the clients to achieve their goals. We made several updates of the mobile bank MOJ@SKB and online bank SKB NET, and in March 2020 we introduced to our clients an innovative solution called Flik – a mobile application for immediate free transactions among the banks' users in Slovenia. For over a year, our broad range also includes banking packages with content tailored to various profiles and needs of our clients. Moreover, we continue to offer Amundi funds recognised as the Best Mutual Funds of 2020 in as much as five categories.

In the past year, the SKB Leasing Group performed extremely well in the field of partnerships as well. It had competed for exclusive financing of quite a few notable automobile brands. The SKB Leasing Group successfully convinced the importers with its developmental orientation, which enables to provide a comprehensive and diverse range of high-quality financial products and services through various sales channels. At the same time, the SKB Leasing Group also successfully kept major and long running partnerships with successful and renowned companies with SKB Leasing and SKB Leasing Select being selected as exclusive financiers once more.

In 2020, the performance of the SKB Group as well as of the entire banking sector was heavily impacted by the first wave of the Covid-19 spread and consequential shutdown of the economy. Due to a drop in demand for loans and other services, mainly payment transactions and card operations services, and due to lower one-off revenues as compared to 2019, the net banking income of the SKB Group in 2020 decreased by 1.3 % and amounted to 122.7 million euros.

In the highly competitive loans and leasing operations market, the trend of interest rate decrease continued this year as well and along with high liquidity of the banking system and the companies it influenced the decrease of the interest margins in banks and leasing companies. The interest margin of the SKB Group dropped to 2.25 %, while the interest margin of the SKB Bank still remained among the highest when compared to other Slovenian banks.

In the field of income from provisions the margin in the bank is also decreasing; however, it remains among the highest in comparison to all banks in Slovenia. Despite the drop in operating costs in 2020 by 0.5 %, the SKB Group could not replace the loss of income, therefore the operating profit from operations amounted to 60.5 million euros and had decreased in 2020 year by 2.0 %. When compared to other Slovenian banks, the SKB Bank remains among the most cost-efficient banks.

Our goal for the future is to become the first choice of our clients by offering them new and innovative solutions, therefore we plan for the Bank to evolve in the direction of digitalisation and optimisation of business processes. An important pillar of our further development are also our employees. Further, the SKB Bank will remain responsible towards the environment in which it operates, so we will keep on encouraging our employees as well as our clients to have an attitude towards the sustainable development, environment, and future for generations to come that will play an important role in our everyday decisions.

Regarding the year 2020 - the year of uncertainty and feelings we were not used to experience before - I would especially like to thank all our clients and business partners for their loyalty and trust. We have proved that together we can make it and that with joint efforts we can win all the challenges. Also, I would like to thank and congratulate each of our employees for their effort in everyday work, which during 2020 took place in unusual situations. I am proud of all successfully concluded projects and of the demonstrated loyalty, expertise, and perseverance.

We face new challenges and situations that will require resourcefulness and courage in accepting decisions. I believe we will prove once more that no challenge is too big and no goal is set too high for us, together.

A handwritten signature in blue ink, appearing to read "Stojčevska".

Anita Stojčevska
CEO

III. Report of the Board of directors and Committees

Report of the Board of directors

SKB d.d. has one tier system of corporate governance.

The corporate governance system within SKB d.d. is established in such a way as 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 competences. The Presidents of these Committees regularly report on their work to the Board of Directors. The report of the work of the Board of Directors in 2020 is 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 the Parent company.

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 opinions 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 and Compensation Committee,
- discusses the 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), the findings of other bodies when applicable for 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 books of accounts 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 with regard to the previous paragraph also subsequently and approve, ex-post, the decisions made by the Executive Directors, provided that the decisions comply with the corporate rules of the Parent company.

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 which 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%) of the acceptable capital of the bank,
- cancellation of the external audit engagement 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 division,
- 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 reaches or exceeds 100,000 EUR, and for each further transaction whereby the overall exposure of the bank against a single party from all transactions increases for the subsequent 100,000 EUR whereas for conclusion of the legal transaction in cases from this paragraph the approval is also needed.

In the period from 1. 1. 2020 till 11. 5. 2020, the Board of Directors had six (6) members, of which four (4) were women and two (2) were men. From the General Meeting of Shareholders, which was held on 11. 5. 2020, the Board of Directors had eight (8) members, of which four (4) were women and four (4) were men. In the period from 3. 8. 2020 till 31. 12. 2020, the Board of Directors had seven (7) members, of which four (4) were women and three (3) were men.

The Board of Directors has always consisted of members of different ages, different profiles of education and work experience, which enables and ensures a constructive and critical assessment of the Bank's General Management decisions and effective supervision over it. Representation of both sexes has also been adequate.

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

Within 2020, 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 on time 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, who held this position until 3. 8. 2020, as well as his successor, who held this position until the end of 2020, performed the tasks in line with the Rules of procedure on the work of the Board of Directors of SKB 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 2020 shows that the members of the Board of Directors regularly attended the meetings and actively and professionally 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 2020.

In accordance with the provisions of the Banking Act 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" (hereinafter: Rules), that had always been prepared in compliance with the technical standards and EBA guidelines. The Rules were also updated in 2020. The changes and updates of the SKB Banka Rules lay down more detailed criteria for the assessment of the members of the Board of Directors, which contributes to the quality of the corporate governance of the Bank and the SKB Group.

On this basis, annual assessments of the functioning and suitability of individual members of the Board of Directors, both existing and new, as well as assessments of the suitability and functioning of the Board of Directors as a whole have been prepared.

Due to the change in ownership of the bank the Board of Directors adopted Policy for assessment and selection of suitable candidates for appointment of members of the Board of Directors of SKB d.d. Ljubljana (hereinafter: Policy) which ensures compliance with the criteria specified in the Banking Act and the EBA Guidelines to assess the suitability of members of the management body (Suitability Assessment Policy) and the requirements to take diversity into account when recruiting members to the Board of Directors (Diversity Policy) and to provide sufficient resources for their induction and training (Induction and Training Policy). In accordance to Article 34/2 of Banking Act, the Policy was confirmed by the General Meeting of Shareholders. On the basis of the Policy, the Rules will be modified and amended in a way to 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 OTP Group.

All the activities were led in a harmonized way and with a full trust and mutual respect of the members of the Board of Directors, which contributed to the successful operations in 2020 of the SKB Group as a whole. This is evident from the report on operations of the bank and SKB Group in 2020, 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, as general measures against conflict of interest were carried out regularly in order to prevent any conflict. In the event of a potential conflict of interest, a member of the Board of Directors withdrew from the discussion and vote on a specific issue.

In 2020, six (6) regular sessions of the Board of Directors were held. The quorum was met at all sessions, what is also noted in the minutes. The list of attendees is indicated in the minutes of the sessions of the Board of Directors.

At its sessions held in 2020, the Board of Directors above all:

- discussed, reviewed and, based on the positive opinion of the independent external auditor Deloitte Revizija d.o.o., passed the Annual Report on SKB Group's operations in 2019 and the Internal Audit Report for 2019,
- convoked the General Meeting of Shareholders where non distribution of profit and discharge of the members of the Board of Directors were proposed,
- discussed periodical reports on operations and on implementation of business policy in 2020, 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 kinds of risks, management of costs, as well as to strengthening of the position of SKB Bank and SKB Group in the Slovenian banking sector,
- regularly discussed the impact of Covid-19 pandemic and the measures taken by the state on the operations of SKB Bank and SKB Group, as well as the responses to the pandemic taken by SKB Group,
- 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 towards these companies,
- was informed of and agreed with the bank's non-performing exposures (NPE) management and restructuring plans, and agreed with the documents (quarterly reports) submitted by the Bank to the Bank of Slovenia on a regular basis,
- discussed the report on ICAAP and ILAAP of SKB Group in 2019 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,
- discussed and passed the annual report on prevention of money laundering and fight against terrorist financing in 2019,
- discussed the report on compliance of operations for 2019 and annual action plan for 2020,
- 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 regular periodical reports of the Internal Audit Department,
- was informed about the activities of preparation of the Audit Plan for the year 2021, in line with the OTP IAD group timeline, taking into consideration that the Audit Plan 2021 shall be confirmed at the first session of the Audit Committee in 2021,
- discussed reports on regular and extraordinary inspections of individual units of the Bank and took note of key findings and recommendations from the performed audits,
- got acquainted with and approved the new methodological documents of Internal Audit, aligned with the OTP Group (SIAS⁴ package), including the new Rules on operations of internal audit (Internal Audit Charter),
- accepted the changes and additions to the Policy for assessment and selection of suitable candidates for appointment of members of the Board of Directors (harmonization with regulatory changes and good practices),
- was informed and approved the annual assessment of the Nomination Committee that each member of the Board of Directors individually, executive directors combined and non executive directors combined, and the members of the Board of Directors as a whole met the adopted criteria and attained the set objectives,
- was acquainted with the resignation of a member and President of the Board of Directors,
- elected the new President and the Deputy President of the Board of Directors,
- confirmed some changes in the members of the individual committees of the Board of Directors, as the number of members of the Board of Directors increased during the year,
- appointed a new Chair of the Nomination Committee, the Compensation Committee and the Risks Committee,
- confirmed credit limits for SKB d.d. towards subsidiaries SKB Leasing in SKB Leasing Select,
- confirmed credit limits for SKB d.d. towards other OTP Group members,
- passed the schedule of the sessions of the Board of Directors and its Committees for the year 2020, accepted the changes and additions to the Rules of Procedures of SKB Bank d.d. Ljubljana's Board of Directors,

⁴ SIAS – Standardised International Audit System

- was acquainted with the nomination of new director for Risk Division (CRO),
- was acquainted with the nomination of new director for Finance Division (CFO),
- was acquainted with the departure of Chief compliance officer (CCO) and nomination of new one for the transitional period,
- adopted a training plan for 2020 for the members of the Board of Directors,
- was regularly acquainted with the activities performed by the SKB Group for the prevention of the spread of Covid-19 infection in the SKB Group,
- took note on various reporting in accordance with the regulation,
- took note of the termination of the TSA⁵ agreement with the previous owner Société Générale, successful and timely integration to OTP Group and successful transfer of activities to SKB Bank,
- got acquainted with the initiatives for organic growth of the bank in the coming years (ROBIN program) and confirmed the guidelines of the General Management,
- got 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.

The business environment in 2020 changed significantly compared to the previous year. Due to the declared Covid-19 pandemic in March 2020, work in SKB Group as well as in the wider economy and in the country as a whole has changed significantly. Already in February, SKB Group started implementing preventive measures to protect employees, organized work from home, properly equipped branches and employees, enabled a different way of communicating with customers, strengthened internal communication with employees, etc.

Consistent implementation of all preventive measures enabled SKB Group to ensure continuous operation of all key activities, including smooth performance of all customer services during these times.

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 2020.

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 of 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 had been submitted to the shareholders for decision making at the 35th General Meeting of Shareholders of SKB d.d. Ljubljana, held on 11. 5. 2020.

The members of the Board of Directors have the possibility to inspect, at any time, the books of accounts of the bank, to require reports on operations in each single segment as well as on clients. They regularly meet with the Internal Audit department as well as with appointed external auditors.

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 highly professional level and was constantly oriented towards a common goal - successful and secure operations of the bank and SKB Group in the strained economic conditions, what is reflected in very good business results of the bank and SKB Group as a whole. The Board of Directors congratulates the General Management of the bank and all its employees for the achieved result in 2020, for successful timely integration into OTP Group and for having been awarded, once again, the title "Bank of the year 2020 in Slovenia" by the magazine The Banker.

The members of the Board of Directors express their sincerest 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 the shareholders for their strategic orientation and support.



Imre Bertalan
President of the Board of Director

⁵ TSA - Transitional Services Agreement

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 2020 at four (4) regular sessions.

In September 2020, the Board of Directors discharged Imre Bertalan as a member of the Audit Committee and appointed Tamás Kamarási in his place.

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 2020 the Audit Committee above all:

- discussed the report on SKB Group's operations in 2019 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 2019,
- discussed draft report on the work of the Internal Audit in the year 2019,
- regularly discussed periodic reports of the Internal Audit on their work, including reports on review of Internal Audit department recommendations,
- 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); IT security, security mechanisms for persons and equipment of the bank, bank's Business Continuity Management (BCM) and 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,
- received information on changes to the methodological documents of the Internal Audit (SIAS package) and submitted it to the Board of Directors for adoption,
- received information on plans for the preparation of the audit of financial statements for 2021 (a new external auditor will be proposed at the General Meeting of Shareholders of the Bank in 2021),
- received information on the newly introduced OTP methodology regarding collective impairments,
- agreed to the amendments to the Rules of Procedure of Internal Auditing and forwarded them to the Board of Directors for adoption,
- took note of the audit plan for the financial statements for 2020,
- took note on various reporting in accordance with the regulation,
- perform other tasks in accordance with the Bank's Articles of Association and resolutions of the Board of Directors.

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, 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, NPL, default ratios, recovery performance etc...),
 - changes of the quality of commitments: sensitive, irregular, non-performing loans,
 - compliance with the conditional authorizations issued by the OTP Group,
 - adequacy of the level of provisions for risks exposure,
 - efficiency of bad debt recovery,
 - changes in credit policy,
 - review of collateral management.

In 2020, four (4) regular sessions of the Risks Committee were held.

The quorum was met at all sessions, as indicated in the minutes of the sessions. 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. 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 in SKB.

With regard the inclusion of new members in the Board of Directors, the Board of Directors discharged Anna Florova Mitkova as a member and chair of the Risk Committee at its 5th (correspondence) meeting on 19th June 2020 at the proposal of OTP, due to taking on new tasks. At the same meeting, the Board of Directors appointed Tamás Kamarási as a member and President of the Risk Committee.

At its meetings the Risks Committee discussed above all:

- report on the work of the Risks Committee in 2019,
- 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,
- limits proposals within the Group,
- other matters in accordance with the Statute of the bank and resolutions passed by the Board of Directors.

On one of the Risk Committee sessions also a representative from Bank of Slovenia was present.

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



Tamás Kamarási
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 and 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 2020 the Board of Directors expanded for two additional members, therefore the Compensation Committee was also reorganised. The Committee is composed of three members, namely: the president of the Committee Mr. Nemeth Miklos and two members Mr. Imre Bertalan and Mrs. Anna Mitkova Florova.

The Compensation Committee itself assembled on regular sessions three times, twice under the previous presidency of Mr. Imre Bertalan and once under the new presidency of Mr. Nemeth Miklos and also had 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 2020, the Compensation Committee discussed about:

- remuneration of Division Directors of Risk, Finance and Corporate banking and financial markets
- remuneration of some Department Directors
- fees of Members of the Board of Directors and members of its Committees
- Internal Audit report on Payroll System, related to remuneration policy approved loans to the employees of SKB Group in nine months of the year 2020

On one of its session the Committee also validated identified positions/employees on consolidated level, on Sub-consolidated level and on Local level, their variable part of the remuneration and the deferral rules. Among other the Committee also validated the change in reimbursements of benefits in kind for company's car for eligible employees.

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 management of costs, 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 within SKB Group. All this has a positive impact on stable and secure operations of the bank and SKB Group.



Tamás Kamarási
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.

In 2020 the Nomination Committee had one (1) session where all the members were present and at which they discussed:

- the report on work of the Nomination Committee in 2019,
- the annual assessment of the members of the Board of Directors in accordance with The Rules on assessment of suitability of members of the Board of Directors of SKB d.d. Ljubljana,
- the assessment of the proposed candidates for the members of the Board of Directors in accordance with The Rules on assessment of suitability of members of the Board of Directors of SKB d.d. Ljubljana,
- the policy of assessment and selection of suitable candidates for appointment of the members of the Board of Directors of SKB d.d. Ljubljana,

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 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).

In the period from 1. 1. 2020 to 11. 5. 2020, the Board of Directors had six (6) members, of which four (4) were women and two (2) were men. Since the General Meeting of the Bank, which was held on 11. 5. 2020, the Board of Directors had eight (8) members, of which four (4) were women and four (4) were men. From 3. 8. 2020 to 31. 12. 2020, the Board of Directors had seven (7) members, of which four (4) were women and three (3) were men. 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.



Anna Mitkova Florova
President of the Nomination Committee

View of the Board of directors on the report on SKB Group operations

The Board of Directors received in February 2021 draft report on the work of the Board of Directors and its Committees in 2020. 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 10th session, held on 25 February 2021 and approved them.

On 24 March 2021 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 2020.

The report on operations in 2020 shows that both SKB Group and SKB bank performed well, as SKB Group registered a net profit of 34.849.904,40 EUR and SKB bank a net profit of 35.379.294,09 EUR, whereby the distributable net profit of SKB bank amounts to 176.805.038,40 EUR.

The report on operations of SKB d.d. and SKB Group in 2020 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 a positive opinion on financial statements and on the Annual Report.

On 29 March 2021, 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 2020.

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.

At its 11th regular session held on 31 March 2021, the Board of Directors discussed the audited Annual Report with the report of the auditing company Deloitte Revizija d.o.o. 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 2020 and thus completes all previous information already submitted to the Board of Directors during the business year and had no remarks. 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 2020 and has adopted Annual Report of SKB Group for 2020.

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 36th session of the General Meeting of Shareholders that will be held on 4th May 2021. Distributable net profit for the year 2020 is in the total amount 176.805.038,40 EUR, with a net profit for the year 2020 in amount 35.379.294,09 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 2020 into retained earnings. 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 2020.

The Board of Directors establishes that in 2020 the economic situation was rather strained and complex also due to Covid-19. The liquidity in the bank, as well as in the entire banking system, was high and demand and investment rather limited, what caused a strong competition among the banks and consequently a decrease of interest rate and 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 2020, 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. Due to the declared pandemic, SKB Group took preventive measures for the protection and safety of employees and customers.

The quick response to the mentioned conditions in the economy and on the market and management of operational costs of the bank in 2020 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 endeavour 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 it's 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.



Imre Bertalan
President of the Board of Directors

IV. SKB Group strategy

At the SKB Bank, we put clients and their experience first. We have always focused on individuals, sole proprietors, small and medium-sized enterprises, and large companies, providing high-quality banking products and services and taking care of client satisfaction. With the trust that we build together with our clients, we are committed to ensuring long-term quality and profitable growth, and at the same time we are determined to remain or become the leading Slovenian financial group for new clients. We are aware that the modern customer not only buys a product or service but also the user experience. Therefore, as the main strategy at the SKB Bank, we are introducing Robin - Return On Business INitiatives program, for the future of the SKB Group.

Following constant changes in the world of banking

Modern consumers are constantly changing; their needs are different and due to the dynamics of modern life, they need everything quickly and immediately. At SKB Bank, we are aware that the entire industry is evolving and changing, and is looking for common ground between basic banking and technology. Our strategy is thus focused on accepting ever-new challenges and ensuring that we offer our clients state-of-the-art solutions.

Focus on digital development

Digitalization of banking operations and internal processes is one of the main pillars of development and inevitable element for successful operations in the future. In parallel with digital development, one of the key pillars of the Bank's strategy in the future remains to ensure a high level of security and discretion in the management of personal and business finances. In the future, banks and bankers will also be required and expected to have absolute security of operations and constant availability of all the bank's channels, whenever and wherever the client needs us. In our strategy, we focus on continuing to put clients first, with focus on digital and mobile. We want to become an ever-present but invisible financial partner that responds to the needs of our clients.

Balanced business model and ambitious growth

SKB Bank's balanced business model means finding and managing strong synergies between SKB Bank, SKB Leasing and SKB Leasing Select, as well as selected insurance companies and other business partners of the Bank. With products and services located in a wide range of banking and insurance products of the SKB Group, we can meet all the financing and investment needs of our clients. For each segment of our clients, we have specially designed sales approaches and appropriate sales staff.

Profitable growth

The development program and strategy for the next three years meet the needs of SKB Bank by accelerating the development of digital technologies that will enable the growth of the number of clients and revenues, while consolidating capital strength and sustainable value creation in the coming years. Our ambition is to offer clients the best digital solutions on the market and to be an example as a bank with high quality and innovative products and services.

SKB Bank also wants to achieve long-term return on capital in complex situations, which we have seen plenty of in 2020, by generating appropriate revenues and strictly controlling general administrative and other operating costs and by continuing prudent risk management.

Quality of service

Our wide range of products and services is based on ensuring quality to our clients and we are aware of how extremely important are the professional training and advisory provided to clients by our employees. We are perfecting our quick response to the needs of existing and new clients with even faster decision-making and loan approval procedures. At SKB Bank, we pursue the goal of responding quickly and efficiently to changes in the market.

Developing new technologies in response to more efficient operation

At SKB Bank, we continue to develop and upgrade digital banking. In the first phase, we want to enable remote digital signature and client identification and we will also enable the conclusion of some more complex products, such as loans, remotely. With the new customer data management tool (CRM), we will be able to communicate with the client in a more personalized way and offer them suitable solutions. SKB Bank tackles development projects in line with agile methodology, which will enable us to achieve efficient and faster implementation.

As part of payment services, we will continue to develop Flik, instant payments, introduce the TIPS cross-border transaction scheme and card operations. The modern consumer also dictates the adjustment of the bank's physical channels. In the first half of 2021, we will update the network of ATMs, which, in addition to withdrawing cash, will also enable clients to easily deposit and pay invoices. In our operations, we will move as much as possible to paperless documentation for clients and further improve the user experience of clients when visiting the branch. We will enable small and medium-sized companies to manage personal and business finances in one place, with one banker. We will continue to develop approaches for wealthy clients.

For clients to be able to perform many banking services themselves, we will also adjust the image of the bank branch of the future. We will improve the efficiency of sales staff, especially by reducing non-sales tasks, targeted sales with the help of new CRM tools, reducing cash operations, additional (sales) activities of the contact centre, animation and incentive rewarding of sales staff.

We will also look for opportunities for business growth in the segment of agriculture and the entire processing and food chain. We will develop and offer banking packages to the small and medium-sized enterprise segment. By optimizing and digitalizing the credit process, we will enable the client easier and faster access to sources of financing. For internal efficiency, it is necessary to adjust the management of internal processes. Efficient use of data with the new CRM tool enables targeted communication and sales through various channels of the bank, creating new value. For the client, this means a good user experience and enables the bank to more easily manage client data and manage all channels in an automated manner.

To SKB Group, the technological development presents a new opportunity to respond to changes in the use of banking services and the construction of the bank of the future. We will offer modern services to clients looking for simple, fast, and high-quality banking products.

Prudent risk management and regulatory compliance

The SKB Group continues to accept risks prudently. We remain cautious in monitoring all types of risks, especially operational, and responsiveness to possible deterioration of client's financial condition through appropriate provisioning or impairments. A special achievement of 2020 in the field of risks was the development of an early warning system based on the analysis of client payment transactions.

However, the SKB Group also remains firmly committed to meeting strict regulatory requirements, in particular regarding the protection of client data and all other aspects of security, as well as in the areas of various reports, stress testing and risk and capital management. We cannot avoid the impact of the epidemic on the operations of both individuals and companies. Intervention acts governing deferred loan payments and loans with a state guarantee required us in 2020 to make numerous adjustments to documentation, processes and communication with clients. Due to the situation, we also had to adjust the method of reporting on the sales staff activities.

In 2020, the legislation and regulatory requirements also brought a number of changes and innovations in client transactions: the PSD2 Directive in the field of online payments and online merchants, the SRD II Directive (Shareholder Rights Directive II) in the field of financial instruments, e-invoices with a new standard, cross-border payments with additional requirements in terms of transparency to clients.

High level of capital adequacy

By maintaining a high level of capital adequacy and the highest quality Tier 1 capital, the Bank is able to grow its business as well as absorb possible sudden and unforeseen deterioration in the economic environment, which was extremely proven in 2020. Therefore, SKB Bank will continue to strive and pay attention to capital management in order to carefully manage and comply with capital requirements.

Professional, creative, and motivated employees

Through the strategy and development program, SKB Bank has also committed to improving all our key business indicators. Success depends primarily on our commitment and other key factors such as staffing, information and marketing capabilities, and proper risk management. Based on the expertise of our employees, we will ensure a high level of sustainable quality management of our services. We will also ensure that the conduct of our employees in the future is socially responsible, ethical, and professional. We are aware that ambitious goals can only be met through teamwork that includes professional, creative, and motivated employees. Our strategic goal is therefore to improve the knowledge and competencies of all employees. In assessing their performance we intend to focus more on the level of return than on the volume of transactions. Our employees are one of the most valuable assets of the Bank and essential for successful operations.

Commitment to local environment

Our activities will continue to be focused on clients, on their satisfaction and on efficient purchasing channels. With the development of the Bank, we will build the position of an innovative brand. For the upcoming years, the SKB Bank has also set ambitious goals in the field of social responsibility and sustainable development. We know how important it is that the environment in which we successfully operate is also successful and pleasant. Therefore, we have set goals to be even more sustainably oriented in the future, with even more attention for those who can achieve their goals and dreams with our encouragement.

At the SKB Group, we have been closely connected with the environment in which we have operated throughout the years. This connection is reflected through our sponsorship and donations to various charity, sports, and cultural organizations. Since we encourage sports and physical activity, for 27 years we have been supporting the Slovenian Olympism as the main sponsor of the Slovenian Olympic Committee. We have also been a personal sponsor of one of the best Slovenian athletes Maruša Mišmaš for many years, and we encourage individuals to achieve their own goals with the #Vztrajam movement. We will also continue to encourage employees to join us at sporting events for all, and with the help of video content to remain fit at work. We will support the active Sports Association of SKB Bank, which has more than 300 members, with employees representing us at banking and business games. In 2020, we decided to support the Slovenian culture and thus became a sponsor of the 2020/2021 season at the SNG Opera in Balet Ljubljana. At the end of the year, we supported the humanitarian organization Zveza prijateljev mladine (Slovenian Association of Friends of Youth) and further encouraged their goal of ensuring a quality life for children, adolescents and families. We believe that with our support we can continue to motivate and encourage our employees, clients, business partners, Olympians and artists.

V. Business report

1. Economic trends in the year 2020⁶

The COVID-19 pandemic, in combination with strict health and containment measures in 2020, has significantly affected economic activity this year. The strict measures to contain the spread of the coronavirus have led to a pronounced contraction of economic activity globally and in Slovenia, because of the shutdown of non-essential service activities and hampered activity in other service activities in the second and last quarters of this year and, in the second quarter, also industry.

In 2020 gross domestic product (GDP) decreased by 5.5%, economic consequences are focused primarily on the service sector and less on activities involved in international trade.

Due to negative impacts from the international environment and containment measures at home and abroad, a significant decline in export (8.7%) and import (10.2%) was realized in 2020, especially in exports and imports of services (20%) while exports of goods decreased by -5.6% and imports by 8.9%.

Due to limited movement and supply during the quarantine, when spending was not possible, increased uncertainty and precautionary saving, private consumption decreased strongly (9.8%). Government spending strengthened in a crisis situation (1.8%), due to rising employment in the general government sector (partly also due to the beginning of preparations for the Slovenian Presidency of the Council of the EU in 2021). Growth of government consumption is also affected by expenditures to contain the epidemic and a decline in revenues of public institutes and other general government units from the sale of goods and services for the market.

Investment activity in 2020 was significantly lower than in previous years (5.8%), as companies and households postponed or stopped investing in buildings, equipment and machinery due to the hampered economy and markedly increased uncertainty (4.1 lower gross fixed capital formation). Inventories, which had risen in the first half of the year, fell sharply in the third quarter, which was reflected in a strong year-on-year fall in gross investment.

The situation on the labour market deteriorated in 2020. The impact of the epidemic and containment measures on the labour market due to a fall in activity was most pronounced in the second quarter of 2020. Over the rest of the year, these negative impacts have been considerably mitigated by the adoption and extension of intervention measures to preserve jobs.

The number of registered unemployed amounted to 85.2 thousand at the end of 2020, which is 14.8% more than at the end of the previous year. Estimated real unemployment rate according to ILO amounted to 5.1%.

The statistics of the average gross wage per employee in 2020 (estimated real growth rate 5.1%) mainly reflect the measures to preserve jobs in combination with the methodology for calculating the average gross wage, the payment of various allowances during the epidemic and the increase in the minimum wage. The placement of many employed persons on temporary layoff and the measure of partial subsidising of full-time work contributed to a fall in the statistically recorded wage bill and even more, to a fall in the number of wage recipients. This, together with allowances for work in crisis conditions, is the reason why the growth of the average gross wage has also remained high from March onwards. In the first two months of 2020, the high year-on-year wage growth (4.7%) was mainly influenced by the increase in the minimum wage and a general shortage of labour.

2020 inflation at the annual level reached -1.1%. The greatest impact on the annual deflation came from lower prices of petroleum products (prices of fuels and lubricants fell by 18.8% and prices of liquid fuels by 14.6%). Additional decrease was added by lower prices of package holidays (9.8%) and lower prices of clothing and footwear (5.4%). On the other hand, the annual growth rate was pushed by higher prices of products and services in the group health (4.9%), higher prices of tobacco (5.3%) and higher prices of food (1.1%).

According to the estimation of the Ministry of Finance, the government deficit in the year 2020 amounted to -3.954 million EUR or -8.6% GDP and the consolidated government debt to 37.710 million EUR or 82.4% GDP.

⁶Source: IMAD (Winter forecast of economic trends 2020, December 2020), SORS (October Excessive Deficit Procedure Report, 2016-2019, forecast 2020, October 2020; Gross Domestic Product, Slovenia, 4th Quarter 2020, February 2021)

Important macroeconomic indicators for Slovenia in the period from 2018 - 2020

Real growth rates in %, unless otherwise indicated	2020	2019	2018
GDP	-5.5	3.2	4.4
GDP per capita in EUR	22,014	23,165	22,135
Inflation (end of year)	-1.1	1.8	1.4
Final consumption	-6.7	4.0	3.5
Investments	-4.1	5.8	9.6
Unemployment rate (ILO)*	5.1	4.5	5.1
Export	-8.7	4.1	6.3
Import	-10.2	4.4	7.2
Gross wage per employee*	5.1	2.7	1.6
Government deficit (% GDP)*	-8.6	0.5	0.7
Government debt (% GDP)*	82.4	65.6	70.3

*estimated data for 2020

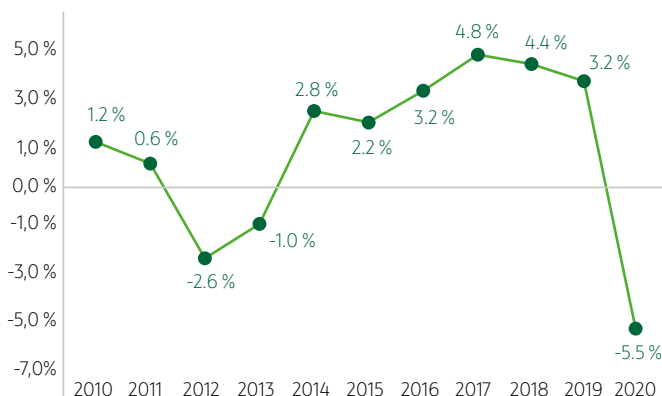
Source: IMAD, SORS

At the end of December 2020 the total assets of the entire banking system in Slovenia amounted to 44.7 billion EUR⁵ (92.4% GDP), being 3.4 billion EUR (8.3%) higher than at the end of December 2019. On the assets side balances on accounts with central bank increased as well as investments in subsidiaries (NLB bought Serbian Komercijalna banka), investments in securities and lending to the non-banking sector. Among loans the highest growth was recorded in corporate loans. On the individual side, housing loans increased while cash loans decreased; local government loans also decreased. The movement of loans in 2020 has been marked by pandemic and macro-prudential restrictions on retail lending, which entered into force in November 2019. On the liabilities side, deposits of non-banking sector and debt securities increased the most, while liabilities toward the banks and capital reserves decreased. Loan to deposit ratio in 2020 decreased to 68.7% from 75.7% at the end of 2019.

Pandemic had the major impact in 2020 on financial results of Slovenian banks, especially the formation of impairments and provisions. Decrease of net banking income was mainly driven by lower net interest income and lower net income from financial instruments. One-off events (income from badwill which NKBM recognized due to merger with Abanka) also had a significant impact on the financial results. Due to the limited economic activity in 2020 operating profit of banking system decreased and recorded a net profit in the amount of 450.3 million EUR⁷, which is for 80.2 million EUR lower compared to previous year.

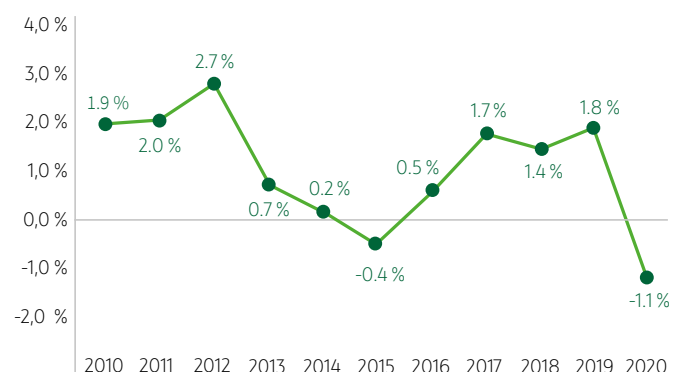
The COVID-19 pandemic hit economic activity hard in 2020

Real GDP growth



Deflation in 2020

Inflation (annual growth rate)



⁷Unaudited financial results

2. Financial review of SKB Group

2.1 SKB Group's financial results in 2020 affected by the COVID-19 epidemic

SKB Group, composed of SKB bank, SKB Leasing and SKB Leasing Select, completed its first financial year under the ownership by the Hungarian OTP Group.

SKB Group concluded the financial year 2020 with net income in the amount of 34.9 million EUR, by 19.3 million lower than in the previous year. In 2020 the performance of SKB Group, as well as the performance of the entire banking system, was highly affected by the Covid crisis. The crisis affected all areas of business, particularly, it highly increased credit risk. Consequently SKB Group formed additional provisions and impairments in 2020, which is the main reason for its lower net income. Operating profit of SKB Group, also under the influence of the Covid-19 epidemic, decreased by only 2% to 60.5 million EUR, therefore in the given circumstances, we can assess the Group's performance as successful. In 2020 SKB Group achieved a 9.1% return on equity (ROE).

"Successful performance of SKB Group in the Covid-19 market conditions"

in 000 EUR	2020	2019	Difference	Change (%)
Net interest income	79,895	82,843	-2,948	-3.6
Net non-interest income	42,782	41,433	1,349	3.3
Net banking income	122,677	124,276	-1,599	-1.3
Overhead expenses	-62,216	-62,558	342	-0.5
Operating profit	60,461	61,718	-1,257	-2.0
Provisions and impairments	-18,509	4,908	-23,417	-477.1
Other	-12	-75	63	-84.0
Profit before tax	41,940	66,551	-24,611	-37.0
Tax	-7,090	-12,446	5,356	-43.0
Net profit	34,850	54,105	-19,255	-35.6

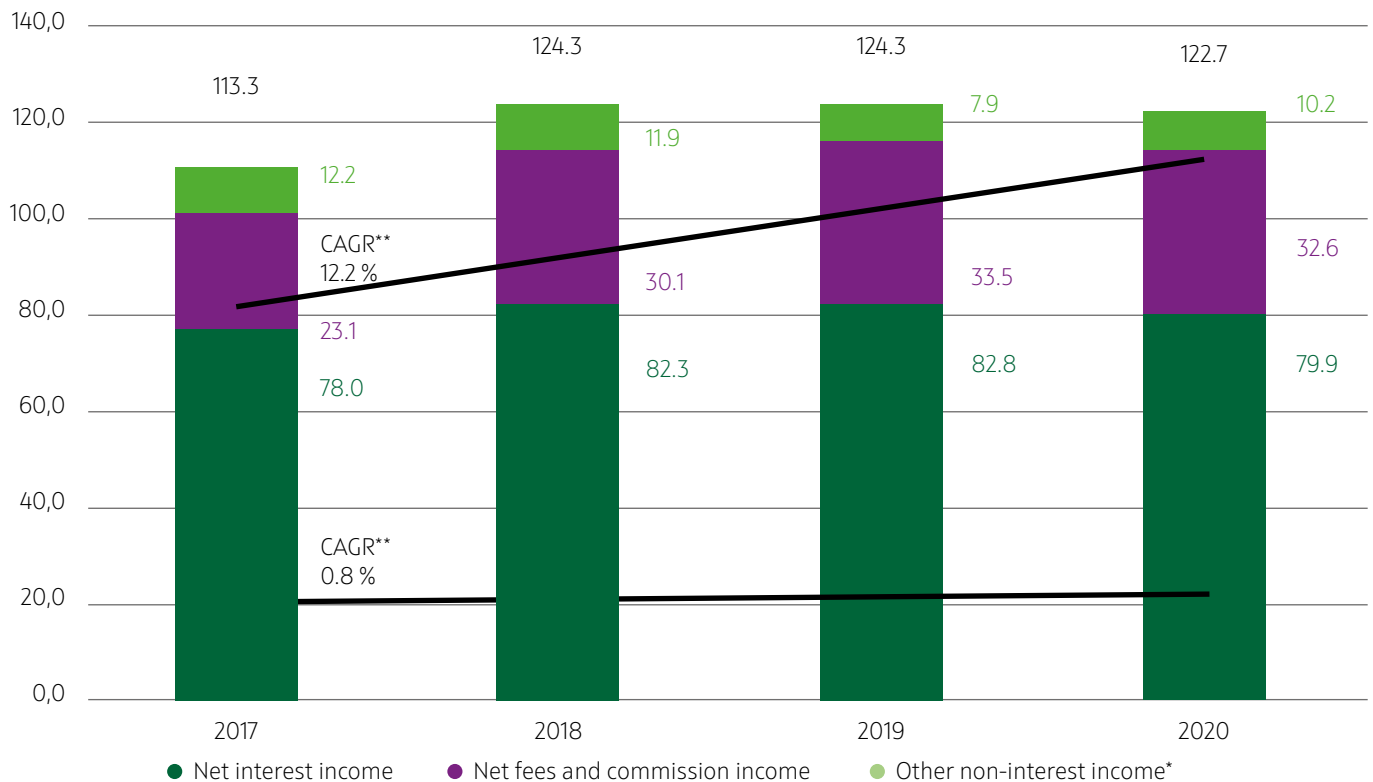
Impact of individual P&L items on SKB's Group net profit (in million EUR)



"Stable SKB Group's net banking income"

Despite high costs of excess liquidity, increased competition in the loan market, the consequent pressure on lowering the loan interest rates and especially in the economy influenced by the Covid-19, SKB Group generated 122.7 million EUR of **net banking income**, by 1.3% less than in 2019. The Covid-19 epidemic affected both the lower loan production and the increased customer savings as well as their more prudent consumption. Thus, net interest income (-3.6%) and net fees and commissions income (-2.8%) decreased, while other non-interest income increased due to higher income from fair valuation of equity investments and loans measured at fair value (+28.7%).

**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

"Interest margin of SKB bank still higher than the average of the Slovenian banking sector"

Revenues generated from interest-bearing businesses present almost two thirds of SKB Group's net banking income and were therefore a key generator of a successful performance. In 2020 SKB Group was active in the field of customer lending and the sales of financial leasing. Due to greater customer caution and the deterioration of the economy due to the COVID-19 epidemic, both in Slovenia and worldwide, customer demand decreased. Similar to the Slovenian banking sector, SKB bank faced excess liquidity, which was created by lower possibilities of placements on one side and increased savings of customers, both individuals and corporations, on the other side. SKB Group optimised its assets and liabilities by diverting part of its excess liquidity into short term placements to the OTP Group and by early repayment of its interbank funding. Decreasing loan interest rates in the market and payments of interest on excess liquidity influenced the decrease of the Group's interest margin by 16 basis points to 2.25% in 2020. Nevertheless, SKB bank still maintained a higher interest margin compared to the average of the Slovenian banking sector.

**Effects on change of SKB Group's net interest income
(in milliono EUR)**



"Financial intermediation margin of SKB bank higher than the average of the Slovenian banking sector"

In order to approach its customers, SKB Group upgraded some of its products and sales channels with new functionalities in 2020. The Group offered its clients Flik, a mobile application for free immediate money transfers between customers of Slovenian banks. SKB Group continued to provide its customers the alternative solution to invest into Moorea and Amundi funds and further adjustment of package offers to clients' needs. The spread of COVID-19 virus has led to lower number of transactions of some of the banking services, particularly those linked to card business and payment transactions. Net fees and commissions income amounted to 32.6 million EUR in 2020, by 2.8% less than in the previous year. Other net income from financial and non-financial assets and liabilities and from other activities has been very volatile in the past few years. This income is highly influenced by the fair valuation of equity investments and by loans measured at fair value; on account of these items SKB group realized by 2.3 million EUR higher income in 2020 compared to 2019.

In 2020, SKB Group achieved a 3.45% financial intermediation margin, with SKB bank's financial intermediation margin exceeding that of the Slovenian banking sector on average.

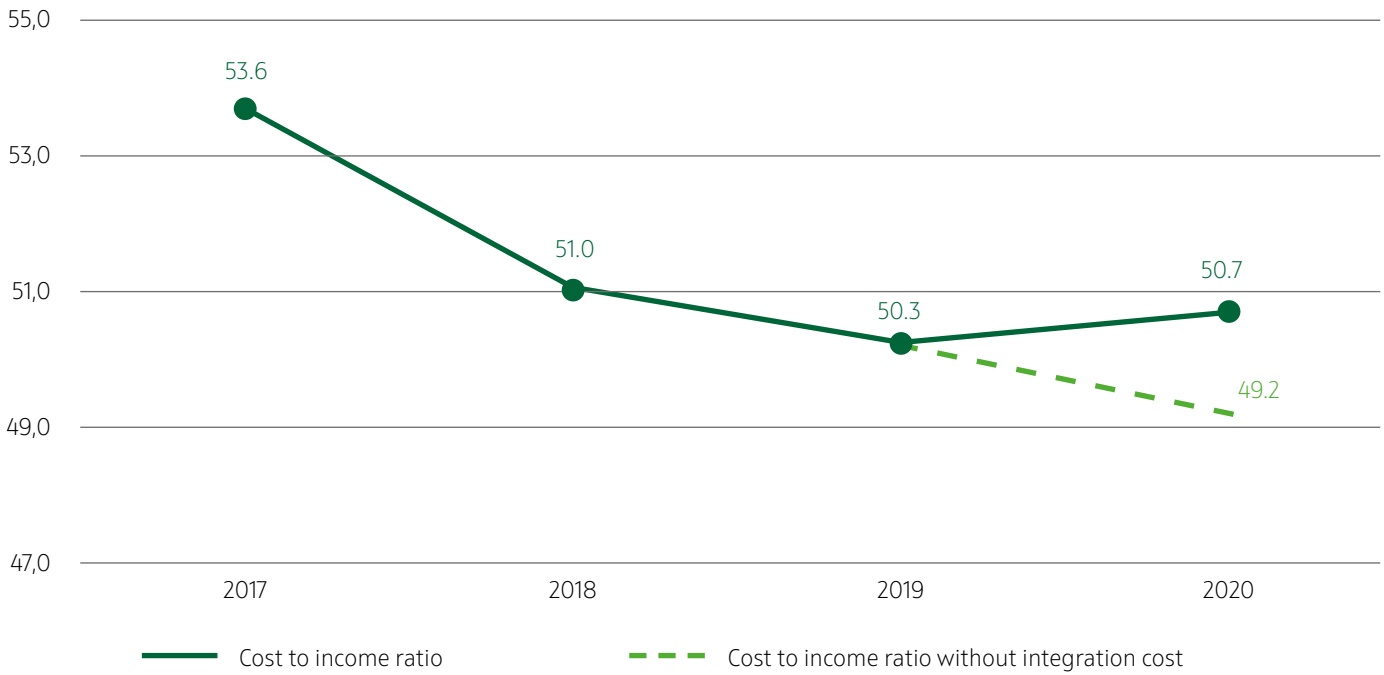
"Efficient cost management – a constant of the SKB Group"

SKB Group continued with automatization, digitalization and optimization of business processes in 2020. At the same time, the Group has been closely monitoring and managing operating expenses, especially administrative expenses. Despite increasing demands from regulators and legislatures and additional costs related to the integration with OTP Group, SKB Group managed to decrease its operating expenses by 0.3 million EUR (-0.5%).

"Better cost efficiency of SKB bank compared to the average in the Slovenian banking sector"

Cost efficiency of SKB Group slightly deteriorated in 2020, as lower revenues could not be fully offset by lower costs; cost to income ratio increased from 50.3% in 2019 to 50.7% in 2020. Excluding integration costs, cost to income ratio of SKB Group would amount to 49.2%, an improvement compared to 2019. Compared to the average of the Slovenian banking sector, SKB bank maintained a more favourable cost to income ratio in 2020.

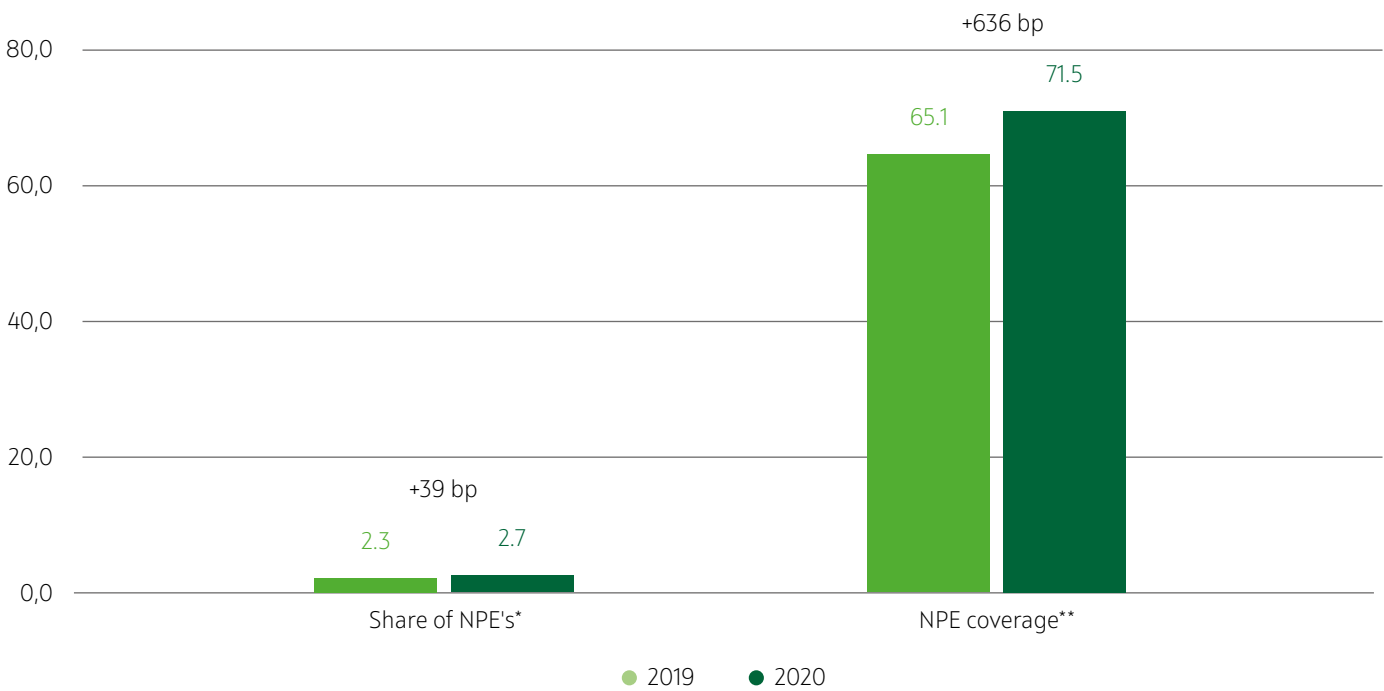
Cost to income ratio of SKB Group (in %)



“Higher net cost of risk due to expected deterioration of the loan portfolio.”

Net cost of risk was a key influence on the net income of SKB Group in 2020.

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



*Non performing (balance sheet) exposure / all balance sheet exposure (without cash balances at central banks and other demand deposits)

**All impairment and provisions / non performing impairment and provisions (without cash balances at central banks and other demand deposits)

The downturn in the economy due to COVID-19 epidemic increased the expectations of a gradual deterioration of the loan portfolio. SKB Group therefore made additional impairments and provisions in 2020, in contrast to 2019 when it recorded income from net cost of risk. The Group increased its coverage ratio from 65.1% at the end of 2019 to 71.5% at the end of 2020. The share of non-performing exposure also slightly increased in 2020, reaching 2.7% at the end of 2020, by 39 basis points higher than at the end of 2019. In 2020 SKB Group also harmonized its methodology for impairment and provisions calculation with the OTP Group, which additionally increased its net cost of risk.

2.2 Financial position of SKB Group

SKB Group (in million EUR)	2020	2019	Difference	Change (%)
Cash, cash balances at central banks and other demand deposits at banks	518.2	250.2	268.0	107.1
Financial assets - securities	587.2	522.5	64.7	12.4
Financial assets at amortised cost - excluding securities	2,456.1	2,510.5	-54.3	-2.2
• Loans to banks	0.1	0.5	-0.4	-81.8
• Loans to customers ⁸	2,453.1	2,505.8	-52.7	-2.1
• Other financial assets	3.0	4.1	-1.2	-28.6
TOTAL ASSETS	3,656.2	3,385.6	270.6	8.0
Financial liabilities measured at amortised cost	3,206.5	2,975.4	231.1	7.8
• Banks and central banks' deposits and loans	76.5	212.0	-135.5	-63.9
• Customer deposits	3,109.6	2,662.5	447.1	16.8
• Customer loans	0.0	70.0	-70.0	-100.0
• Other financial liabilities	20.4	30.8	-10.5	-34.0
TOTAL LIABILITIES	3,250.2	3,020.1	230.1	7.6
TOTAL EQUITY	406.0	365.5	40.5	11.1
TOTAL LIABILITIES AND EQUITY	3,656.2	3,385.6	270.6	8.0

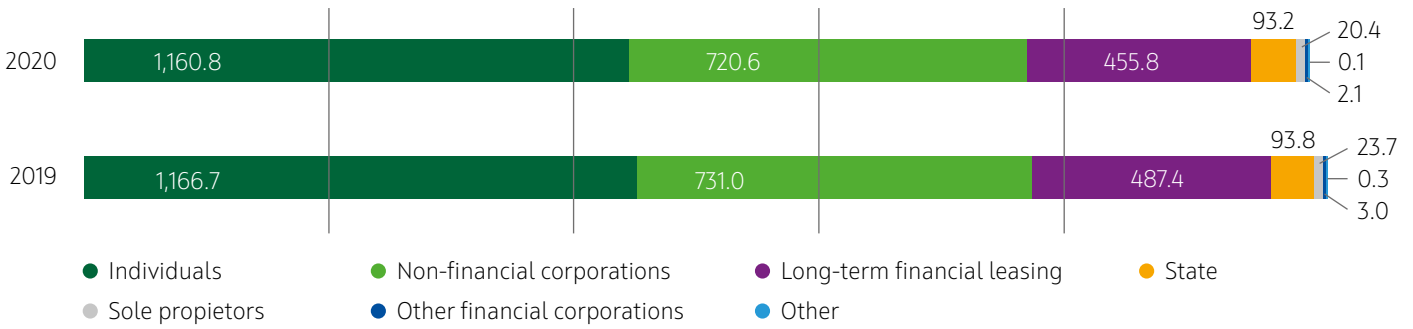
SKB Group's balance sheet total amounted to 3,656.2 million EUR at the end of 2020, an increase of 8.0% compared to the previous year. The increase of the balance sheet is mainly driven by increased volume of customer deposits, which the Group placed into loans to customers, securities and other liquid assets. Loans to customers present 67% of total assets, securities 16% and cash and due from banks 14%. On the liabilities side customer deposits present 85% and equity 11%.

Due to excess liquidity cash, cash balances at central banks and other demand deposits at banks doubled in 2020 and amounted to 518.2 million EUR.

In order to mitigate interest rate risk and optimize interest-bearing assets SKB Group increased its investments in debt securities by 12.4% in 2020. At the end of 2020 SKB Group held 371.8 million EUR of the Republic of Slovenia bonds, 138.0 million EUR of the Republic of France bonds, 53.6 million EUR of the Republic of Hungary bonds, 17.7 million EUR of the Republic of Croatia bonds and a structured deposit in the amount of 6.1 million EUR.

⁸Includes loans measured at fair value and financial leasing.

Customer loans(in million EUR)



"A quality portfolio of loans and financial leasing– a key to successful further development of SKB Group"

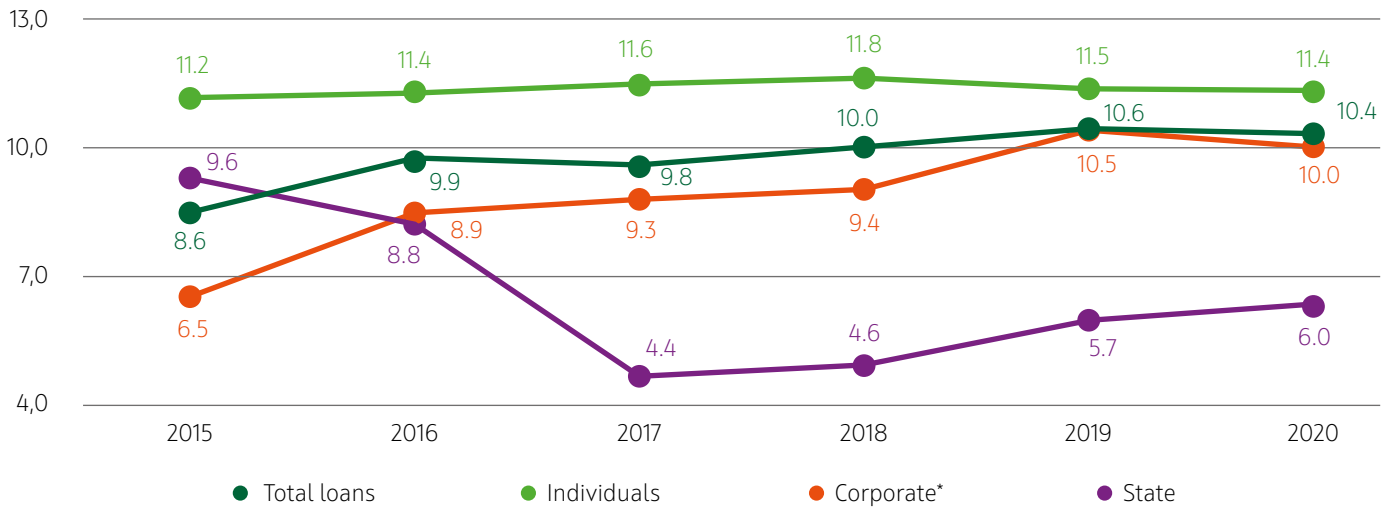
In 2020 loans to customers⁹ of SKB Group amounted to 2,453.1 million EUR, a decrease of 2.1% compared to the previous year. The volume of newly approved loans in 2020 was negatively affected by the outbreak of Covid-19 and the consequent lower customer demand, increased market competition and macroprudential restrictions on individuals' lending, which entered into force in November 2019. Customer participation in moratoria for loans and financial leasing in SKB Group was low (as of 31.12.2020: the approved level of moratoria for loans in SKB bank amounted to 7.0% of gross exposure and for financial leasing in SKB Leasing Group 1.1% of gross exposure). Loans to individuals remained almost at a similar level as in the previous year (-5.9 million EUR or -0.5%). SKB Group increased the volume of housing loans by 1.8% (+16.5 million EUR), while the volume of consumer loans decreased by 6.8% (-15.6 million EUR). Loans to non-financial corporations decreased by 1.4% (-10.4 million EUR) in 2020, mainly on account of lower volume of loans to large corporations. Loans to sole proprietors also decreased (-14.0 % or -3.3 million EUR). Loans to state, other financial corporations and other loans did not change significantly in 2020. The outbreak of Covid-19 also negatively affected financial leasing, which decreased by 6.5% (-31.5 million EUR) in 2020, mostly on account of lower leasing of cars and trucks. Despite the increase in the share of SKB Group's non-performing exposure in portfolio (2.8% at the end of 2020, 2.4% at the end of 2019), SKB Group still holds a quality assets portfolio.

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



⁹Includes loans measured at fair value and financial leasing.

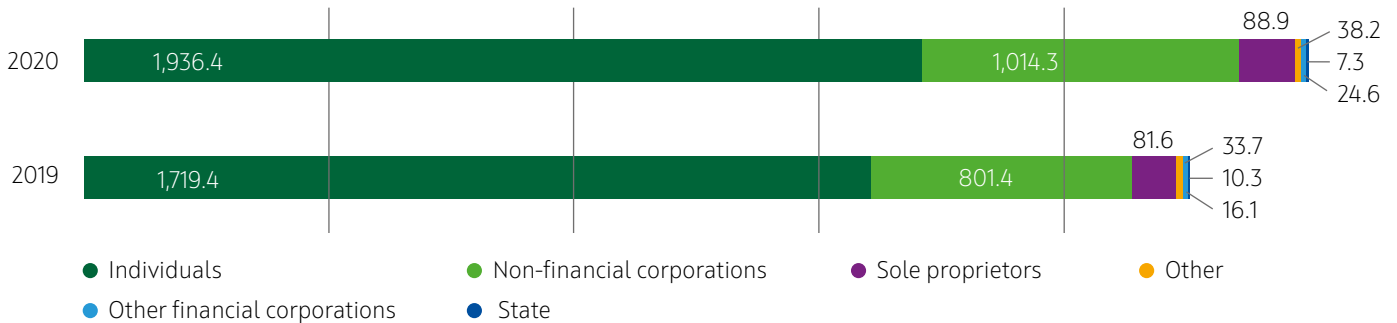
Customer loans market shares (in %)



*Corporate includes non-financial corporations and sole proprietors

Due to optimization of intra-group financing and financing received from international financial institutions, SKB Group's financing decreased by 205.5 million EUR to 76.5 million EUR in 2020.

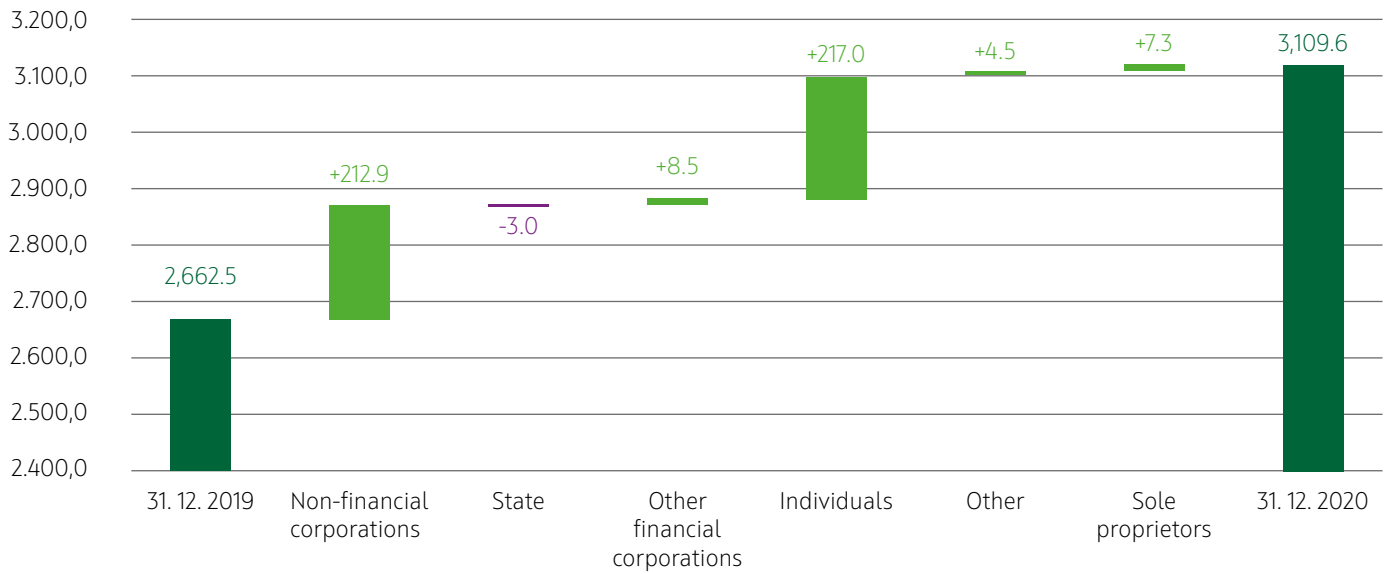
Customer deposits (in million EUR)



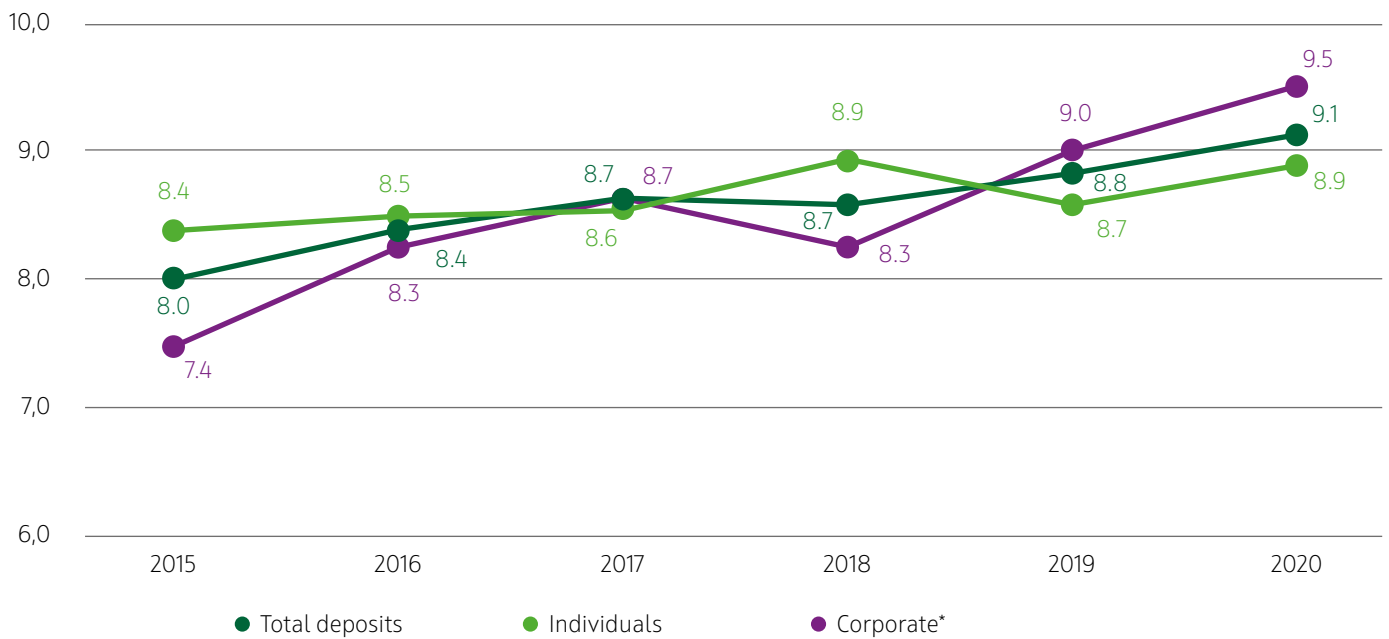
"Optimization of interest bearing assets - one of SKB Group's key focuses"

Customer deposits, which amounted to 3,109.6 million EUR at the end of 2020, increased by 447.1 million EUR (+16.8%) in 2020. The growth of customer deposits was highly influenced by market uncertainty due to the outbreak of Covid-19, which was reflected in lower household consumption and lower corporate investments, and consequently increased liquidity in the banking system. Higher individuals' deposits (+217.0 million EUR or +12.6%), where SKB Group again recorded an increase in sight deposits and in the product savings account triple plus, contributed to increase of customer deposits, followed by higher deposits of non-financial corporations (+212.9 million EUR or +26.6%). Due to low deposit interest rates, growth of deposits with shorter maturities, especially sight deposits, continued in 2020.

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



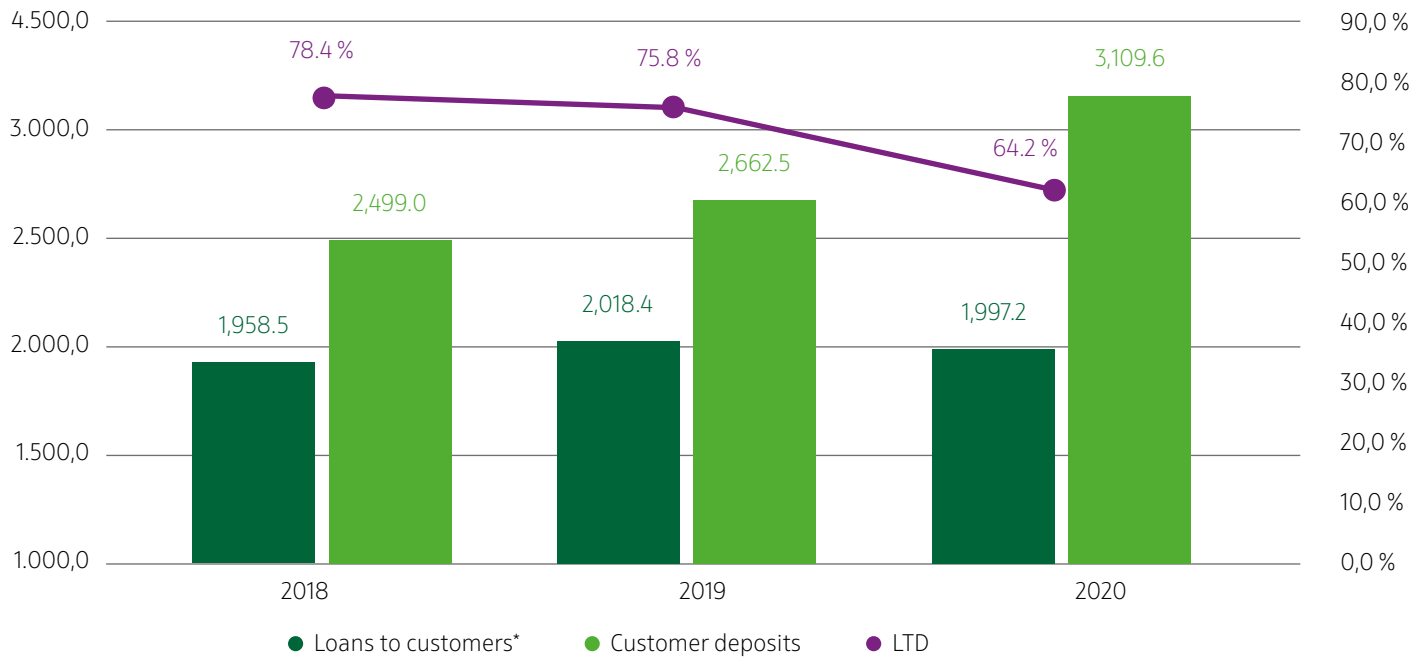
Customer deposits market shares (in %)



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

In 2020, SKB bank increased its market share measured by customer deposits to 9.1% (2019: 8.8%). The market share increased both in the segment of individuals and in the segment corporates.

Ratio between loans to customers and customers deposits (in million EUR and %)



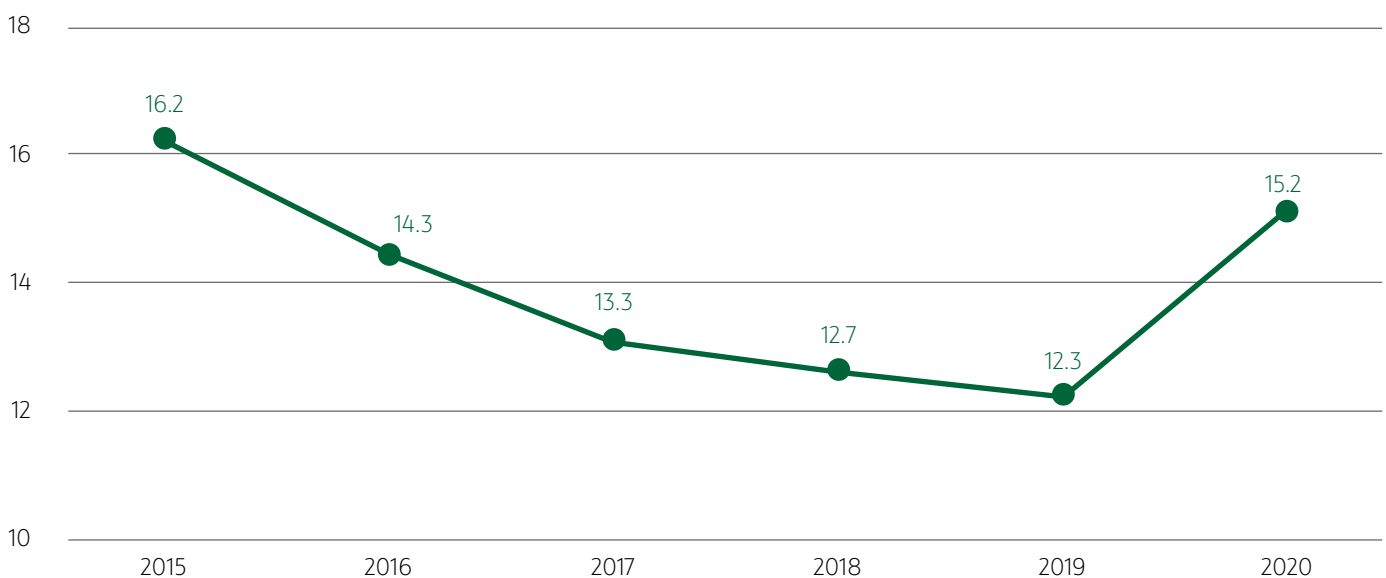
*Includes loans measured at fair value, excludes financial leasing.

At the end of 2020, loans¹⁰ to deposits ratio (LTD) was 64.2% (75.8% at the end of 2019) and decreased mainly on account of higher volume of customer deposits. Due to higher customer deposit growth SKB Group decreased its financing received from international financial institutions and increased its investments in debt securities.

SKB Group's capital base consists entirely of core capital. In 2020 SKB Group additionally strengthened its capital base, as it increased its capital adequacy ratio (ratio between equity and risk weighted assets) by 284 basis points to 15.2%.

"Business model that ensures the capital strength of SKB Group"

Evolution of Capital adequacy ratio (in %)



2.3 Important events after the closing of a business year

No significant circumstances or events occurred after the balance sheet date that would require adjustments of the financial statements.

¹⁰ Includes loans measured at fair value, excludes financial leasing.

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.

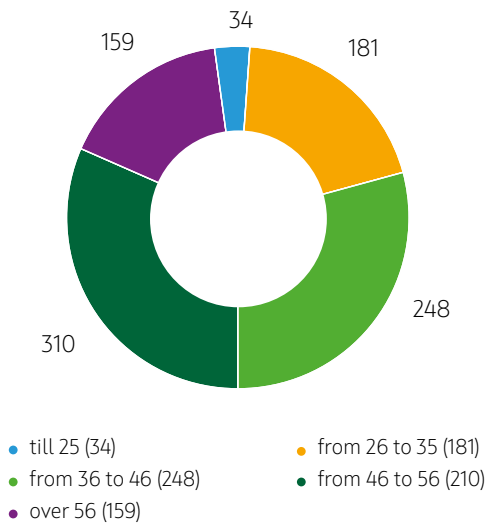
The 2020 Human Resources Structure

At the end of 2020 the SKB Group employed 932 people, of which 848 are bank employees (2019: 826), remaining 84 employees are employed in SKB Leasing and SKB Leasing Select (same number as in 2019). During the year 2020 we hired 97 new employees, their average age was 34,32 years, whereas 74 employees left the Group. Compared to the previous year the number of employees increased by 2,42 %.

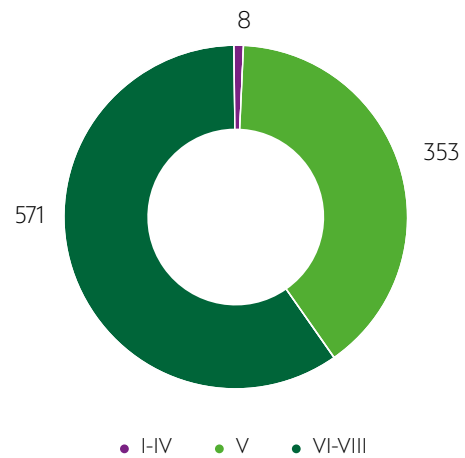
Employees SKB Group	2020	2019	2018
All (31. 12.)	932	910	912
FTE (31. 12.)	893	856	865

In 2020, the average age of employees was 44,4 years, which is slightly higher than in 2019 (44,1 years). The share of employees with post-secondary or third-level education increased by 1,71 %. Thus the Bank employed as many as 571 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 2020 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 2020.

Employee training in 2020

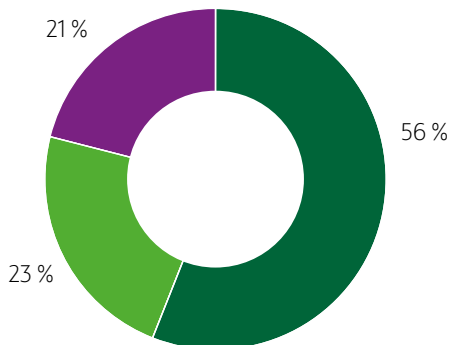
Investments in learning, training and continuous development of employees are great investments for the successful future of the bank.

The needs for learning, training and development of employees come from individual needs related to the professional and personal development of employees, and from business needs related to the business strategy of the bank. Efficient, motivated and committed employees are the key to achieving the bank's strategic and business goals.

Constant changes in the (financial) market, new banking system regulations, adapting the offer to customers and developing new applications and products require continuous learning and training of bank employees. Through learning and training, the SKB bank wants to enable employees to acquire the knowledge and competencies needed for effective work.

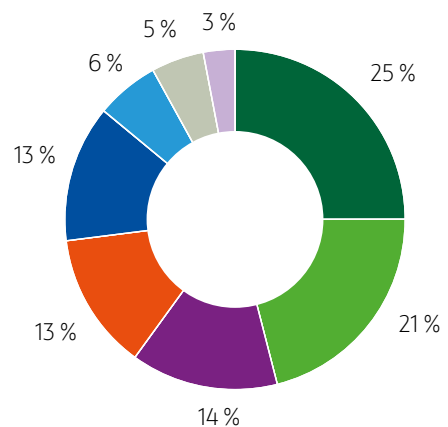
In 2020, the COVID-19 pandemic left its mark also in the field of company's learning and training of employees. The organization and realization of trainings for the most part in 2020 therefore took place under the influence of the situation of the COVID-19 pandemic. Despite the state's measures to limit infections in order to protect the health of employees, customers and other stakeholders, which made it impossible to organize and carry out the planned live trainings, we managed to perform 18 thousand training hours. We are very proud that we have succeeded, in a very short notice, to adapt to the given circumstances and made a big progress in the way of conducting learning and training of employees. In 2019, the majority of the training events were "face to face" performed or carried out in the form of e-learnings. In 2020, also due or especially because of the pandemic situation, we introduced the third method: so called distance learning and use of information and communication technologies for training purposes. There were a lot of trainings carried out through webinars in meetings using applications such as ZOOM, MS Teams, Adobe Connect, Vimeo and others.

Employee training methods in 2020



- e-learning
- face to face training
- on - line (webinarji, Zoom, MS Teams, AdobeConect)

Employee trainings in 2020 by content



- Products, services and business support
- Risk management
- Informatin technology
- Compliance themes
- Soft skills
- Training to obtain licencses
- Other knowledge
- General banking and financial knowledge

In 2020, we started using a new online application designed to implement e-learnings and online learning. It is a modern, rational and efficient way of providing and acquiring relevant banking and insurance training content, learning of compliance themes and other regulatory banking content. Through the new system there were several e-learnings from the field of operational risks, anti-money laundering and terrorist financing prevention, as well as compliance topics in 2020 conducted. The majority of this trainings was mandatory for all employees. The materials for e-learning were mostly prepared by employees, which cover this contents. The new e-learning platform was very well accepted by the employees. This is reflected in the high share of completed e-learnings compared to the share of the other two methods used for employee training in SKB.

Learning and training to which our employees were referred were provided by both internal educators, as part of internal trainings, as well as external training providers. The share of in-house trainings, taking into account self-developed e-trainings, was as much as 49 % in 2020.

In 2020, employees were provided with 17.350 hours of training, which is an average of 20 hours per employee. The largest share of learning and training in terms of content was represented by trainings related to products, services and business support topics. A large part of the increase in this topic is attributed to the intensive and mandatory training of insurance agents and brokers. However, there were many new products and services provided that retail staff had to become familiar with.



17,350 hours
of training



20 hours
per employee



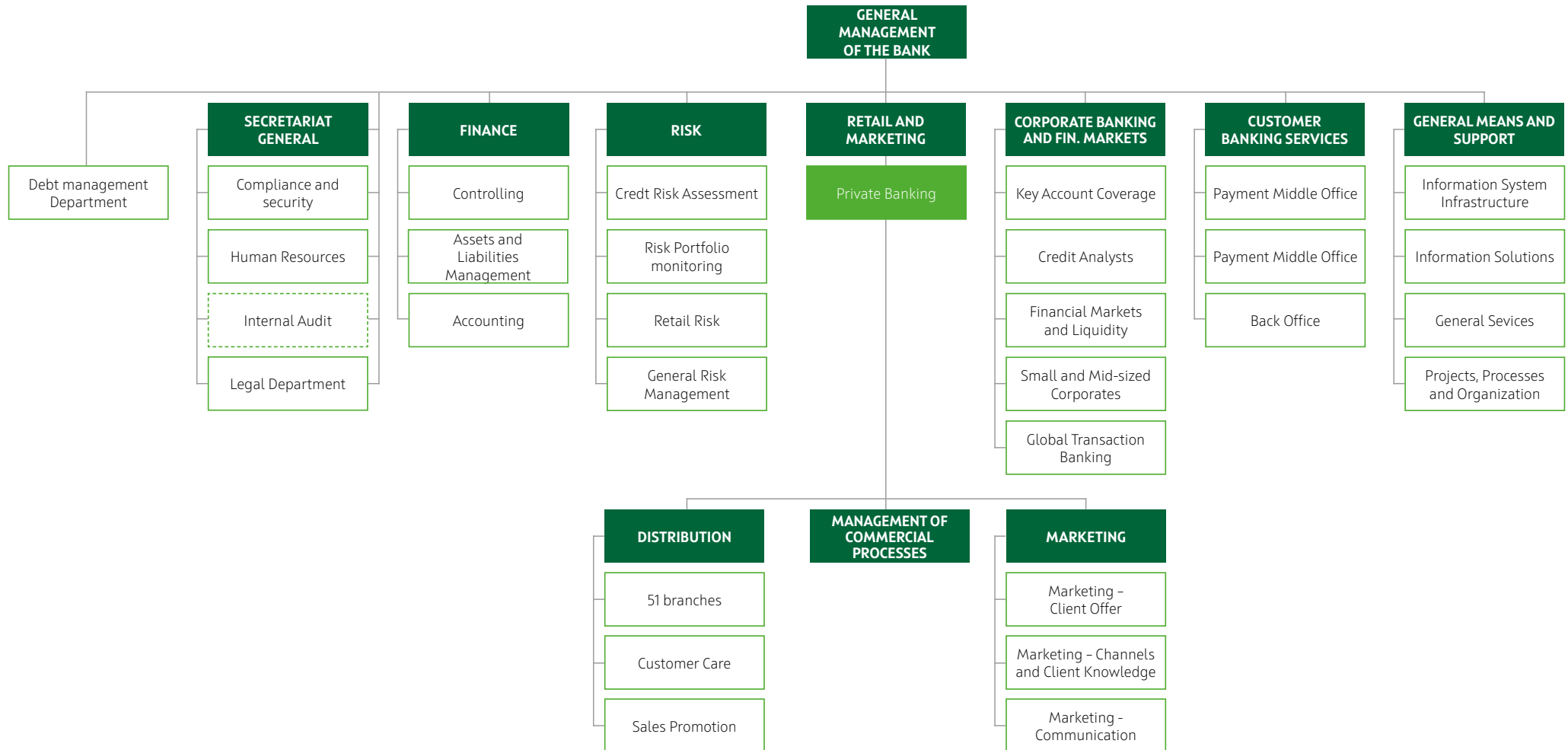
49 %
internal training

Health and safety at work

In 2020 we referred a total of 145 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 2020)



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 Bank's goal is to provide clients with affordable and efficient banking products tailored to their customers' needs.

OTP issues OTP Group's Sustainability Report each year. The report is certified by Deloitte Ltd. It is published at <https://www.otpbank.hu/portal/en/IR/Reports/Sustainability>

4.2 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 continue with new owner OTP Group with 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 2020 in comparison to 2019 for 6,1% (from 5.118 KWH/occupant to 4.808 KWH/occupant) and based on 2014 for 12,9% (from 5.520 to 4.808 KWH/occupant). Part of this significant decrease is related to corona crisis and consequently implementation of work from home and partial closure of branches in spring period of corona crisis. In 2020 we renovated branch Celje in which we installed new LED lighting and new more modern air conditioners. Branch Celje is one of the largest branches in SKB branch network.

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 2021 we are planning the replacement of existing ATM's with new modern ones (less energy consumptive and more environmental friendly). For period 2022-2024 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.

4.3 Client relations

Fair marketing, factual and unbiased information and fair contracts

When working with clients, we follow corporate values and make sure that our documentation is clear, transparent and updated. We are in contact with clients and keep them informed of any changes. We take care of our clients as our strategy dictates, by ensuring professionally trained staff who represent a diverse range of quality products and services, while paying attention to the level of risk the business brings.

Protecting consumers' health and safety

In accordance with the Private Security Act, we care for the safety of clients, employees, and property. We care for the compliance with security policy and ensuring security standards. As part of enabling an appropriate level of security, mechanical, technical, organizational and control measures are implemented, which together ensure an integrated security system. With an emphasis on ensuring that all preventive measures against the spread of the COVID-19 epidemic are respected and considered, we take care of maintaining the health of both our clients and employees.

Consumer services, support and resolution of complaints and disputes

Z By being aware that clients are always at the centre of our attention, we also enable and manage a system of complaints. These helps us build good client relationships and ensure good user experience for our clients. We perform quarterly reviews of the Client Complaints Report, in which the Client Experience Committee participates with the presence of the Bank's Management. By preparing short weekly reports, we try to monitor the level of our clients' satisfaction. We regularly monitor the client's experience and measure it with a survey upon completed contact with the Bank.

Consumer data protection and privacy

At the SKB Group, we understand respect for the personal data protection and privacy as a fundamental right of our clients. We also follow this by complying with the General Data Protection Regulation. Through the review of all processed data, risk assessment and risk mitigators were provided. By agreement, the same level of personal data protection is provided with all processors. Consumers are informed about all rights related to the protection of personal data via the official website. Over dpo@skb.si the parties may contact the person authorized for the personal data protection, where the requests are resolved within the prescribed time frame.

Access to basic services

The SKB Bank's goal is to enable clients to operate at a cost-effective and efficient way with banking products tailored to client needs. For this purpose, we offer banking packages (Moj S, Moj M, Moj L) which include a range of banking products according to the volume of the client's business with the Bank. The packages bring transparency in terms of monthly fees which are fixed. If a client perceives that their needs have changed, they can always change the selected package. In addition, we offer clients a free personal account without management fees for the purpose of receiving regular revenues, and all other banking services can be added according to the Bank's regular price list. Clients with special social status also have access to a basic personal payment account including basic daily banking services. It turned out that SKB Bank also largely provides clients with successful and efficient daily operations with the bank remotely, which is especially important in situations such as the epidemic period.



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 174 different training themes which represents 17.350 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 our new e-learning platform providing and acquiring relevant banking and insurance training content.

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 values 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 of 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 2020.

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 2020 the SKB Board of Directors had out of seven members four female members, the Bank's Management had two female members; the wider management of the bank had out of four members one female member; 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 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.

4.6 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.

4.7 Inclusion and development of society

Inclusion into society

For many years, SKB Bank has been committed to being socially responsible and supporting sustainable development, since social inclusion and commitment to the environment are key to success. Our support and commitment to the functioning of the environment in which we operate takes place through support, sponsorships, donations, and other forms of involvement in cultural, sports, educational, humanitarian and philanthropic organizations and their projects.

Education and culture

At the SKB Bank, we strive to provide our employees and clients with continuous training in the field of personal and corporate finance. In addition to educational work, we also enable employees to participate in sports projects, and occasionally we organize gymnastics for employees, which is organized under professional guidance and serves as a short relaxation recreation during working hours. We also strive to take care of the environment. With the urban beekeeping project, which contributes to the preservation of Kranjska sivka, which is an autochthonous species of bees in the Slovenian environment, we continue with the project "Z naravo v mestu" (Nature in the city). Maintenance and care of the urban apiary also allows us a unique team building, combining the pleasant with the useful. In 2020, we also supported the Slovenian culture and became a proud sponsor of the 2020/2021 season at the SNG Opera in balet Ljubljana. As part of the sponsorship agenda, we provide our employees with tours of cultural performances, to which we are happy to invite our valued clients, thus expressing them our gratitude for the trust and long-term and strong business relationships.



Job creation and skills development

We are aware of the importance of expanding the knowledge and the circle of colleagues who are with us or join us. Therefore, we appear on many platforms where we reach a large and diverse circle of potential new employees. In 2020, we intensively adapted to the situation and enabled our new employees to introduce themselves to us at remote interviews via video links. Thus, in 2020, more than 80 new employees were hired. The education methods have also adapted to the new situation, so education sessions and trainings are now carried out remotely facilitated by the successfully introduced new e-Campus tool, where employees are trained and, upon completion, also take a test. All this helps us as a company to pursue common goals and be a successful and development-oriented bank. In addition, within the strategy and development program we employ experts of various profiles and create new positions that were unusual for the Bank until recently. Thus, the Bank is increasingly becoming an employer with a multidisciplinary expert team.

Development and accessibility of technology

The future of banking lies in the search for innovative solutions and digitalisation. These are also our values in the development which enable clients to simplify the procedures and processes through which they work with the Bank and benefit from banking products and services. That is why SKB Bank is also striving to upgrade already existing banking products of the future, such as mobile and web bank. At the same time, we constantly monitor client experience through research and develop solutions based on the results. We want to bring our Bank even closer to our clients and be available to them anywhere and anytime, while also aiming to expand the range of services and products that clients can conclude without visiting a branch.

Access to modern working methods and technologies is also important for employees. Thus, during the COVID-19 epidemic, we provided more than 500 employees of the Bank and Leasing, whose nature of work allowed it, with the opportunity to work from home and thus limit the exposure of employees. The new technology has also been used to facilitate new way of conducting meetings, organizing workshops and trainings, and managing internal processes.

Wealth and income generation

The SKB Group strives to cooperate with and involve local suppliers in the projects and challenges we face. By doing so, we wish to cooperate in supporting the development and growth of the Slovenian experts and companies. With the desire to cooperate and integrate into the environment in which we operate, we monitor and support projects and initiatives of local communities.

Health

In 2020, we were particularly reminded that health comes first. For the 27th year in a row, SKB Bank has been a supporter of the Slovenian sport and a proud main sponsor of the Olympic Committee of Slovenia (OKS).



GLAVNI SPONZOR

For several years now, we have also been showing support in the form of personal sponsorship to a top Slovenian athlete, Maruša Mišmaš, who is also an ambassador of the SKB movement #Vztrajam, which calls on people to engage in sports and maintain a healthy lifestyle.



We also successfully continued with the motivational orientation and movement #Vztrajam, which goes beyond the boundaries of sport, as it motivates us in all life projects and goals. Through communication channels such as social networks, we reach a wide range of people and give them the opportunity to share their challenges, victories, and experiences with us, and we encourage them to activate and achieve their goals through motivational videos and messages. There are quite a few extremely successful #Vztrajam challenges we have prepared for internal and external participants during the last year.

#VZTRAJAM



The support for strengthening good health and care for health was also demonstrated through the work of SKB Sports Association. The latter includes good third of all employees, among them as many as a tenth of retired employees of the SKB Group. The offer for employees includes regular weekly activities, as well as sports events for employees, including: Bankers' Sports Games of Slovenia, Winter Bankariada, SKB Cup, Ljubljana and Istria Marathon, which were not held in 2020 due to the epidemic.

Social investments

SKB has been the main sponsor of the Olympic Committee of Slovenia (OKS) since the very beginning of the organization's establishment, which dates back more than a quarter of a century. The commitment to the Slovenian sports with the main sponsorship of the Slovenian Olympians further emphasizes one of the main corporate values—team spirit. We pass on the Olympic values, such as team spirit, hard work, perseverance, commitment, sacrifice and professionalism, to our employees through sponsorships, which they live both in relation to colleagues and in relation to clients. In cooperation with the Olympic Committee of Slovenia, our employees participate in sports events and challenges—recently also adapted to the situation in virtual format.

As supporters of sports, in 2020 we also contributed to the Fundacija Mira Cerarja, which operates under the auspices of the OKS and supports young athletes from socially disadvantaged backgrounds. We also support the operations of the SKB Pensioners' Association and the work of the SKB Sports Association, and we offer young OKS scholarship holders from socially disadvantaged families a tailored banking offer.

In 2020, many people found themselves in distress. Therefore, at SKB Bank we wanted to make this year—for some even more difficult, at least a bit more beautiful for those who are most vulnerable. With the donation, we supported the work of the humanitarian organization Zveza prijateljev mladine Slovenije (Slovenian Association of Friends of Youth), whose basic goal is to raise the quality of life of children, adolescents, and families.

As far as payments for charity purposes are concerned, we do not charge the payment fees to more than 60 different humanitarian organizations and associations, and in this way, we also contribute to the environment in which we operate.

5. Corporate governance

5.1. System of internal controls

Within the stable internal governance arrangement, the bank must also establish appropriate mechanisms of internal controls, which also includes adequate administrative, technical and accounting procedures. The General Management must establish the organisation of a system of internal controls to which the Board of Directors gives its approval.

Mechanisms of internal controls include internal controls and functions of internal controls: Internal audit, risk management functions of various risks or individual demands/conditions for the banking operation, compliance function and data protection function. The bank set up an effective structure of internal controls as a basis for performance of internal control's activities which must be performed on all the levels of organisational structure of the bank and on the level of each financial service and within the framework of daily business activities of the bank, including monitoring of activity of information systems and bank's employees' activity. The bank must ensure operation of established internal controls. Main findings of internal control's activities together with resolutions belonging to them must be duly documented. Internal controls shall include at least: reporting, operational procedures including IT systems, segregation of responsibilities, risk exposure limits, logical and physical controls.

The system of internal controls enables the General Management to control business activities and risks connected with them with the objective to increase the efficiency and efficacy of operation as well as to assure diligent and safe operation of the bank. Internal controls in place, their performance and monitoring ensures – beside other policies and procedures – the General Management and other holders of internal control to become aware in time of internal and external environment risks and to initiate all necessary measures. System of internal controls is/must be independent from business areas, which it monitors and supervises.

The system of internal controls includes, among others:

- Management review and control culture,
- Recognition and evaluation of risks,
- Control activities and distribution of competences,
- Information and communication and
- Supervision activities and elimination of deficiencies.

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

- Permanent controls (i.e. permanent supervision, first level of controls),
- Periodic controls (i.e. internal audit).

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

- Daily controls & Managerial supervision as permanent form of control, first level,
- Risk management and Compliance function controls – second level,
- Internal audit as periodical form of control, third level.

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.

5.1.1 Permanent control

Permanent supervision as task of the management of the bank is a first level of verification 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 which regulate concrete tasks of individual organisational units as well as the day to day accounts controls they are in charge of. Moreover, it includes the day to day supervision of their work by their hierarchical senior, including simultaneously elimination of irregularities. Day to day controls, included in a business process, which are for example: physical controls, verification of compliance with defined limits, established system of approvals and authorisations, system of verification and reconciliation, reporting system, may be a part of informational supported system of the bank or a part of operational processes.
- Formalized managerial supervision by the heads of the bank's organizational units or other persons independent of the business process, in the form of periodic verification of the correct use and implementation of work procedures and control of sensitive accounts in accordance with control guidelines. Periodic inspections are reported hierarchically.

5.1.2 Periodical forms of controls

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

Tasks of Internal audit are mainly as follows:

- monitoring and evaluation of efficiency of internal governance arrangements, including review of adequacy and efficiency of operation internal control system assessment of process of the bank's appropriate own funds estimation in terms of its risk evaluation,
- assessment of reliability of the information system, including the electronic information system and electronic banking services,
- assessment of accuracy and reliability of bookkeeping records and financial reports,
- verification of completeness, reliability and promptness of reporting in compliance with regulations,
- verification of conformity of the bank's conduct with regulations, internal rules and measures adopted on their basis,
- conducting special investigations at the request of 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 valid Rules on Internal audit operation (adopted by the General Management and confirmed by the Board of Directors).

Internal audit may, together with Internal Audit Directorate from the OTP Group conducts audit and advisory missions, investigations and verifications related to all aspects of business and to the management of the entities within SKB Group. In line with international rules and standards and Slovene regulation on internal governance SKB has implemented and detailed internal control mechanisms.

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 has also been defined in the Rules on the work of the Internal Audit Department of SKB d.d. In line with the integration process within OTP Group, the Department successfully adopted the OTP IAD Group methodological package (SIAS - Standardized Internal Audit System) by introducing some new practices and audit techniques, together with new reporting templates and assessment scales. The independent set up and efficient governance has been kept unchanged, with the basis provided in the new Internal Audit Charter, supplemented by Internal Audit Procedure, aligned within the OTP IAD group organization. Keeping the best practices from the past and considering the new owner's Group requirements and expectations, the organizational independence of the Department has been effectively achieved also during the year 2020.

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 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 fulfilment of all regulatory requested missions. In addition, it also provides coverage for both 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 own internal risk assessments of the bank's risks and business areas priorities. 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 internal frauds are suspected; when major irregularities are discovered or when higher risks arise).

During the year 2020, the Audit Plan for 2020 was successfully completed by performing 15 engagements, at the end of December 2020, 4 reports were in status "draft report issued" and were finalized within the month of January 2021. One audit mission, foreseen in the Annual Audit Plan, was cancelled with the consent of the Board of Directors, due to important ongoing changes in the Risk management. One audit mission was added to the audit plan due to changed circumstances and situation caused by COVID-19 pandemic (Review of access rights management), while the bank management requested an unplanned mission in the area of COVID-19 moratoria.

Moreover, the Department also performed an unplanned mission on LCR as requested by the Bank of Slovenia. In addition, Internal Auditors devoted significant time to assure strict and regular follow up of open recommendations, including recommendations issued by the ECB/Bank of Slovenia, gave advice, while constantly assuring enriched expertise within the team of 8, 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 recommendations issued. During 2020 internal 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 shared within the new 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 Act⁹.

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 banks¹⁰ 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 guidelines¹¹.

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.

The Bank has an effective risk management system in the field of prevention of money laundering and terrorist financing in line with the law¹² which includes the function of prevention of money laundering and terrorist financing.

⁹ Banking act (ZBan-2), Official Gazette of RS, No. 25/15, 44/16, 77/16, 41/17, 77/18;

¹⁰ 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;

¹¹ <https://www.bsi.si/en/financial-stability/regulation>

¹² Prevention of Money Laundering and Terrorist Financing Act (ZPPDFT-1), Official Gazette of RS, št. 68/16 and 81/19

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 2020. The OTP Bank Nyrt is the only shareholder with a 100-percent stake in the Bank.

Shareholders' Equity structure	SKB GROUP		SKB BANK		SKB LEASING	
	amounts in K EUR		2020	2019	2020	2019
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	24,719	19,049	24,875	19,201	(155)	(152)
Reserves from profit	29,106	29,106	29,106	29,106	2,181	2,181
Retained earnings	160,462	106,349	143,462	91,378	2,021	2,021
Income from current year	34,850	54,105	35,379	52,084	12,326	17,251
Total Shareholders' Equity	405,982	365,454	389,667	348,614	38,441	43,369

SKB Share - in EUR	2020	2019
Net assets per share as at 31 December on a consolidated basis	32.10	28.89
Earnings per share on a consolidated basis	2.76	4.28
Net assets per share as at 31 December - the Bank	30.81	27.56
Earnings per share - the Bank	2.80	4.12

Shareholder's Structure

As of 24.06.2020 OTP Bank Nyrt is the only shareholder with a 100-percent stake in the Bank.

As at 31 December 2020, the Bank had no treasury stock.

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 organisation unit 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,
- 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 2020 one General Meetings of Shareholders was convened.

At its 35rd session the General Meeting, held on 11 May 2020, the following resolutions were adopted:

I.

General Meeting of Shareholders of the bank adopts the Report on internal auditing in 2019.

II.

The distributable net profit for the business year 2019 amounts to 141.306.703,67 EUR, with a net profit for the business year 2019 in the amount of 52.084.137,04 EUR. The distributable net profit will not be distributed to the shareholders and will remain unallocated. With the date of shareholders meeting the distributable net profit is transferred from net profit of business year 2019 to retained earnings.

III.

1. The General Meeting grants discharge to Milan Žiaran, member of the Board of Directors, for his work in the mandate from 23.7.2019 till 13. 12. 2019
2. The General Meeting grants discharge to Clara-Elen Grigore, member of the Board of Directors, for her work in the mandate from 1. 1. 2019 till 13. 12. 2019.
3. The General Meeting grants discharge to Andre Gardella, member of the Board of Directors, for his work in the mandate from 1.1.2019 till 13.12.2019.
4. The General Meeting grants discharge to Marija Koytcheva Rousseva, member of the Board of Directors, for her work in the mandate from 1. 1. 2019 till 13. 12. 2019.
5. The General Meeting grants discharge to Jean-Philippe Guillaume, member of the Board of Directors, for his work in the mandate from 1. 1. 2019 till 13. 12. 2019.
6. The General Meeting grants discharge to Milorad Katnić, member of the Board of Directors, for his work in the mandate from 1. 1. 2019 till 13. 12. 2019.
7. The General Meeting grants discharge to Pierre-Yves Demoures, member of the Board of Directors, for his work in the mandate from 1. 1. 2019 till 13. 12. 2019.
8. The General Meeting grants discharge to Manica Novak, member of the Board of Directors, for her work in the mandate from 23. 7. 2019 till 26. 7. 2019.

IV.

1. The General Meeting gets acquainted with and accepts Manica Novak's resignation statement with effect as of 26. 7. 2019.
2. The General Meeting gets acquainted with and accepts Milan Žiaran's resignation statement with effect as of 13. 12. 2019.
3. The General Meeting gets acquainted with and accepts Branko Mikša's resignation statement with effect as of 7. 11. 2019.

V.

1. The Board of Directors consists of eight members. This is without prejudice to the right of workers to elect workers' representatives for the members of the Management Board in accordance with the regulations on workers' participation in management.
2. The General Meeting appoints Miklós Németh as new member of the Board of Directors as of today's session of the General Meeting.
3. The General Meeting appoints Tamás Kamarási as new member of the Board of Directors as of today's session of the General Meeting.
4. The mandate of the newly appointed members of the Board of Directors lasts 4 years from the day of their nomination for members of the Board of Directors by the General Meeting of Shareholders.
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, Management body and Internal Capital Adequacy Assessment Process for Banks and Savings banks.

VI.

1. The members of the Board of Directors – Non-executive Officers shall receive a monthly remuneration in the amount of 800 € (net) for performing their function.
2. The President of the Management Board shall receive 1,200 € (net) monthly for the chairmanship.
3. The members of the Board of Directors and its Committees who are not employed in SKB Group / OTP Group are entitled to reimbursement of travel expenses and other expenses related to the function performed.
4. SKB d. d. shall not pay out either the profit sharing or rewards with options or other comparable financial instruments to the members of the Board of Directors – Non-executive Officers and members of the Committees for their work in the Board of Directors and its Committees.
5. The Resolution on the amount of remuneration of the members of the Board of Directors and its Committees adopted at the 32nd General Meeting of SKB d.d. on 29. 5. 2018 ceases to apply.
6. The Resolution applies as of 1. 1. 2020.

VII.

The General Meeting validates the Policy of assessment and selection of candidates for appointment as members of the Board of Directors of SKB bank d.d. Ljubljana.

VIII.

The General Meeting gets acquainted with the written report of the main shareholder OTP BANK NYRT., Nádor utca 16, 1051 Budapest, Hungary, reg.no. 01-10-041585, tax number (EU): HU17780010 (hereinafter also: the main shareholder) under paragraph 2 of Art. 386 of the Companies Act (ZGD-1), in connection with the proposed Resolution on transfer of shares of the remaining shareholders of the company SKB d.d. Ljubljana, Ajdovščina 4, 1000 Ljubljana (hereinafter: the company) to the main shareholder against the payment of an adequate financial compensation, including all assumptions for the transfer of shares held by the minority shareholders to the main shareholder and adequacy of the financial compensation offered by the main shareholder to the minority shareholders.

It is established that the main shareholder holds 12,617,153 ordinary shares (designated SKBB) of the company out of the total share capital of the company, divided into 12,649,200 SKBB shares with ISIN code SI0021103013 which are ordinary, freely transferable, bearer, no-par value shares with the voting right, issued in dematerialized form, entered in the central register of securities managed by KDD Centralna klirinško depotna družba delniška družba (Central Clearing House and Depository), Tivolska cesta 48, 1000 Ljubljana (hereinafter: KDD), meaning that, by taking into account paragraph 2 of Art 384 of the Companies Act (ZGD-1) and paragraphs 2 and 4 of Art. 528 of the Companies Act (ZGD-1), the main shareholders controls 99,7466 % stake in the share capital of the company with the voting right.

All shares of the company that are not held by the main shareholder shall be transferred to the main shareholder against the payment of financial compensation the amount of which is defined in paragraph 7 of this Resolution adopted by the General Meeting and shall be paid out to the minority shareholders /eligible persons under paragraph 6 of this Resolution.

With the entry of this Resolution on transfer of shares in the Court register, in line with Art. 387 of the Companies Act (ZGD.1), all shares of the company held by the minority shareholders shall be transferred to the main shareholder.

Following the entry of this Resolution on transfer of shares to the main shareholder in the Court register and pay-out of the financial compensation for the account of all minority shareholders KDD, the main shareholder has to submit, in line with paragraph 2 of Art. 23 of the Dematerialized Securities Act (ZNVP-1), a request for transfer of shares of the company from the account of minority shareholders to the account of the main shareholder.

In line with paragraphs 2 and 3 of Art. 23 of the Dematerialized Securities Act (ZNVP-1) the following persons are eligible for the financial compensation which shall be paid out by KDD under this Resolution:

- Minority shareholders being registered by KDD as shareholders on the day of the entry of the Resolution on transfer of shares to the main shareholder in the Court register,
- Right holders or pledgees of shares of the minority shareholders being registered by KDD as right holders on the on the day of the entry of the Resolution on transfer of shares to the main shareholder in the Court register.

Immediately after the entry of this Resolution on transfer of shares in the Court register the main shareholder shall pay out, in favour of KDD, the financial compensation for the account of all minority shareholders in the amount of 25.54 EUR per share of the company being held by the minority shareholders on the day of entry of this Resolution in the Court register.

The General Meeting is notified that upon the main shareholder's request Banka Intesa Sanpaolo d.d., Koper, Pristaniška ulica 14, 6000 Koper – Capodistria, had already submitted a statement for being jointly and severally liable to fulfil the main shareholder's obligation to pay out, in favour of KDD for the account of all minority shareholders, the financial compensation immediately after the entry of this Resolution on transfer of shares in the Court Register.

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 2020 – 11 May 2020 the Board of Directors was composed of six (6) members, namely:

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

In the period 11 May 2020 – 3 August 2020, the Board of Directors was composed of eight (8) members, namely:

- Dr. Zsolt Barna, President
- Imre Bertalan, Deputy President
- Anna Mitkova Florova, member
- Draga Cukjati, member
- Tamás Kamarási, member
- Dr. Miklós Németh, member
- Anita Stojčevska, member, Chief Executive Officer
- Vojka Ravbar, member, Deputy Chief Executive Officer

In the period 3 August 2020 – 14 September 2020, the Board of Directors was composed of seven (7) members, namely:

- Imre Bertalan, Deputy President
- Tamás Kamarási, member
- Anna Mitkova Florova, member
- Draga Cukjati, member
- Dr. Miklós Németh, member
- Anita Stojčevska, member, Chief Executive Officer
- Vojka Ravbar, member, Deputy Chief Executive Officer

In the period 14 September 2020 – 31 December 2020 and as at 31 December 2020, the Board of Directors was composed of seven (7) members, namely:

- Imre Bertalan, President
- Tamás Kamarási, Deputy President
- Anna Mitkova Florova, member
- Draga Cukjati, member
- Dr. Miklós Németh, member
- Anita Stojčevska, member, Chief Executive Officer
- Vojka Ravbar, member, Deputy Chief Executive Officer

In the period 1 January 2020 – 19 June 2020 the members of the Committees of the Board of Directors were:

Audit Committee:

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

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

In the period 19 June 2020 – 14 September 2020 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:

- Tamás Kamarási, President
- Draga Cukjati, member
- Imre Bertalan, member

Compensation Committee:

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

Nomination Committee:

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

In the period 14 September 2020 – 31 December 2020 the members of the Committees of the Board of Directors were:

Audit Committee:

- Draga Cukjati, President
- Tamás Kamarási, member
- Anna Mitkova Florova, member

Risks Committee:

- Tamas Kamarasi, President
- Draga Cukjati, member
- Dr Miklós Németh, member

Compensation Committee:

- Dr Miklós Németh, President
- Imre Bertalan, member
- Anna Mitkova Florova, member

Nomination Committee:

- Anna Mitkova Florova, 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 as at 31 December 2020:

- Imre Bertalan is
 - non-executive member of the Board of Directors of SKB d.d. Ljubljana
 - non-executive member of the Board of Directors of Vojvodjanska banka a.d., Serbia
- Draga Cukjati is
 - non-executive member of the Board of Directors of SKB d.d. Ljubljana
 - 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

- Tamás Kamarási is
 - non-executive member of the Board of Directors of SKB d.d. Ljubljana
 - non-executive member of the Board of Directors of Crnogorska komercijalna banka a.d. Montenegro
- Dr. Miklós Németh is
 - non-executive member of the Board of Directors of SKB d.d. Ljubljana
 - non-executive member of the Board of Directors of Crnogorska komercijalna banka a.d. Montenegro
 - non-executive member of the Board of Directors of OTP Real Estate Investment Fund Plc.
 - non-executive member of the Board of Directors of PortfoLion Plc
 - non-executive member of the Board of Directors of OTP Real Estate Plc
 - executive member of Air-invest Ltd.
 - executive member of OTP Financing Netherlands B.V
- Anna Mitkova Florova is
 - non-executive member of the Board of Directors of SKB d.d. Ljubljana
- Anita Stojčevska is
 - executive member of the Board of Directors of SKB d.d. only
- Vojka Ravbar is
 - executive member of the Board of Directors of SKB d.d. only

General Management of SKB d.d. in the period 1 January 2020 – 31 December 2020

- 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 Bank 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 2020 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 2020, the Board of Directors is composed of seven (7) members – four (4) women and three (3) 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, 29. 3. 2021



Vojka Ravbar
Deputy Chief Executive Officer



Anita Stojčevska
Chief Executive Officer

Governance statement of SKB Leasing d.o.o.

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, 29. 3. 2021



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 2020 there was no disadvantage for SKB d.d., which would have to be replaced.

Ljubljana, 29. 3. 2021



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 2020 there was no disadvantage for SKB Leasing d.o.o., which would have to be replaced.

Ljubljana, 29. 3. 2021



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 2020 there was no disadvantage for SKB Leasing Select d.o.o., which would have to be replaced.

Ljubljana, 29. 3. 2021



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 2020:

Finance:

- Spyridon Ntallas, Director of Finance Division

Risk:

- Csaba Csikos, Director of Risk Division

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

Important data and business performance indicators –

Important data and business performance indicators – SKB Group

SKB Group	12. 2020		12. 2019		12. 2018	
	amount in 000 EUR / ratios in %	index	amount in 000 EUR / ratios in %	index	amount in 000 EUR / ratios in %	index
I. BALANCE SHEET						
1. Balance sheet total	3,656,175	108	3,385,551	102	3,313,949	104
2. Deposits from non-bank clients	3,109,643	114	2,732,541	109	2,499,003	107
a) from legal and other persons	1,046,183	117	897,841	117	768,455	90
b) from citizens	2,063,460	112	1,834,700	106	1,730,548	116
3. Loans to non-bank clients	2,453,075	98	2,505,789	103	2,440,345	107
a) to legal and other persons	990,034	98	1,013,718	102	998,264	80
b) to citizens	1,463,041	98	1,492,071	103	1,442,082	140
4. Overall equity capital	405,982	111	365,454	103	356,495	97
5. Provisions and impairments	97,456	142	68,504	70	97,633	68
6. The volume of off-balance sheet business	1,361,518	98	1,387,888	92	1,510,644	121
II. PROFIT AND LOSS ACCOUNT						
1. Net interest	79,895	96	82,843	101	82,258	105
2. Net non-interest income	42,771	103	41,358	98	42,006	128
3. Costs of labour, materials and services	56,116	100	56,146	97	57,895	111
4. Depreciation/amortization	6,101	95	6,413	117	5,503	94
5. Net cost of risk and provisions	18,509	-915	(2,023)	21	(9,525)	1966
6. Profit or loss before taxation	41,940	63	66,551	95	70,399	133
7. Tax on profit	(7,090)	57	(12,446)	97	(12,830)	132
Other comprehensive income before tax	7,014		2,211		(6,930)	
Income tax relating to components of other comprehensive income	(1,343)		(444)		1,315	
III. EMPLOYEES						
Number of employees	932		910		912	
IV. SHARES						
1. Number of shareholders	1		98		104	
2. Number of shares	12,649,200		12,649,200		12,649,200	
3. Belonging amount in the share capital per nominal par-value share (in EUR)	4.1729		4.1729		4.1729	
4. Book value per share (in EUR)	32.10		28.89		28.18	

SKB Group	12. 2020		12. 2019		12. 2018	
	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						
1. CET1 capital ratio	15.16		12.32		12.69	
2. T1 capital ratio	15.16		12.32		12.69	
3. Total capital ratio	15.16		12.32		12.69	
b) Quality of assets						
1. Non performing (balance and off balance sheet) exposure / all balance and off balance sheet exposure	2.05		1.89		3.54	
2.a Non performing (balance sheet) exposure / all balance sheet exposure (with out cash balances at central banks and other demand deposits)	2.67		2.28		4.08	
2.b Non performing (balance sheet) exposure / all balance sheet exposure (with cash balances at central banks and other demand deposits)	2.31		2.13		3.88	
3.a All impairment and provisions / non performing impairment and provisions (with out cash balances at central banks and other demand deposits)	71.48		65.12		57.72	
3.b All impairment and provisions / non performing impairment and provisions (with cash balances at central banks and other demand deposits)	71.48		65.12		57.72	
4. received collaterals / non performing exposure	4.37		8.56		11.64	
c) Profitability						
1. Interest margin	2.25		2.41		2.54	
2. Financial margin	3.45		3.62		3.84	
3. Return on assets before taxation	1.18		1.94		2.18	
4. Return on assets	0.98		1.58		1.78	
5. Return on equity before taxation	10.91		18.18		20.26	
6. Return on equity after taxation	9.07		14.78		16.57	
d) Operating costs						
1. Operating costs / assets	1.75		1.82		1.96	

Important data and business performance indicators – SKB Bank

SKB Bank	12. 2020		12. 2019		12. 2018	
	amount in 000 EUR / ratios in %	index	amount in 000 EUR / ratios in %	index	amount in 000 EUR / ratios in %	index
I. BALANCE SHEET						
1. Balance sheet total	3,645,440	108	3,365,175	109	3,089,094	103
2. Deposits from non-bank clients	3,124,672	114	2,743,983	109	2,508,203	107
a) from legal and other persons	1,061,212	117	909,283	117	777,655	91
b) from citizens	2,063,460	112	1,834,700	106	1,730,548	116
3. Loans to non-bank clients	2,441,920	98	2,491,260	112	2,230,755	106
a) to legal and other persons	1,262,663	97	1,303,058	120	1,088,656	101
b) to citizens	1,179,257	99	1,188,202	104	1,142,099	111
4. Overall equity capital	389,667	112	348,614	102	341,691	95
5. Provisions and impairments	90,421	154	58,659	68	86,381	66
6. The volume of off-balance sheet business	1,361,540	98	1,387,910	92	1,510,668	121
II. PROFIT AND LOSS ACCOUNT						
1. Net interest	63,298	102	61,812	101	61,289	106
2. Net non-interest income	54,018	105	51,363	106	48,478	128
3. Costs of labour, materials and services	51,280	100	51,144	96	53,162	111
4. Depreciation/amortization	4,721	98	4,797	130	3,678	93
5. Net cost of risk and provisions	21,769	-2766	(787)	7	(10,822)	255
6. Profit or loss before taxation	39,545	65	60,871	95	63,749	133
7. Tax on profit	(4,166)	47	(8,787)	87	(10,056)	134
Other comprehensive income before tax	7,017		2,238		(6,930)	
Income tax relating to components of other comprehensive income	(1,343)		(446)		1,315	
III. EMPLOYEES						
Number of employees	848		826		829	
IV. SHARES						
1. Number of shareholders	1		98		104	
2. Number of shares	12,649,200		12,649,200		12,649,200	
3. Belonging amount in the share capital per nominal par-value share (in EUR)	4.1729		4.1729		4.1729	
4. Book value per share (in EUR)	30.81		27.56		27.01	

SKB bank	12. 2020		12. 2019		12. 2018	
	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						
1. CET1 capital ratio	13.75		11.22		12.63	
2. T1 capital ratio	13.75		11.22		12.63	
3. Total capital ratio	13.75		11.22		12.63	
b) Quality of assets						
1. Non performing (balance and off balance sheet) exposure / all balance and off balance sheet exposure	1.79		1.66		3.37	
2.a Non performing (balance sheet) exposure / all balance sheet exposure (with out cash balances at central banks and other demand deposits)	2.32		1.99		3.91	
2.b Non performing (balance sheet) exposure / all balance sheet exposure (with cash balances at central banks and other demand deposits)	2.00		1.86		3.70	
3.a All impairment and provisions / non performing impairment and provisions (with out cash balances at central banks and other demand deposits)	72.76		65.54		58.37	
3.b All impairment and provisions / non performing impairment and provisions (with cash balances at central banks and other demand deposits)	72.76		65.54		58.37	
4. received collaterals / non performing exposure	5.01		9.77		12.92	
c) Profitability						
1. Interest margin	1.78		1.91		2.03	
2. Financial margin	3.31		3.50		3.63	
3. Return on assets before taxation	1.11		1.88		2.11	
4. Return on assets	1.00		1.61		1.77	
5. Return on equity before taxation	10.61		17.39		18.92	
6. Return on equity after taxation	9.49		14.88		15.93	
d) Operating costs						
1. Operating costs / assets	1.58		1.73		1.88	

VI. 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 2020, 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 2020, 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, 29. 3. 2021



Vojka Ravbar
Deputy Chief Executive Officer



Anita Stojčevska
Chief Executive Officer

Independent auditor's report



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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 separate financial statements of the company SKB Banka d.d. (hereinafter 'the Company') and consolidated financial statements of the company SKB Banka d.d. and its subsidiaries (hereinafter 'the Group'), which comprise the separate and the consolidated statement of financial position as at 31 December 2020, and the separate and the consolidated income statement, separate and consolidated statement of other comprehensive income, separate and consolidated statement of changes in equity, separate and consolidated cash flow statement for the year then ended, and notes to the separate and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2020, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (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 Separate and Consolidated Financial Statements* section of our report. We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the separate and consolidated 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.



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Independent auditor's report

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the year ended 31 December 2020. These matters were addressed in the context of our audit of the separate and 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 consolidated financial statements for the year ended 31 December 2020 the Group presented loans to non-bank customers in the net amount of EUR 2,446 million and total expected credit loss in the amount of EUR 84.9 million. In its separate financial statements for the year ended 31 December 2020 the Bank presented loans to non-bank customers in the net amount of EUR 2,435 million and total expected credit loss in the amount of EUR 77.9 million.

Key audit matter	How the matter was addressed in our audit
<p>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 and measurement of loss allowance for expected credit losses represents one of the key considerations for the Management.</p> <p>In determining both the timing and the amount of loss allowance for expected credit losses on loans to non-bank customers, the Management exercises significant judgement in relation to the following areas:</p> <ul style="list-style-type: none"> • 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 • Assessment of the forward-looking information, including the impact of the COVID-19 pandemic • Expected future cash flows from operations 	<p>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.</p> <p>We performed the following audit procedures with respect to area of loans:</p> <ul style="list-style-type: none"> • Reviewing the Company'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, including utilised applications and information technology tools • 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 • 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

Independent auditor's report

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- Valuation of collateral and assessment of realization period on individually assessed credit-impaired exposures.

Since determination of appropriate impairment allowances for expected credit losses on loans and receivables requires use of complex models (generally dependent on IT elements) and significant judgement from the Management, process of measuring expected credit losses may be exposed to management bias. This fact led to the determination of impairment allowances for expected credit losses on loans and receivables from customers, recognized in accordance with IFRS as a key audit matter in our audit of the financial statements for the year ended 31. December 2020.

Management has provided further information about the impairment allowance on loans from customers in notes 1.3.4. *Financial instruments: 1.3.4.1.1. Initial recognition; 1.3.4.5. Impairment of financial instruments; 1.4.25. Financial assets measured at amortised cost; 6.1.3. Credit risk; 6.3.2. General quantitative information on credit risk*

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:
 - models applied in stage allocation and transitions between stages
 - assumptions used by the Management in the expected credit loss measurement models
 - criteria used for determination of significant increase in credit risk, including the impact of COVID-19
 - assumptions applied to calculate lifetime probability of default
 - methods applied to calculate loss given default
 - methods applied to incorporate forward-looking information, including the impact of COVID-19.
 - re-performing calculation of expected credit losses on a selected sample.
 - analysis of exposures with granted moratoria and the eligibility thereof, considering regulatory conveyance
 - assessment of appropriateness of staging transition and allocation of exposures with granted moratoria
- 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:
 - Assessment of borrower's financial position and performance following latest credit reports and available information
 - 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 in the current economic environment affected by the COVID-19
 - Reviewing and assessing expected future cash flows from collateral and estimated realization period

Independent auditor's report

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	<ul style="list-style-type: none"> iv. Analysis of exposures with granted moratoria and the eligibility thereof, considering regulatory conveyance i. Assessment of appropriateness of staging transition and allocation of exposures with granted moratoria.
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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 separate and consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the separate and 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 separate and 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.

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

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

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

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

In preparing the separate and consolidated financial statements of the Company and the Group, management is responsible for assessing their 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 and the Group or to cease operations, or has no realistic alternative but to do so.

Independent auditor's report

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Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process and for approving audited annual report.

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

Our objectives are to obtain reasonable assurance about whether the separate and 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 separate and 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 separate and 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 Company's and 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 Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and 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 Company or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence 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.

Independent auditor's report

Deloitte.

With those charged with governance 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 those charged with governance 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 with those charged with governance, we determine those matters that were of most significance in the audit of the separate and 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 and the Group on General Shareholders' Meeting held on 29 May 2018. Our total uninterrupted engagement has lasted 6 years.

Confirmation to the Audit Committee

We confirm that our audit opinion on the separate and consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 29 March 2021 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.

Ljubljana, March 29, 2021

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

Income statement For the year ended 31 december 2020

	EUR 000	Notes	Group		Bank	
			2020	2019	2020	2019
Interest income			82,276	85,785	65,680	64,551
Interest expenses			(2,381)	(2,942)	(2,383)	(2,739)
Net interest income		1.4.1.	79,895	82,843	63,297	61,812
Dividend income		1.4.2.	231	257	12,888	11,788
Fee and commission income			42,372	45,227	41,643	44,477
Fee and commission expenses			(9,808)	(11,734)	(9,080)	(10,940)
Net fee and commission income		1.4.3.	32,564	33,493	32,563	33,537
Gains and losses on financial assets and liabilities not measured at fair value through profit or loss		1.4.4.	1,363	(944)	1,260	(1,028)
Gains and losses on financial assets and liabilities held for trading		1.4.5.	719	661	719	661
Gains and losses on non-trading financial assets mandatorily at fair value through profit or loss		1.4.6.	4,457	3,920	4,457	3,920
Gains and losses on financial assets and liabilities designated at fair value through profit or loss		1.4.7.	-	-	-	-
Gains and losses from hedge accounting		1.4.8.	307	(230)	307	(230)
Exchange differences		1.4.9.	(206)	(34)	(206)	(35)
Gains and losses on derecognition of non-financial assets		1.4.10.	(62)	(176)	(181)	(273)
Other operating income		1.4.11.	3,409	4,486	2,224	3,098
Financial and operating income and expenses			122,677	124,276	117,328	113,250
Administrative expenses		1.4.12.	(52,892)	(53,408)	(48,058)	(48,403)
• staff expenses			(35,157)	(35,939)	(31,967)	(32,693)
• other administrative expenses			(17,735)	(17,469)	(16,091)	(15,710)
Cash contributions to resolution funds and deposit guarantee schemes		1.4.13.	(3,223)	(2,740)	(3,223)	(2,740)
Depreciation		1.4.14.	(6,101)	(6,413)	(4,721)	(4,797)
Modification gains or losses		1.4.15.	(56)	(29)	(56)	(29)
Provisions		1.4.16.	(3,706)	468	(3,690)	472
Impairment		1.4.17.	(14,803)	4,443	(18,079)	3,164
Profit or loss from non-current assets and disposal groups classified as held for sale		1.4.18.	44	(46)	44	(46)
TOTAL PROFIT BEFORE TAX FROM CONTINUING OPERATIONS			41,940	66,551	39,545	60,871
Tax expense or income related to profit or loss from continuing operations		1.4.19.	(7,090)	(12,446)	(4,166)	(8,787)
TOTAL PROFIT AFTER TAX FROM CONTINUING OPERATIONS			34,850	54,105	35,379	52,084
Net profit for the financial year			34,850	54,105	35,379	52,084
Profit or loss attributable to owners of the parent			34,850	54,105	35,379	52,084
Profit or loss attributable to non-controlling interests			-	-	-	-

The accompanying notes 1.4. (Notes to the Consolidated Financial Statements and the Bank's Financial Statements) form an integral part of financial statements.

Statement of other comprehensive income

For the year ended 31 december 2020

	Skupina		Banka		
	EUR 000	2020	2019	2020	2019
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAX		34,850	54,105	35,379	52,084
OTHER COMPREHENSIVE INCOME AFTER TAX		5,670	1,767	5,674	1,791
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS		(100)	(226)	(97)	(202)
Actuarial gains or losses on defined benefit pension plans		(110)	(250)	(107)	(223)
Income tax relating to items that will not be reclassified to profit or loss		10	24	10	21
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS		5,770	1,993	5,771	1,993
Debt instruments at fair value through other comprehensive income		7,124	2,461	7,124	2,461
• Valuation gains or losses taken to equity		7,124	2,461	7,124	2,461
Income tax relating to items that may be reclassified to profit or loss		(1,354)	(468)	(1,353)	(468)
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX		40,520	55,872	41,053	53,875
Attributable to owners of the parent		40,520	55,872	41,053	53,875

The accompanying notes 1.4. (Notes to the Consolidated Financial Statements and the Bank's Financial Statements) form an integral part of financial statements.

Statement of financial position

At 31 december 2020

	EUR 000	Notes	Group		Bank	
			31 Dec. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019
ASSETS						
Cash, cash balances at central banks and other demand deposits at banks		1.4.20.	518,211	250,246	518,211	250,246
Financial assets held for trading		1.4.21.	8,942	8,649	8,942	8,649
Non-trading financial assets mandatorily at fair value through profit or loss		1.4.22.	27,881	24,582	27,881	24,582
Financial assets designated at fair value through profit or loss		1.4.23.	6,120	6,053	6,120	6,053
Financial assets at fair value through other comprehensive income		1.4.24.	366,307	267,205	366,307	267,205
Financial assets at amortised cost		1.4.25.	2,663,948	2,751,221	2,652,331	2,736,167
• debt securities			214,761	249,269	214,761	249,269
• loans to banks			99	539	99	539
• loans to non-bank customers			2,446,132	2,497,269	2,434,976	2,482,740
• other financial assets			2,956	4,144	2,495	3,619
Derivatives - hedge accounting		1.4.26.	-	843	-	843
Investments in subsidiaries, associates and joint ventures		1.4.27.	-	-	20,454	20,454
Tangible assets			36,556	38,877	30,564	32,193
• property, plant and equipment		1.4.28.a)	35,176	37,058	27,920	29,461
• investment property		1.4.28.b)	1,380	1,819	2,644	2,732
Intangible assets		1.4.29.	10,680	10,294	8,958	8,629
Tax assets		1.4.19.	3,557	4,010	3,557	2,030
• current tax assets			3,557	802	3,557	802
• deferred tax assets			-	3,208	-	1,228
Other assets		1.4.30.	13,910	23,267	2,052	7,820
Non-current assets and disposal groups classified as held for sale		1.4.31.	63	304	63	304
Total assets			3,656,175	3,385,551	3,645,440	3,365,175
LIABILITIES						
Financial liabilities held for trading		1.4.21.	9,160	9,107	9,160	9,107
Financial liabilities designated at fair value through profit or loss		1.4.23.	6,120	6,054	6,120	6,054
Financial liabilities measured at amortised cost		1.4.32.	3,206,463	2,975,358	3,217,990	2,982,373
• deposits from banks and central banks			4,590	1,667	4,590	1,667
• deposits from non-bank customers			3,109,643	2,662,537	3,124,672	2,673,979
• loans from banks and central banks			71,876	210,303	71,876	210,303
• loans from non-bank customers			-	70,004	-	70,004
• other financial liabilities			20,354	30,847	16,852	26,420
Fair value changes of the hedged items in portfolio hedge of interest rate risk		1.4.26.	1,732	1,879	1,732	1,879
Provisions		1.4.33.	14,554	11,149	14,264	10,874
Tax liabilities		1.4.19.	3,311	5,105	4,907	4,703
• current tax liabilities			504	402	-	-
• deferred tax liabilities			2,807	4,703	4,907	4,703
Other liabilities		1.4.34.	8,853	11,445	1,600	1,571
Total liabilities			3,250,193	3,020,097	3,255,773	3,016,561

	EUR 000	Notes	Group		Bank	
			31 Dec. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019
SHAREHOLDERS' EQUITY						
Capital		1.4.35.	52,784	52,784	52,784	52,784
Share premium		1.4.35.	104,061	104,061	104,061	104,061
Accumulated other comprehensive income		1.4.35.	24,719	19,049	24,875	19,201
Reserves from profit		1.4.35.	29,106	29,106	29,106	29,106
Retained earnings		1.4.35.	160,462	106,349	143,462	91,378
Income from current year		1.4.35.	34,850	54,105	35,379	52,084
Total shareholders' equity			405,982	365,454	389,667	348,614
Shareholder's equity attributable to owners of the parent			405,982	365,454	389,667	348,614
Shareholder's equity attributable to non-controlling interests			-	-	-	-
Total equity and liabilities			3,656,175	3,385,551	3,645,440	3,365,175

The accompanying notes 1.4. (Notes to the Consolidated Financial Statements and the Bank's Financial Statements) form an integral part of financial statements.

Consolidated statement of changes in equity

For the year ended 31 december 2020

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 2020	52,784	104,061	19,049	29,106	160,454	365,454
Comprehensive income for the financial year after tax	-	-	5,670	-	34,850	40,520
Other	-	-	-	-	8	8
Balance at 31 December 2020	52,784	104,061	24,719	29,106	195,312	405,982
Balance at 1 January 2019 after transition to IFRS 9	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

The accompanying notes 1.4. (Notes to the Consolidated Financial Statements and the Bank's Financial Statements) form an integral part of financial statements.

Bank statement of changes in equity

For the year ended 31 december 2020

EUR 000	Capital	Share pre- mium	Accumulated other compre- hensive income	Reserves from profit	Retained earnings (including income from current year)	Total equity
Balance at 1 January 2020	52,784	104,061	19,201	29,106	143,462	348,614
Comprehensive income for the financial year after tax	-	-	5,674	-	35,379	41,053
Balance at 31 December 2020	52,784	104,061	24,875	29,106	178,841	389,667
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

The accompanying notes 1.4. (Notes to the Consolidated Financial Statements and the Bank's Financial Statements) form an integral part of financial statements.

Cash flow statement For the year ended 31 december 2020

	Group		Bank		
	EUR 000	2020	2019	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES					
Total profit or loss before tax		41,940	66,551	39,545	60,871
Depreciation		6,101	6,413	4,721	4,797
Impairments / (reversal of impairments) of investments in debt financial instruments at fair value through other comprehensive income		271	(25)	271	(25)
Impairments / (reversal of impairments) of loans and other financial assets at amortised costs		14,532	(10,877)	17,808	(9,598)
Impairments of tangible assets (impairments of investment property included), intangible assets and other assets		-	6,459	-	6,459
Net (gains) / losses from exchange differences		206	34	206	35
Modification (gains) / losses		56	29	56	29
Net (gains) / losses from sale of tangible assets		(111)	91	8	188
Net (gains) / losses from sale of intangible assets		173	85	173	85
Net unrealised (gains) / losses from non-current assets held for sale and discontinuing operations and liabilities associated therewith		(44)	(71)	(44)	(71)
Other adjustments to total profit or loss before tax		3,706	(468)	3,690	(472)
Cash flow from operating activities before changes in operating assets and liabilities		66,830	68,221	66,434	62,298
(Increases) / decreases in operating assets		(12,049)	(24,855)	(22,344)	(229,500)
Net (increase) / decrease in financial assets held for trading		(293)	(1,595)	(293)	(1,595)
Net (increase) / decrease in non-trading financial assets mandatorily at fair value through profit or loss		(3,299)	10,588	(3,299)	10,588
Net (increase) / decrease in financial assets designated at fair value through profit or loss		(67)	(106)	(67)	(106)
Net (increase) / decrease in financial assets at fair value through other comprehensive income		(92,520)	(3,124)	(92,520)	(6,012)
Net (increase) / decrease in loans and other financial assets at amortised cost		74,774	(42,122)	68,067	(235,640)
Net (increase) / decrease in other assets		9,356	11,504	5,768	3,265
Increases / (decreases) in operating liabilities		233,935	61,671	241,068	268,546
Net increase / (decrease) in financial liabilities held for trading		53	1,388	53	1,388
Net increase / (decrease) in financial liabilities designated at fair value through profit or loss		66	107	66	107
Net increase / (decrease) in deposits, loans and other financial liabilities measured at amortised cost		236,408	58,521	240,920	267,145
Net increase / (decrease) in other liabilities		(2,592)	1,655	29	(94)
Cash flow from operating activities		288,716	105,037	285,158	101,344
Income taxes (paid) / refunded		(9,910)	(15,503)	(6,967)	(12,459)
Net cash flow from operating activities		278,806	89,534	278,191	88,885

	EUR 000	Pojasnilo	Group		Bank	
			2020	2019	2020	2019
CASH FLOWS FROM INVESTING ACTIVITIES						
Receipts from investing activities			7,551	15,018	342	631
Receipts from the sale of tangible assets			7,218	14,790	9	403
Receipts from the sale of intangible assets			48	-	48	-
Receipts from non-current assets held for sale and liabilities associated therewith			285	228	285	228
Cash payments on investing activities			(14,300)	(27,450)	(6,476)	(12,414)
(Cash payments to acquire tangible assets)			(10,087)	(22,332)	(2,384)	(7,455)
(Cash payments to acquire intangible assets)			(4,213)	(5,118)	(4,092)	(4,959)
Net cash flow from investing activities			(6,749)	(12,432)	(6,134)	(11,783)
CASH FLOWS FROM FINANCING ACTIVITIES						
Cash payments on financing activities			-	(47,055)	-	(47,055)
(Dividends paid)			-	(47,055)	-	(47,055)
Net cash flow from financing activities			-	(47,055)	-	(47,055)
Effects of change in exchange rates on cash and cash equivalents			(4,095)	1,389	(4,095)	1,389
Net increase / (decrease) in cash and cash equivalents			272,057	30,047	272,057	30,047
Opening balance of cash and cash equivalents	1.4.39.		250,249	218,813	250,249	218,813
Closing balance of cash and cash equivalents	1.4.39.		518,211	250,249	518,211	250,249

SKB Group's other adjustments to profit and loss include expense from provisions in the amount of EUR 3,706 thousand (2019: income from provisions in the amount of EUR 468 thousand).

SKB bank's other adjustments to profit and loss before taxes include expense from provisions in the amount of EUR 3,690 thousand (2019: income from provisions in the amount EUR 472 thousand).

	Group		Bank	
	EUR 000	2020	2019	2020
Cash flows from interest and dividends				
Interest paid	(2,162)	(2,300)	(2,164)	(2,097)
Interest received	82,102	96,666	65,279	75,342
Dividend paid	-	(47,055)	-	(47,055)
Dividend received	231	257	12,888	11,788
Cash flows from lease liabilities paid	(1,121)	(1,222)	(1,094)	(1,190)

The accompanying notes 1.4. (Notes to the Consolidated Financial Statements and the Bank's Financial Statements) form an integral part of financial statements.

1. Notes to the consolidated financial statements and the bank's financial statements

1.1 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 2020:

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 the issue of securities and 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
- services of managing payment systems in accordance with the law, regulating payment services,
- pension fund management in accordance with the law governing pension and disability insurance,
- custodial services, for which other law defines that they are provided by the bank and services in connection with custodial securities,
- 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 recognized financial services or services from 1.to 5.item of this section.

The SKB bank provides the above banking and financial services on the assumption that it has obtained the appropriate license or permit for the provision of services by the competent authority for each service. SKB Bank has obtained a license or permit from the Bank of Slovenia for all the above service that are actually provided by the SKB bank. For services such as issuing of electronic money, advising to undertakings on capital structure, business strategy and related questions, portfolio management and advice services, 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 collectively referred to 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, assumption of a going concern).

Consolidated financial statements include:

1. SKB banka,
2. SKB Leasing, which is 100 % owned by SKB. The principal activity of SKB Leasing is the leasing of vehicles, industrial equipment, land and buildings,
3. SKB Leasing Select, which is 100 % owned by SKB Leasing. The principal activity of SKB Leasing Select is ensuring financing to Peugeot and Citroen viacle intermediaries.

As at 31 December 2020 SKB Leasing and its subsidiary SKB Leasing Select have total assets in the amount of EUR 535,744 thousand (2019: EUR 565,194 thousand), equity in the amount of EUR 38,441 thousand (2019: EUR 43,369 thousand) and a profit for the year in the amount of EUR 12,326 thousand (2019: EUR 17,251 thousand).

SKB banka is part of OTP Group. The ultimate parent is OTP Bank, Nádor Street 16., Budapest, Hungary. SKB banka 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 2020, a total of 848 staff were employed by SKB Bank (2019: 826) at the head office in Ljubljana at Ajdovščina 4, and in the 51 outlets (2019: 53) spread across Slovenia, and 84 staff were employed by SKB Leasing and SKB Leasing Select (2019: 84). The average number of employees in year 2020 was in SKB Bank 839.4 (2019: 827.6) and in SKB Group 921.6 (2019: 910.1).

1.2. Basis for preparation of financial statements

1.2.1. Basis of preparation

The consolidated financial statements and the separate financial statements at 31 December 2020, and for the year then ended, were authorized for issue by the General Management of SKB Bank on 29 March 2021.

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 and in accordance with the regulations of the Bank of Slovenia and the Securities Market Agency.

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 measured 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 2020 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.

1.2.2. Changes in accounting policies

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

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

- **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 3 "Business Combinations"** - Definition of a Business - adopted by the EU on 21 April 2020 (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 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),

SKB Group exposure to LIBOR interest rate benchmark reforms is very limited. In its portfolio there are only CHF LIBOR portfolio based on mortgage loans to individuals granted in the past with no new production and some minor short term USD LIBOR based facilities granted to corporate clients. All CHF and USD based funding is in the form of deposits with fixed interest rate. There are no hedging instruments in SKB Group balance sheet.

As CHF LIBOR is at cessation at end of 2021 the working group in the bank is studying scenarios how to fall back existing legacy portfolio. USD LIBOR is agreed to terminate at mid-2023 and as the granted facilities are only short term we shall act on due time to make the most appropriate usage of reference rate on the eventual new facilities.

EONIA will be discontinued on 3 January 2022 and replaced by the €STR, an overnight, transaction based wholesale funding rate that is published by the ECB. Since 2 October 2019, following a modification of its methodology, EONIA has been calculated as the €STR plus a fixed spread of 8.5 basis points spread. SKB Group has had no exposure to EONIA.

EURIBOR is the most commonly used reference rate in SKB Group. EURIBOR underwent a methodological reform in 2019 to make it compliant with the regulatory requirements laid down in the EU Benchmark Regulation. It is now determined using a hybrid methodology rather than a purely quote-based method. Following a testing phase and public consultations, the hybrid methodology became applicable at the end of 2019, and the provider has received authorization from the competent authority, meaning that the benchmark can continue to be used for new and legacy contracts after 3 January 2022. EURIBOR is for now in usage for at least 5 years as the cessation date is to be announced 5 years in advance. Nevertheless, banks need to be prepared for the possible disappearance of this benchmark and replacement by another (for instance term €STR) with different methodology of rate calculation. SKB Group has some fall back clauses in its contracts with clients however they are general and not including the variety of fall back triggers neither the new reference rate calculation methodology. Therefore we are preparing ourselves to introduce new fall back clauses in 2021.

Changes in standards bring new requirements in case of changes of financial instruments and hedge accounting to provide relief from the potential effects of uncertainty caused by IBOR reform and new disclosures. The amendments are effective from 1 January 2020 and are mandatory for all hedge relationships directly affected by IBOR reform.

In year 2021 SKB Group and SKB Bank do not expect important effects on recognition of income statement's items.

- **Amendments to IFRS 16 "Leases"** - COVID-19-Related Rent Concessions (adopted by the EU on 9 October 2020 and effective at the latest, as from 1 June 2020 for financial years starting 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).

The adoption of amendments to the existing standards has not led to any material changes in the SKB Group's and SKB Bank's financial statements.

1.2.2.2. 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 amendments to IFRS 4 Insurance Contracts "Extension of the Temporary Exemption from Applying IFRS 9" were issued by the International Accounting Standards Board (IASB) and adopted by the European Union on 16 December 2020, but not yet effective (the expiry date for the temporary exemption from IFRS 9 was extended from 1 January 2021 to annual periods beginning on or after 1 January 2023).

1.2.2.3 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 (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"** including amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 16 "Property, Plant and Equipment"** - Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** - Onerous Contracts – Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022);
- **Amendments to IFRS 3 "Business Combinations"** - Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022),
- **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),
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases"** - Interest Rate Benchmark Reform – Phase 2 (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2018 -2020)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.).

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.

According to the SKB Group's and SKB Bank's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements, if applied as at the balance sheet date.

1.2.3. Comparative data

The scheme of financial statements has been changed in year 2020 in accordance with the regulations of the Bank of Slovenia. SKB Group and SKB Bank have adjusted the comparative data for year 2019.

In accordance with the regulations of the Bank of Slovenia, SKB Group and SKB Bank have changed the system of reporting the interests from non-performing financial assets at amortised cost and interests from non-performing financial assets that are measured at fair value through profit or loss. Thus they switched to gross statement of interests from impaired principal. With payment or reclassification of exposure in better group due to better credit quality such interests are not recognised in interest income, but for the amount of interests the allowances for credit losses or adjustments of fair value due to credit risk are released and the income from reversal of impairment or income from financial assets, mandatorily measured at fair value through profit or loss not held for trading is recognised. According to changes of reporting of interests from impaired financial assets, SKB Group and SKB Bank have transferred the part of interests from item Interest income to item Gains and losses on non-trading financial assets mandatorily at fair value through profit or loss and to item Impairment.

Gains and losses on financial assets and liabilities held for trading relating to foreign exchange transactions that were previously part of Gains and losses on financial assets and liabilities held for trading, are according to new scheme of Income statement included in fee and commission income and expense.

Cash contributions to resolution funds and deposit guarantee schemes that were previously part of item Other operating income, are according to new scheme of Income statement included in new item Cash contributions to resolution funds and deposit guarantee schemes.

Taxes, memberships and similar expenses that were previously part of item Other operating income are according to new scheme of Income statement included in Administrative expenses.

Adjustments of comparative data for year 2019 are presented in Notes 1.4. at the relevant items of the Income statement and Statement of financial position.

1.2.4. Significant accounting judgments and estimates

Accounting 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 classifications of financial instruments into appropriate business model and to impairment of financial assets, as well as to assessing whether the contractual cash flows of the financial asset represent an exclusive payment of principal and interest.

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.

The financial statements of SKB banka and the SKB Group have been prepared on the assumption of a going concern. The management of SKB banka and the SKB Group estimates that there are no material uncertainties that could cause significant doubt on the ability of SKB banka and the SKB Group to operate in the future.

Due to the deterioration of the macroeconomic environment caused by the COVID-19 epidemic, the SKB Group and SKB bank re-examined significant accounting

policies and estimates in areas where the epidemic could have a negative impact, in particular on the loan portfolio, asset quality, impairments and provisions, fair value measurement. the value of financial assets and taxes.

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 of financial assets and financial liabilities carried at fair value is described in more detail in Notes 1.3.7. to 1.3.9.

Volatility of securities on various markets has increased with the spread of COVID-19 pandemic. Based on credit risk management strategy, the SKB Group is adjusting to changed circumstances on the markets, with option to sell certain financial instruments with an increased credit mark-up. In case of higher sale of financial instruments, the bank must analyse whether there has been change in the business model of financial asset management and clarify what initiate the sale and what is the purpose of obtaining contractual cash flows. Credit risk management activities, aimed at minimizing potential credit losses due to deterioration in credit quality, are included into financial asset management business model. Namely, the credit risk, of a financial asset, is important for assessing the ability to obtain contractual cash flows.

In year 2020 SKB banka did not make any sales of financial assets in response to the COVID-19 situation and made no changes in financial asset management business model. The fair value of financial assets is disclosed in Chapter 3. of the accounting part of the Annual report.

Impairment of loans

SKB Group and SKB Bank regularly review their loans and receivables in order to assess impairment. They perform individual impairment of all loans for which there is individual and objective evidence of impairment due to events that affected the estimated future cash flows. In estimating the amount of impairment loss in cases where the borrower is in financial difficulties and when there are little historical data available for similar cases of borrowers, estimates are used. These estimates are based on their experience, which includes estimates of expected cash flows from collateral 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.

To calculate impairments on a healthy portfolio, SKB Group and SKB Bank calculate either twelve month or lifetime expected credit loss by using future cash flows of financial assets and application of appropriate 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.

SKB Group started to closely monitor the potential impact of COVID-19 on Group's portfolio already in Q1 2020 and performs continuous monitoring on a monthly basis ever since. Considering IFRS9, the key points of attention were:

- defining additional significant increase of credit risk (SICR) criteria for stage 2 allocation
- adjusting the PD and LGD curves in line with new macroeconomic expectations
- adjusting the weights between scenarios, used in the ECL calculation

Concerning SICR, two approaches have been used by the Group. On corporate clients portfolio sectorial analyses has been performed, allocating the sectors into 4 categories based on expected severity of COVID impact. On top of sectorial assessment, individual clients approach has been used by additionally considering client's rating, overdue and expert judgement. Second approach has been used on private individual clients by assessment of potential additional SICR criteria (f.e. approved moratoria loans).

New, worsened macroeconomic expectations, prepared by the OTP headquarter's group of macroeconomists, have also been incorporated within PD curves, prepared in a way, that COVID impact is expected also in the future years after expiry of government intervention measures. The later is mostly visible in stage 2 portfolio. Average PD, used in the calculation, is additionally worsened by the change of weights between scenarios.

The common impact of all above stated measure was estimated to additional EUR 13 million of ECL.

Impairment 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 9,859 thousand, which are 100 % depreciated.

SKB Bank still has in use intangible assets at a purchase value of EUR 8,944 thousand, which are 100 % depreciated.

Taxes and tax contingencies

SKB Group and SKB Bank recorded deferred tax assets, calculated on the basis of temporary differences, in the amount that it expected to be eliminated in the foreseeable future, taking into account estimates of future profits. Consequently, there is no need to reduce the amount of deferred tax assets as at 31 December 2020, taking into account the impact of COVID-19.

The various interpretations of the tax regulations applicable to SKB Group's and SKB Bank's operations may lead to potential tax items that cannot be objectively evaluated. However, SKB Group and SKB Bank consider that the tax liability which might arise in connection with this are nor material or significant.

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 disputes

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.

1.3. Summary of significant accounting policies

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

1.3.1. Consolidation

The consolidated financial statements consist of the financial statements of the parent bank and its subsidiaries.

Subsidiary undertakings, 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 method of full consolidation is applied to all subsidiaries from the day when SKB Bank controls the subsidiary.

SKB Bank regularly checks the situation and if there is a change that at least one of the above conditions is no longer met, then SKB Bank would no longer have a controlling position. Subsidiaries are excluded from the consolidated financial statements when the controlling influence of the parent company ceases.

In the Group, all assets, liabilities, capital, revenues, expenses and cash flows, as well as unrealized gains and losses related to mutual operations, are eliminated in the framework of consolidation, which was carried out in full.

Where necessary, the accounting policy of the subsidiary after takeover of the control, has been amended to ensure consistency with the policy and accounting policies adopted by SKB Bank.

1.3.2. 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.

1.3.3. 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 2020 and 31 December 2019, 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 "Gains/Losses from Exchange differences". Fees from exchange services are included in the profit and loss account in "Fee and commission income and fee and commission expenses".

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.

1.3.4. Financial instruments

1.3.4.1. Initial recognition and derecognition of financial instruments

1.3.4.1.1. 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.

1.3.4.1.2. Modification of financial instruments and derecognition

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.

In the event where the cash flows of a modified financial asset measured at amortised cost are not significantly different, such a modification does not result in derecognition. In such a case, gross book value of this financial asset is recalculated by discounting the modified cash flows using the effective interest rate. A difference that occurs is recognised in profit or loss as net profit or loss resulting from a change in the conditions of financial asset repayment.

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 still passes SPPI, then it must be maintained in the statement of financial position. The newly recognised loan must then undergo fresh SPPI testing.

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.

The SKB Group writes off a financial asset (in part or in full), measured at amortized cost, when it finds in the recovery process and in the realization of collateral that there is no realistic possibility of repaying the receivable. In terms of content, a write-off represents the derecognition of a financial asset.

1.3.4.2. 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.

1.3.4.2.1. 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. In defining the business model, the SKB Group and SKB Bank take into account the following information:

- 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.

They are measured at fair value, which is equal to unrealized gains or losses from valuation at market prices or at contractual forward value.

Poslovni model 'Prejemanje pogodbenih denarnih tokov'

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 to the outstanding principal amount. 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.

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method. They are disclosed in the amount of outstanding principal, increased by unpaid interest and fees and reduced by the amount of impairment.

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 to the outstanding principal amount. Sales may be frequent and significant (higher values).

Gains and losses, other than expected credit losses and exchange rate differences, are recognized in other comprehensive income until derecognition is recognized. Upon derecognition, the cumulative gain or loss recognized in other comprehensive income is reclassified to the income statement.

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

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. 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.

Financial assets measured at fair value through profit or loss are initially measured at fair value, and transaction costs are recognized in the income statement at the time of purchase.

1.3.4.2.2. 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, reduced for later changes (payments) 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). Responsibilities for monitoring the implementation of this test are also defined.

1.3.4.2.3. 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.

1.3.4.2.4. Measurement of financial instruments

At initial recognition, a financial asset or financial liability shall be measured at its fair value plus or minus. In the case that financial instrument is not measured at fair value through profit or loss, the cost of acquisition directly attributable to that financial instrument is added to its value.

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.

1.3.4.3. 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.

1.3.4.4. 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 upon realization of the sale, maturity of the financial asset or derecognition of the financial instrument (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.

Net gains and losses on held-to-trading financial assets include realized and unrealized gains and losses, including derivatives, as well as net gains on the purchase and sale of foreign currencies, and are measured at fair value through profit or loss.

Net gains and losses on financial assets measured at fair value through profit or loss that are not held for trading (equity investments, loans at fair value, sale of non-performing loans) include realized and unrealized effects on equity securities, loans and other financial assets that do not meet the conditions for measurement at amortized cost.

1.3.4.5. Impairment of financial instruments

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
- Interest on financial assets, with the exception of non-performing financial assets, is calculated using the effective interest rate on the gross carrying amount of the financial asset (ie excluding expected credit losses) and is recognised in the income statement.

SKB Group and SKB Bank disclose interest on non-performing financial assets at amortized cost and interest on non-performing financial assets measured at fair value through profit or loss according to the gross system. Upon payment or reclassification of the exposure to a better group due to improved credit quality, this interest is not recognized as interest income, but provisions for credit losses or fair value adjustments due to credit risk are released for the amount of this interest and income from reversal of impairments or gains from non-trading financial assets mandatorily at fair value through profit or loss is recognized. Interest income is recognized using the effective interest rate on the net carrying amount of the financial asset (ie taking into account provisions due to expected credit losses).

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,
- it is classified as performing forborne
- its currency suffered a significant "shock" since the disbursement of the loan
- in the case household mortgage loans, the loan-to-value ratio (LTV) exceeds a predefined rate (at present 125 %)
- default on another loan of the retail client, if no cross-default exists
- the monitoring classification of Non retail exposure is Watch-list
- in case of invalid rating 10+DPD in the last 6 months

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 as a rule as defaulted, and calculates lifetime expected credit loss.

SKB Group and SKB Bank changed the definition of default in 2020 in line with regulatory requirement. A counterparty is deemed in default when a credit obligation of the client is in delay more than 90 consecutive days with an amount which exceeds the materiality threshold or any other criteria from regulatory definition of default is met.

Calculation of expected credit loss

During the reported period, SKB Group and SKB Bank completely renewed the methodology for the calculation of expected credit loss by adjusting it to the methodology of its mother bank.

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. Additionally ECL calculation handles multiple scenarios separately and finally determines the weighted average of expected credit losses.

The key risk parameters for the calculation of ECL, notably PD, and LGD were defined based on SKB Group's and SKB Bank's historical data.

EAD (Exposure at Default)

Exposure means the total of the on-balance sheet and off-balance sheet portfolios. Since expected losses have to be estimated on a year-by-year basis, the exposure at default is also determined for the remaining years of the exposures' expected lifetime. If the number of years to maturity differs from the expected lifetime of the financial asset, the calculation are performed based on the expected lifetime instead of the number of years to maturity. In the case of collective valuation, the expected lifetime may differ from the tenor typically due to the nature of the product. In this case, the expected lifetime is determined on the basis of expert estimates. During the EAD calculation all types of off-balance sheet exposures (e.g. undrawn facilities, guarantees, other off-balance sheet items) are taken into consideration adjusted by the CCF ratio. The estimation of the CCF parameters is performed based on the product use characteristics.

Probability of default (PD):

PD is estimated for the full lifetime of the financial asset, with the provision that the lifetime is divided into incremental, one-year, PDs. The PD estimate reflects the current and future relevant information. If it is possible, the incremental PD shows a natural decreasing trend as the financial asset approaches its maturity.

PD is defined based on migration matrices. The migration matrix methodology is based on the payment delay buckets, default flag and rating information as the most important parameters. PD parameter is consistent with the cure conditions and cure rates.

Loss Given Default (LGD)

The SKB Group uses two different methods for assessment of LGD:

- portfolio significantly secured by mortgage: the primary source of the data is the collateral itself, but additionally adjusted with observed historical recoveries of defaulted exposures.
- unsecured exposures: LGD parameter is estimated through a discounted recovery curves directly from observed historical recoveries of defaulted exposures

Forward looking information

The expected loss calculation is forward looking, therefore including the forecasts of future economic conditions. This is achieved by applying 2-5 different macroeconomic scenarios, which are integrated in the PD and LGD parameters. The weights between them are calculated by statistical model and adjusted by expert judgment.

Assumptions about macroeconomic indicators and sensitivity analyses

The sensitivity contains the impact of different scenarios as at 31 December 2020 assuming each with a weight of 100 %.

Scenario	Scenario weights	2020	2021	2022	ECL sensitivity (100% weight)
GDP growth					
Forecast	0.8	-7.1%	4.2%	6.8%	33,042
Stress	0.2	-7.9%	1.9%	3.5%	57,808
Total	1.0				24,766

1.3.5. Cash, cash balances at central banks and demand deposits at 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.

Obligatory reserve is also considered as cash equivalent because these assets are available for day-to-day operations.

Those cash equivalents are short-term investments that can be converted immediately into cash. They also have a negligible risk of changes in value.

1.3.6. 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 presented 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".

1.3.6.1. Derivatives

SKB Group and SKB Bank are offering their clients possibility to deal with financial derivatives. Precondition for concluded deal is signed contract. Deals with clients are done on the basis of back to back business. SKB Group and SKB Bank protect their open positions that arise as a result of performing transactions with customers by counter-transactions. SKB Group and SKB Bank do not trade in derivatives in their own name and for their own account in the treasury department. Occasionally and in insignificant size open position is a result of rounding and date.

The SKB Group and SKB Bank enter into transactions with derivative financial instruments on the foreign exchange and interest markets. Derivatives are carried at fair value. The fair value of derivatives held for trading is equal to unrealized gain or loss on valuation at market prices or is determined using internal valuation models. Derivatives with a positive market value (unrealized gains) are presented in the statement of financial position under assets, while derivatives with a negative market value (unrealized losses) are presented under 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.

1.3.6.2. Derivatives – hedge accounting

Portfolio hedging against interest rate risks and cash flow changes

For the purposes of hedge accounting, the SKB Group and SKB Bank may hedge fair value when it comes to hedging exposure to changes in the fair value of a recognized asset, liability or variable cash flow.

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 as "reserve for fair value" 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 item 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.

1.3.6.3. 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.

1.3.7. Non-trading financial assets mandatorily measured 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". However, interests on these instruments are shown under 'net interest'.

1.3.8. Financial assets designated for measurement 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. However, interest on these instruments are shown under 'net interest'. Transaction costs are recognized in the income statement at the time of purchase.

1.3.9. Financial assets measured 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 on financial assets measured at fair value through other comprehensive income are recognised directly in other comprehensive income, except for impairment losses and exchange rate differences until the financial asset is derecognised. In this case, the cumulative gain or loss in other comprehensive income is recognised in the income statement. Interests calculated using the effective interest rate method are recognized directly in the income statement and are presented as "Net interests".

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 financial instruments 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.

1.3.10. Financial assets measured at amortised cost

Financial assets at amortised cost are financial assets held for acquiring contractual cash flows that represent principal and interest repayments on the outstanding principal amount. 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 effects of EIR use are included in "Interest income" in the income statement. The losses arising from impairment of such loans are recognised as "Impairment" in the income statement

Restructured and refinanced 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, that it can no longer repay the debt under the originally agreed terms. 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.

If the SKB Group or SKB Bank converts debt into equity, the financial asset is derecognised and the acquired asset is recognized in the statement of financial position at fair value. The difference between the carrying amount of the derecognised financial asset and the fair value of the asset acquired is recognized in the income statement.

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.

1.3.11. Tangible assets

1.3.11.1. 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. The annual depreciation rates are as follows

v %	2020	2019
Buildings and their significant parts	1.8 – 6.0	1.8 – 6.0
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.

Property, plant and equipment are depreciated when they are available for 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.

1.3.11.2. 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 cost less depreciation. 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 (including amortization of important parts).

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 under "Depreciation", while the income from the rental of investment properties is included in "Other operating income".

1.3.12. Intangible assets

Intangible assets include computer software and goodwill.

An intangible asset is depreciated when it is available for use. Depreciation is calculated using the straight-line method.

1.3.12.1. Computer software

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

in %	2020	2019
Computer software	14.3 - 20	14.3 - 20

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 its original specifications is added to the original cost 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.

1.3.12.2. 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.

1.3.13. Tax assets and liabilities

1.3.13.1. 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

1.3.13.2. 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 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.

1.3.14. Non-current assets held for sale and discontinued operations

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.

Effects due to sales and valuation are shown in the income statement in the item net gains / losses from non-current assets 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.

1.3.15. Leases

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.

1.3.15.1. SKB Group and SKB Bank as lessor

A finance lease is a lease which transfers substantially all the risks and rewards of ownership to the lessee. Otherwise the lease is classified as an operating lease.

In case of operating 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.

For an asset leased out under a finance lease, the present value of the future lease payments is recognised as a finance lease receivable. Finance lease receivables are stated at the amount of the net investment in the finance lease, including the unguaranteed residual value. The difference between the gross value and the present value of the receivable is recognised in income statement using the effective interest rate method over the entire lease term

1.3.15.2. SKB Group and SKB Bank as lessee

Lessee on initial start date of lease recognize the asset which represents the right-of-use and liability from lease. This applies to all leases except for short-term leases not exceeding one year and for small leases with a value less than or equal to EUR 5,000.

Value of right-of-use asset 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 an estimate of the costs that will be incurred by the lessee in restoring, returning or removing the leased asset. 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.

The SKB Group and SKB Bank also recognize interest on lease liabilities.

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

Lease duration

The duration of the lease is considered a period, specified in the lease contract, in which the lease cannot be terminated and in which the lessee has the right to use the leased asset, together with the periods for which the possibility of extending the lease applies (if it is quite certain that the lessee will use this option). In the case where contracts are concluded for indefinite period or the duration of the lease is not specified, the duration of the lease is defined as 5 years and is extended on every year period.

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.

The discount rate applied to calculate the present value is the incremental borrowing rate determined by the Asset-Liability Management department of the OTP Bank on a monthly basis per country, currency and for year terms based on government securities zero coupon yield curves increased by the spread reflecting the risk of the SKB Group.

Leases that do not qualify for recognition

Leases do not qualify for recognition 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).

Group SKB and SKB Bank did not receive or grant any COVID-19 related concessions in 2020, so the amendment to IFRS 16 in 2020 did not have an impact on their financial statements.

1.3.16. Financial liabilities held for trading

In category "Financial liabilities held for trading" SKB Group and SKB Bank hold derivatives unless they are intended for hedging against risk. 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".

1.3.17. Financial liabilities designated for measurement 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.

1.3.18. Financial liabilities measured at amortised cost

Among financial liabilities measured at amortized cost, SKB Group and SKB Bank disclose: liabilities for deposits, liabilities for loans to banks and non-bank customers, debts for issued debt securities and other financing liabilities.

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.

1.3.19. 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.

When the SKB Group and SKB Bank have a current statutory or otherwise justified liability arising from past events, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, they recognize provisions. A reliable estimate of the amount of the liability is required to form provisions.

In addition to off-balance sheet liabilities, the SKB Group also forms provisions for severance pay upon retirement and jubilee awards, for unresolved lawsuits, for reorganization and similar other liabilities.

1.3.20. Financial guarantees

SKB Group and SKB Bank issue financial guarantees consisting of letters of credit, letter of guarantees, and acceptances. Financial guarantees are contracts that require the issuer to make certain payments to reimburse the holder for a loss incurred because a particular debtor has not made a payment within the term of the debt instrument. They are issued to customers and banks as a form of insurance.

Financial guarantees are initially recognised in the financial statements at fair value at issue date. Subsequent to initial recognition, they are measured at the higher of the initially recognised fair value, from which accumulated depreciation, calculated for recognition of the fee, is deducted. In the income statement the fee is reported under item "Fee and commission net income" over the term of the guarantee.

1.3.21. Equity

The share capital of SKB Bank is divided into no-par value shares. They are registered and issued in dematerialized form. Each no-par value share has the same share and the corresponding amount of the bank's share capital. The share of an individual no-par value share is determined according to the number of all issued no-par value shares. Shareholders have the right to participate in the management of the bank, part of the profit and the corresponding part of the remaining assets after the termination of the bank's operations. The shares are entered in the share register in accordance with the regulations. The Central Register of Shares is kept by KDD - Centralna klirinško-depotna družba, d.d., in Ljubljana, which carries out all share transfer procedures in accordance with the law. All shares were fully paid up. Dividends are reduced by the capital when their payment is approved by the General Meeting of Shareholders of SKB Bank.

Legal reserves are formed in the amount of 10 % of the bank's share capital.

Other comprehensive income records accumulated gains / losses from changes in the fair value of equity and debt financial instruments measured at fair value through other comprehensive income, as well as actuarial gains / losses, reduced / increased by deferred tax and impairments of debt instruments measured at fair value through other comprehensive income.

1.3.22. Interest income and expenses

Interest income and expense are recognized in the income statement on accrual basis using the effective interest rate method, in the amount, terms and in the manner specified in the interest rate decision and in the contracts between the SKB Group and the client.

Interest income includes regular, default and accrued interest, compensation of appropriations and costs. Interest expenses include interest on liabilities for received deposits, issued securities, received loans and other financial liabilities.

Interest income and expense include the amortization of any discount or premium on securities. Interest income also includes transaction fees, which depend on the calculation of the effective interest rate and are amortized over the life of the loan.

Interest income is calculated on the basis of gross carrying amount (amortized cost before adjusting for any loss allowance or before taking into account expected credit losses), unless the loan is purchased or originated credit impaired or subsequently became credit impaired. In these cases, interest income is calculated using the effective interest rate based on the net amortized cost (taking into account impairments or expected credit losses).

1.3.23. Dividend income

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

1.3.24. Fee and commission income

Fees charged by SKB Group and the Bank to customers for the provision of financial services are recognized in the income statement if the entity fulfills its contractual obligation in accordance with the rules of IFRS 15 Revenue from Contracts with Customers.

If the obligation is fulfilled at a certain point in time, the related revenues are recognized in the income statement when the service is provided. This applies to commissions from payment transactions, ATM operations, credit cards and the brokerage of insurance products.

If the obligation is fulfilled over a certain period of time, the related revenues are recognized in the income statement in accordance with the fulfillment of obligation. This applies to management and advisory fees, guarantee fees, asset management fees and custody fees, as well as for loans that are not part of the effective interest rate of the financial instrument.

1.3.25. 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 include 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).

In the income statement, they are recognized upon realization of the sale, upon maturity of the financial asset or other derecognition of the financial asset.

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

Net trading gains and losses include realized and unrealized gains and losses on financial assets held for trading, including derivatives, and also include net gains on the purchase and sale of foreign currencies.

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

This item includes realized and unrealized effects related to equity securities and realized effects related to loans and other financial assets that do not meet the conditions for measurement at amortized cost.

1.3.28. Gains and losses on financial assets and liabilities designated for measurement at fair value through profit and loss

They include measurement effects and realized effects related to financial instruments that meet the conditions for measurement at amortized cost, but were initially irrevocably designated as measured at fair value through profit or loss.

1.3.29. Gains and 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 under in other comprehensive income 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 from other comprehensive income 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.

1.3.30. Gains and losses on exchange differences

Exchange differences are recognized when assets and liabilities denominated in foreign currencies are translated at the exchange rate of the functional currency at the date of the transaction.

1.3.31. 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.

1.3.32. 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 create accruals for employee holiday, benefits for the present value of defined employee retirement plans 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:

On the basis of legal regulation employee is entitled to a jubilee award (seniority awards) for uninterrupted service at the last employee in the 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:

Management's salary consists of salaries, remuneration and other short-term benefits. The amount of salaries and rewards to the management, as well as the principles and structure of determining remuneration are the responsibility of the Board of Directors.

1.3.33. Gains and losses on non-current assets held for sale and related liabilities

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

1.3.34. Fiduciary assets

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

1.3.35. Offsetting

Financial assets and financial liabilities are offset and their net value is disclosed in the statement of financial position only when there is a legally enforceable right to set off the recognized amounts and the SKB Group and SKB Bank intend to either offset on a net basis or sell assets and settle liabilities simultaneously.

1.3.36. Operations for the account of third parties

SKB Bank also provides its clients with asset management services on their behalf, especially the services of accepting, forwarding and executing orders, for which it charges a commission after the service has been provided. These assets are not included in the statement of financial position of SKB banka and the SKB Group, but are presented in the off-balance sheet records.

1.4. Notes to the financial statements of SKB Group and Skb bank

1.4.1. Net interest income

	Group		Bank		
	EUR 000	2020	2019	2020	2019
Interest income					
Non-trading financial assets mandatorily at fair value through profit or loss		342	285	342	285
Financial assets at fair value through other comprehensive income		5,402	6,089	5,402	6,089
Financial assets at amortised cost		75,465	78,084	59,190	57,176
Derivatives - hedge accounting		163	357	163	357
Interest income on impaired financial assets accrued - loans and receivables to customers		619	802	298	599
Financial liabilities arising from negative interest rate		285	168	285	45
		82,276	85,785	65,680	64,551
Interest expense					
Financial liabilities measured at amortised cost		(1,619)	(2,033)	(1,621)	(1,830)
Other liabilities		(2)	(3)	(2)	(3)
Financial assets arising from negative interest rate		(760)	(906)	(760)	(906)
		(2,381)	(2,942)	(2,383)	(2,739)
Net interest income		79,895	82,843	63,297	61,812

Zn accordance with the regulations of the Bank of Slovenia, SKB Group and SKB Bank have changed the system of reporting the interests from non-performing financial assets at amortised cost and interests from non-performing financial assets that are measured at fair value through profit or loss. According to changes of reporting of interests from impaired financial assets, SKB Group and SKB Bank have transferred the part of interests from item Interest income to item Gains and losses on non-trading financial assets mandatorily at fair value through profit or loss and to item Impairment. SKB Group and SKB Bank have adjusted the comparative data for year 2019. Different presentation does not have impact on final profit or loss and as well not on opening and current balance.

SKB Group transferred EUR 2,888 thousand from interest income to impairment and EUR 63 thousand from interest income to gains and losses on non-trading financial assets mandatorily at fair value through profit or loss.

SKB Bank transferred EUR 2,849 thousand from interest income to impairment and EUR 63 thousand from interest income to gains and losses on non-trading financial assets mandatorily at fair value through profit or loss.

Interest income and expense by sector are summarised in the table below:

	Group		Bank	
	2020	2019	2020	2019
EUR 000				
Interest income from financial assets at amortised cost				
• corporates	12,616	13,515	12,041	12,741
• government	4,552	4,443	4,552	4,443
• financial organisations	61	527	5,945	3,438
• individuals and sole proprietors	37,073	37,282	36,950	37,153
• long term financial leases	21,782	23,119	-	-
	76,084	78,886	59,488	57,775
Interest expense from financial liabilities measured at amortised cost				
• corporates	(172)	(144)	(172)	(144)
• government	(10)	(16)	(10)	(16)
• financial organisations	(182)	(393)	(184)	(190)
• individuals and sole proprietors	(1,255)	(1,480)	(1,255)	(1,480)
	(1,619)	(2,033)	(1,621)	(1,830)

1. 4.2. Dividend income

	Group		Bank	
	2020	2019	2020	2019
EUR 000				
Dividend income from non-trading financial assets mandatorily at fair value through profit or loss	231	257	231	257
Dividend income from investments in subsidiaries, associates and joint ventures (accounted for using the cost method)	-	-	12,657	11,531
Total	231	257	12,888	11,788

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

1. 4.3. Net fee and commission income

EUR 000	Group 2020			Group 2019		
	Households	Legal entity	Total	Households	Legal entity	Total
Fee and commission income related to banking activities						
Credit cards and ATMs	4,697	3,074	7,771	5,037	2,208	7,245
Customer transactions accounts	8,103	1,813	9,916	6,415	1,391	7,806
Payments	4,816	8,820	13,635	6,838	11,313	18,152
Guarantees	66	2,305	2,371	69	2,335	2,404
Loans transactions	2,126	906	3,032	2,466	1,226	3,692
Agency of insurance products	-	1,782	1,782	-	2,135	2,135
Other services	415	2,223	2,638	342	2,334	2,676
Total	20,223	20,922	41,145	21,167	22,943	44,110
Fee and commission expenses related to banking activities						
Credit cards and ATMs	-	(5,878)	(5,878)	-	(6,968)	(6,968)
Payments	-	(1,277)	(1,277)	-	(1,103)	(1,103)
Guarantees	-	(713)	(713)	-	(761)	(761)
Loans transactions	-	(563)	(563)	-	(544)	(544)
Other services	(2)	(997)	(999)	(3)	(1,990)	(1,993)
Total	(2)	(9,428)	(9,429)	(3)	(11,366)	(11,369)
Net fee and commission income related to banking activities	20,221	11,494	31,716	21,164	11,577	32,741
Fee and commission income related to customer activities						
Custody and other related services	6	16	22	3	-	3
Receiving, transmission and executions of orders	120	379	499	68	385	453
Account management of customer's book-entry securities	162	543	705	126	535	661
Total	289	938	1,227	197	920	1,117
Fee and commission expenses related to customer activities						
Fees from KDD and related organizations	-	(320)	(320)	-	(304)	(304)
Fees from securities stock market and related organizations	-	(14)	(14)	-	(12)	(12)
Custody and other related services	-	(45)	(45)	-	(49)	(49)
Total	-	(379)	(379)	-	(365)	(365)
Net fee and commission income related to customer activities	289	560	848	197	555	753
Fee and commission income	20,511	21,861	42,372	21,364	23,863	45,227
Fee and commission expenses	(2)	(9,806)	(9,808)	(3)	(11,731)	(11,734)
Net fee and commission income	20,510	12,054	32,564	21,361	12,132	33,493

EUR 000	Bank 2020			Bank 2019		
	Households	Legal entity	Total	Households	Legal entity	Total
Fee and commission income related to banking activities						
Credit cards and ATMs	4,697	3,074	7,771	5,037	2,208	7,245
Customer transactions accounts	8,103	1,814	9,916	6,415	1,392	7,807
Payments	4,816	8,584	13,400	6,838	11,026	17,865
Guarantees	66	2,305	2,371	69	2,335	2,404
Loans transactions	2,126	906	3,032	2,466	1,226	3,692
Agency of insurance products	-	1,782	1,782	-	1,870	1,870
Other services	415	1,729	2,144	342	1,957	2,299
Total	20,223	20,193	40,416	21,167	22,015	43,182
Fee and commission expenses related to banking activities						
Credit cards and ATMs	-	(5,878)	(5,878)	-	(6,968)	(6,968)
Payments	-	(1,276)	(1,276)	-	(1,102)	(1,102)
Guarantees	-	(713)	(713)	-	(761)	(761)
Loans transactions	-	(25)	(25)	-	-	-
Other services	(2)	(807)	(809)	(2)	(1,741)	(1,744)
Total	(2)	(8,700)	(8,701)	(2)	(10,573)	(10,575)
Net fee and commission income related to banking activities	20,221	11,494	31,715	21,165	11,442	32,607
Fee and commission income related to customer activities						
Custody and other related services	6	16	22	3	-	3
Receiving, transmission and executions of orders	120	379	499	68	562	631
Account management of customer's book-entry securities	162	543	705	126	535	661
Total	289	938	1,227	197	1,098	1,295
Fee and commission expenses related to customer activities						
Fees from KDD and related organizations	-	(320)	(320)	-	(304)	(304)
Fees from securities stock market and related organizations	-	(14)	(14)	-	(12)	(12)
Custody and other related services	-	(45)	(45)	-	(49)	(49)
Total	-	(379)	(379)	-	(365)	(365)
Net fee and commission income related to customer activities	289	560	848	197	733	930
Fee and commission income	20,511	21,132	41,643	21,364	23,112	44,477
Fee and commission expenses	(2)	(9,078)	(9,080)	(2)	(10,937)	(10,940)
Net fee and commission income	20,510	12,054	32,563	21,362	12,175	33,537

Gains and losses on financial assets and liabilities held for trading relating to foreign exchange transactions that were previously part of gains and losses on financial assets and liabilities held for trading, are according to new scheme of Income statement included in fee and commission income and expense. SKB Group and SKB Bank have adjusted the comparative data for year 2019.

SKB Group transferred income in the amount of EUR 2,009 thousand from gains on financial assets and liabilities held for trading to fee and commission income and expense in the amount of EUR 885 thousand from losses on financial assets and liabilities held for trading to fee and commission expense.

SKB Bank transferred income in the amount of EUR 2,031 thousand from gains on financial assets and liabilities held for trading to fee and commission income and expense in the amount of EUR 907 thousand from losses on financial assets and liabilities held for trading to fee and commission expense.

In July 2019, SKB banka introduced package offer for individuals (registered under the item commission from the management of current accounts). With the introduction of packages, revenue from basic products, which are part of the package offer decreased (such as revenues from payment transactions, ATM withdrawals, security SMS, personal account management...). Comparing revenues before the packages introduction and the revenues of the same customers after the introduction, we found out that higher revenues from packages, neutralized lower income from basic products that are part of the package offer.

Tax on financial services decreased revenues from fees in 2020 in the amount of EUR 3,759 thousand (2019: EUR 4,032 thousand).

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

	Group		Bank	
	2020	2019	2020	2019
EUR 000	2020	2019	2020	2019
Gains				
Financial assets at amortised cost	1,583	1,137	1,284	927
Financial liabilities measured at amortized cost	2	260	2	261
	1,585	1,397	1,286	1,188
Losses				
Financial assets at amortised cost	(222)	(2,341)	(26)	(2,216)
	(222)	(2,341)	(26)	(2,216)
	1,363	(944)	1,260	(1,028)

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

	Group		Bank	
	2020	2019	2020	2019
EUR 000	2020	2019	2020	2019
Net gains or losses from derivatives	434	23	434	23
Net gains or losses from dealing in loans and other financial assets	285	638	285	638
	719	661	719	661

Gains and losses on financial assets and liabilities held for trading relating to foreign exchange transactions that were previously part of gains and losses on financial assets and liabilities held for trading, are according to new scheme of Income statement included in fee and commission income and expense. SKB Group and SKB Bank have adjusted the comparative data for year 2019.

SKB Group transferred income in the amount of EUR 2,009 thousand from gains on financial assets and liabilities held for trading to fee and commission income and expense in the amount of EUR 885 thousand from losses on financial assets and liabilities held for trading to fee and commission expense.

SKB Bank transferred income in the amount of EUR 2,031 thousand from gains on financial assets and liabilities held for trading to fee and commission income and expense in the amount of EUR 907 thousand from losses on financial assets and liabilities held for trading to fee and commission expense.

1. 4.6. Gains and losses on non-trading financial assets mandatorily measured at fair value through profit and loss

	Group		Bank	
	2020	2019	2020	2019
	EUR 000			
Gains	6,742	6,431	6,742	6,431
Losses	(2,285)	(2,511)	(2,285)	(2,511)
	4,457	3,920	4,457	3,920

Gains from investments in equity in the amount of EUR 4,762 thousand (2019: gains in the amount of EUR 1,352 thousand) and losses from loans and other financial assets in the amount of EUR 305 thousand (2019: gains in the amount of EUR 2,568 thousand) are included in this item.

1. 4.7. Gains and losses on financial assets and liabilities designated for measurement at fair value through profit and loss

	Group		Bank	
	2020	2019	2020	2019
	EUR 000			
Gains	105	293	105	293
Losses	(105)	(293)	(105)	(293)
	-	-	-	-

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.

1. 4.8. Gains and losses from hedge accounting

	Group		Bank	
	2020	2019	2020	2019
	EUR 000			
Net gains or losses from derivatives - fair value hedge	160	1.047	160	1.047
Net gains or losses from hedged items related to hedged risk - fair value hedge	147	(1.277)	147	(1.277)
	307	(230)	307	(230)

SKB Bank has terminated hedge accounting by selling financial instrument (interest rate swap) and transfers the fair value of the hedged item in income statement till maturity.

1. 4.9. Gains and losses on exchange differences

	Group		Bank	
	2020	2019	2020	2019
	EUR 000			
Exchange differences	(206)	(34)	(206)	(35)
	(206)	(34)	(206)	(35)

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

	Group		Bank		
	EUR 000	2020	2019	2020	2019
Gains		154	185	1	5
Losses		(216)	(361)	(182)	(278)
		(62)	(176)	(181)	(273)

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

Profit from sale of property, plant and equipment of SKB Group in 2020 amounted to EUR 154 thousand (2019: EUR 185 thousand) and losses from sale of property, plant and equipment amounted to EUR 43 thousand (2019: EUR 276 thousand). Loss from intangible assets of SKB Group in year 2020 amounted to EUR 173 thousand (2019: EUR 85 thousand).

Profit from sale of property, plant and equipment of SKB Bank in 2020 amounted to EUR 1 thousand (2019: EUR 5 thousand) and losses from sale of property, plant and equipment amounted to EUR 9 thousand (2019: EUR 193 thousand). Loss from intangible assets of SKB Bank in year 2020 amounted to EUR 173 thousand (2019: EUR 85 thousand).

1.4.11. Other operating income and expenses

	Group		Bank		
	EUR 000	2020	2019	2020	2019
Income					
Rental income - investment property		104	147	254	274
Rental income - POS terminals		319	317	319	317
Rental income - other property, plant and equipment		36	43	84	106
Sale of services - operational leases		1,004	1,237	-	-
Sale of services - other		524	516	-	-
Other operating income		1,522	2,295	1,634	2,430
		3,509	4,555	2,291	3,127
Expenses					
Taxes		(33)	(33)	-	-
Contributions		-	(7)	-	-
Rental expense - other property, plant and equipment		(4)	(4)	(4)	(4)
Other operating expenses		(63)	(25)	(63)	(25)
		(100)	(69)	(67)	(29)
		3,409	4,486	2,224	3,098

Cash contributions to resolution funds and deposit guarantee schemes that were previously part of item Other operating income, are according to new scheme of Income statement included in new item Cash contributions to resolution funds and deposit guarantee schemes.

Taxes, memberships and similar expenses that were previously part of item Other operating income are according to new scheme of Income statement included in item Administrative expenses.

SKB Group and SKB Bank have adjusted the comparative data for year 2019.

SKB Group transferred expenses in the amount of EUR 357 thousand from other operating expenses to administrative expenses and expenses in the amount of EUR 2,740 thousand from other operating expenses to cash contributions to resolution funds and deposit guarantee schemes.

SKB Bank transferred expenses in the amount of EUR 343 thousand from other operating expenses to administrative expenses and expenses in the amount of EUR 2,740 thousand from other operating expenses to cash contributions to resolution funds and deposit guarantee schemes.

Future minimum income of SKB Group and SKB Bank from operating lease are presented in the table below:

EUR 000	Group		Bank	
	2020	2019	2020	2019
Future minimum income from operating lease - cars and other equipment				
Less than one year	1,016	1,254	-	-
One to five years	1,021	1,191	-	-
	2,037	2,445	-	-
Future minimum income from operating lease - real estate				
Less than one year	129	137	325	317
One to five years	282	240	853	932
	411	377	1,178	1,249

1.4.12. Administration costs

EUR 000	Group		Bank	
	2020	2019	2020	2019
Payroll and other staff costs				
Salaries Gross	(28,890)	(26,694)	(26,215)	(24,616)
Social security costs	(3,929)	(4,519)	(3,922)	(4,117)
Other employee costs	(2,338)	(4,726)	(1,830)	(3,960)
	(35,157)	(35,939)	(31,967)	(32,693)
Administration costs				
Material costs	(746)	(1,189)	(712)	(1,125)
Advertising and marketing	(2,081)	(1,202)	(1,906)	(979)
Professional services	(1,673)	(3,097)	(1,278)	(2,773)
IT costs	(3,424)	(2,690)	(2,981)	(2,241)
Operating lease rentals	(473)	(546)	(434)	(499)
Business trips	(65)	(148)	(51)	(127)
Maintenance, managing, protection and insurance of premises	(2,894)	(1,424)	(2,782)	(1,359)
Education, training and scholarships	(210)	(311)	(203)	(300)
Postal and telephone charges	(2,684)	(2,339)	(2,406)	(2,074)
Supervision	(722)	(709)	(722)	(709)
Other costs	(2,763)	(3,814)	(2,616)	(3,524)
	(17,735)	(17,469)	(16,091)	(15,710)
	(52,892)	(53,408)	(48,058)	(48,403)

Taxes, memberships and similar expenses that were previously part of item Other operating income are according to new scheme of Income statement included in item Administrative expenses.

SKB Group and SKB Bank have adjusted the comparative data for year 2019.

SKB Group transferred expenses in the amount of EUR 357 thousand (other costs) from other operating expenses to administrative expenses and SKB Bank EUR 343 thousand.

Within administrative expenses, the item insurance costs was abolished in 2020. The SKB Group and SKB Bank adjusted the data for 2019 accordingly and transferred the insurance costs to the relevant items to which the insurance relates (maintenance, managing and protection of premises and other costs).

Other costs of SKB Group include costs of card and electronic operations and maintenance of ATM's in the amount of EUR 948 thousand (2019: EUR 753 thousand), printing costs in the amount of EUR 256 thousand (2019: EUR 236 thousand) and costs of other services.

Other costs of SKB Bank include costs of card and electronic operations and maintenance of ATM's in the amount of EUR 948 thousand (2019: EUR 753 thousand), printing costs in the amount of EUR 256 thousand (2019: EUR 228 thousand) and costs of other services.

Auditor's fee:

	Group		Bank	
	2020	2019	2020	2019
	EUR 000			
Audit of annual report by contract	(249)	(228)	(223)	(205)
Other services for assurances	(17)	(20)	(17)	(17)
Other services	(69)	-	(57)	-
	(335)	(248)	(297)	(222)

1.4.13. Cash contributions to resolution funds and deposit guarantee schemes

	Group		Bank	
	2020	2019	2020	2019
	EUR 000			
Vplačila v sistem zajamčenih vlog	(1.978)	(999)	(1.978)	(999)
Vplačila v sklad za reševanje	(1.245)	(1.741)	(1.245)	(1.741)
	(3.223)	(2.740)	(3.223)	(2.740)

Cash contributions to resolution funds and deposit guarantee schemes that were previously part of item Other operating income, are according to new scheme of Income statement included in new item Cash contributions to resolution funds and deposit guarantee schemes.

SKB Group and SKB Bank have adjusted the comparative data for year 2019.

SKB Group and SKB Bank transferred expenses in the amount of EUR 2,740 thousand from other operating expenses to item Cash contributions to resolution funds and deposit guarantee schemes

1.4.14. Depreciation / Amortization

	Group		Bank	
	2020	2019	2020	2019
	EUR 000			
Tangible fixed assets	(4,218)	(4,735)	(2,871)	(3,213)
Intangible fixed assets	(1,837)	(1,612)	(1,762)	(1,486)
Investment property	(46)	(66)	(88)	(98)
	(6,101)	(6,413)	(4,721)	(4,797)

1.4.15. Gains / Losses on repayment modifications

	Group		Bank	
	2020	2019	2020	2019
	EUR 000			
Gains / Losses on repayment modifications	(56)	(29)	(56)	(29)
	(56)	(29)	(56)	(29)

In accordance with the COVID-19 epidemic mitigation law the SKB Group and SKB Bank enabled customers to extend the repayment of loan agreements (moratorium), which resulted in changes in cash flows and recalculation of the gross book value of financial assets by discounting the changed cash flows with effective interest rate.

1.4.16. Provisions

	Group		Bank		
	EUR 000	2020	2019	2020	2019
Pending legal issues		-	26	-	11
Pensions and similar liabilities		(310)	(429)	(294)	(410)
Commitments and contingencies		(3,396)	1,071	(3,396)	1,071
Other		-	(200)	-	(200)
		(3,706)	468	(3,690)	472

Expenses for provisions created and income from provisions reversed relate mainly to off-balance sheet provisions, provisions for retirement severance pay and provisions for senior awards, which are created in accordance with the actuarial calculation and paid in accordance with the collective banking agreement.

Details of movement in provisions are presented in Note 1.4.33.

1.4.17. Impairment

	Group		Bank		
	EUR 000	2020	2019	2020	2019
Financial assets not measured at fair value through profit or loss					
Financial assets at fair value through other comprehensive income		(271)	25	(271)	25
Financial assets at amortised cost		(14,532)	10,877	(17,808)	9,598
		(14,803)	10,902	(18,079)	9,623
Other non-financial assets					
Property, plant and equipment		-	(3,450)	-	(3,408)
Investment property		-	(56)	-	(98)
Goodwill		-	(2,953)	-	(2,953)
Other assets		-	-	-	-
		-	(6,459)	-	(6,459)
		(14,803)	4,443	(18,079)	3,164

In accordance with the regulations of the Bank of Slovenia, SKB Group and SKB Bank have changed the system of reporting the interests from non-performing financial assets at amortised cost and interests from non-performing financial assets that are measured at fair value through profit or loss. According to changes of reporting of interests from impaired financial assets, SKB Group and SKB Bank have transferred the part of interests from item Interest income to item Gains and losses on non-trading financial assets mandatorily at fair value through profit or loss and to item Impairment.

SKB Group and SKB Bank have adjusted the comparative data for year 2019.

SKB Group transferred expenses in the amount of EUR 2,888 thousand from interest income to impairment and SKB Bank EUR 2,849 thousand.

Details of movement in provisions for impairment of loans are presented in Note 1.4.25.

1.4.18. Profit or loss from non-current assets held for sale and related liabilities

	Group		Bank		
	EUR 000	2020	2019	2020	2019
Profit or loss from non-current assets held for sale		44	(46)	44	(46)
		44	(46)	44	(46)

1.4.19. Tax

	Group		Bank		
	EUR 000	2020	2019	2020	2019
Income tax payable in the year		(7,121)	(12,549)	(4,078)	(9,163)
Deferred tax		31	103	(88)	376
Total		(7,090)	(12,446)	(4,166)	(8,787)
Reconciliation of effective tax rate					
Profit before tax		41,940	66,551	39,545	60,871
Income tax calculated using the statutory tax rate		10,411	15,539	7,513	11,566
19% from items increasing tax base		(7,263)	(6,360)	(3,584)	(2,747)
19% from items decreasing tax base		4,416	3,964	556	911
Tax reliefs		(443)	(594)	(407)	(567)
Income tax payable in the year		7,121	12,549	4,078	9,163

The statutory tax rate is 19 %. The Bank's effective tax rate for 2020 was 11 %, the effective tax rate of the Group for 2020 was 13 %.

Tax assets and tax liabilities	Group		Bank		
	EUR 000	2020	2019	2020	2019
Tax assets					
Current tax assets		3,557	802	3,557	802
Deferred tax assets		-	3,208	-	1,228
		3,557	4,010	3,557	2,030
Tax liabilities					
Current tax liabilities		504	402	-	-
Deferred tax liabilities		2,807	4,703	4,907	4,703
		3,311	5,105	4,907	4,703

Net deferred tax assets and liabilities	Group		Bank		
	EUR 000	2020	2019	2020	2019
Deferred tax liabilities					
Mark to market valuation of securities at fair value through other comprehensive income - bonds		6,002	4,700	6,002	4,700
Impairment of securities at fair value through other comprehensive income - bonds		55	3	55	3
		6,057	4,703	6,057	4,703
Deferred tax assets					
Long term provisions		1,996	1,877	9	9
Provisions for retirement indemnities and seniority awards		292	287	292	287
Provisions for retirement indemnities - actuarial losses through other comprehensive income		116	91	89	79
Impairment of securities at fair value through other comprehensive income - bonds		55	3	55	3
Impairment of securities at amortised cost		14	2	14	2
Depreciation over the rates prescribed by tax legislation		478	518	392	418
Impairment of goodwill		299	430	299	430
		3,250	3,208	1,150	1,228
Net deferred tax assets		(2,807)	(1,495)	(4,907)	(3,475)

The deferred tax charge in the income statement comprises the following temporary differences:	Group		Bank	
EUR 000	2020	2019	2020	2019
Long term provisions	133	(258)	-	(1)
Provisions for retirement indemnities and seniority awards	6	11	5	11
Securities, measured at fair value through other comprehensive income - bonds	51	(5)	51	(5)
Securities, measured at amortized cost	12	(4)	12	(4)
Depreciation over maximum tax-allowable rates	(40)	(71)	(25)	(55)
Impairment of goodwill	(131)	430	(131)	430
Net income / (loss) from deferred tax	31	103	(88)	376

The deferred tax charge in equity comprises the following temporary differences:	Group		Bank		
EUR 000	2020	2019	2020	2019	
Deferred tax liabilities					
Mark to market valuation of securities at fair value through other comprehensive income - bonds		6,057	4,703	6,057	4,703
		6,057	4,703	6,057	4,703
Deferred tax assets					
Provisions for retirement indemnities - actuarial losses through other comprehensive income		102	91	89	79
		102	91	89	79
Net deferred tax assets/(liabilities)		(5,955)	(4,612)	(5,968)	(4,624)

Tax payable and matured unpaid taxes

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

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

Group and Bank			
	EUR 000	2020	2019
Cash in hand		22,141	31,076
Balances with central banks and other demand deposits at banks		496,070	219,170
Gross exposure		518,211	250,246
Provisions		-	-
Net exposure		518,211	250,246

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. At 31 December 2020 the banks are obliged to calculate mandatory reserve at 1% from all deposits with maturity up to 2 years.

1.4.21. Financial assets and liabilities held for trading

Group and Bank						
EUR 000	2020			2019		
	Nominal value	Fair value assets	Fair value liabilities	Nominal value	Fair value assets	Fair value liabilities
Derivative financial instruments						
Currency forwards	65,518	381	807	130,493	1,381	395
Currency swaps	22,473	457	11	27,955	-	962
Interest rate swaps	484,889	8,062	8,318	477,580	7,244	7,720
Interest rate options (call option)	8,321	2	12	9,903	10	14
Interest rate options (put option)	8,321	8	7	9,903	11	16
Spot	37,304	32	5	35,841	3	-
	626,826	8,942	9,160	691,675	8,649	9,107
Net fair value		(218)			(458)	

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.

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

EUR 000	Group		Bank	
	2020	2019	2020	2019
Equity instruments	20,937	16,062	20,937	16,062
Loans and other financial assets	6,944	8,520	6,944	8,520
	27,881	24,582	27,881	24,582

1.4.23. Financial assets and liabilities designated for measurement at fair value through profit or loss

Financial assets designated at fair value through profit or loss	Group		Bank		
	EUR 000	2020	2019	2020	2019
Debt securities					
Debt securities - listed		6,120	6,053	6,120	6,053
		6,120	6,053	6,120	6,053

Financial liabilities designated at fair value through profit or loss	Group		Bank		
	EUR 000	2020	2019	2020	2019
Structured deposit		6,120	6,054	6,120	6,054
		6,120	6,054	6,120	6,054

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).

1.4.24. Financial assets measured at fair value through other comprehensive income

	Group		Bank		
	EUR 000	2020	2019	2020	2019
Financial assets - listed					
Government bonds of Republic Slovenia		272,534	245,714	272,534	245,714
Government bonds of Republic France		22,499	21,491	22,499	21,491
Government bonds of Hungary		17,687	-	17,687	-
Government bonds of Croatia		53,587	-	53,587	-
		366,307	267,205	366,307	267,205

In 2020, SKB Group and SKB Bank did not have any profit or loss from the sale of financial assets measured at fair value through other comprehensive income.

Movement of financial assets measured at fair value through other comprehensive income for the SKB Group and SKB Bank is presented in the table below.

	Group		Bank		
	EUR 000	2020	2019	2020	2019
Balance at 1. 1.		267,205	258,682	267,205	258,682
Additions		113,640	47,513	113,640	47,513
Maturity (disposal)		(20,565)	(39,409)	(20,565)	(39,409)
Interest		(827)	(2,067)	(827)	(2,067)
Change in fair value		6,854	2,486	6,854	2,486
Balance at 31. 12.		366,307	267,205	366,307	267,205

The accumulated other comprehensive income of financial assets, measured at fair value through other comprehensive income, is shown in the table below.

	Group		Bank		
	EUR 000	2020	2019	2020	2019
Balance at 01.01.		20,050	18,056	20,050	18,056
Net gains / losses on fair value changes		6,853	2,486	6,853	2,486
Impairment		271	(25)	271	(25)
Deferred tax		(1,354)	(467)	(1,354)	(467)
Balance at 31.12.		25,820	20,050	25,820	20,050

1.4.25. Financial assets measured at amortised cost

The table below presents the distribution of financial assets measured at amortized cost by individual types of financial assets.

	Group		Bank	
	2020	2019	2020	2019
	EUR 000			
Debt securities				
Debt securities - listed	214,834	249,280	214,834	249,280
Gross exposure	214,834	249,280	214,834	249,280
Provision for impairment	(73)	(11)	(73)	(11)
	214,761	249,269	214,761	249,269
Loans to banks				
Deposits	99	539	99	539
Gross exposure	99	539	99	539
Provision for impairment	-	-	-	-
	99	539	99	539
Loans to non-bank customers				
• corporates	745,205	745,842	710,944	715,258
• government	93,245	93,852	93,245	93,852
• financial organisations	2,165	2,985	486,934	508,152
• individuals	1,202,317	1,193,443	1,200,164	1,190,894
• other	149	306	149	306
• sole proprietors	21,468	24,608	21,439	24,582
Long term financial leases	466,504	496,370	-	-
Gross exposure	2,531,053	2,557,406	2,512,875	2,533,044
Provision for impairment	(84,921)	(60,137)	(77,899)	(50,304)
	2,446,132	2,497,269	2,434,976	2,482,740
Other financial assets				
Gross exposure	3,001	4,172	2,529	3,636
Provision for impairment	(45)	(28)	(34)	(17)
	2,956	4,144	2,495	3,619
	2,663,948	2,751,221	2,652,331	2,736,167

In accordance with the regulations of the Bank of Slovenia, SKB Group and SKB Bank switched to gross method of presenting interests on impaired part of the principal.

If the SKB Group took into account the gross method of presenting interests on the impaired part of the principal in 2019, the gross exposure of loans to non-bank customers would increase by EUR 11,965 thousand, other financial assets by EUR 1 thousand and long-term financial leases by EUR 874 thousand. Provisions for impairment would also increase by the same amount.

If the SKB Bank took into account the gross method of presenting interests on the impaired part of the principal in 2019, the gross exposure of loans to non-bank customers would increase by EUR 11,971 thousand and other financial assets by EUR 1 thousand. Provisions for impairment would also increase by the same amount.

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 1,650,704 thousand (2019: EUR 1,593,371 thousand), state securities and guarantees at a fair value of EUR 86,148 thousand (2019: EUR 78,286 thousand) and demand deposits at a fair value of EUR 5,877 thousand (2019: EUR 6,567 thousand).

Under large loans are by SKB Group and SKB Bank considered financial assets measured at amortised cost of ten biggest debtors.

As at 31 December 2020, SKB Group had large loans in amount of EUR 297,529 thousand or 11.75 % of the gross loan portfolio. Provisions in the amount of EUR 1,834 thousand were made against these loans in 2020.

As at 31 December 2020, SKB Bank had large loans in amount of EUR 753,531 thousand or 29.99 % of the gross loan portfolio. Provisions in the amount of EUR 6,046 thousand were made against these loans in 2019.

SKB Group and SKB Bank consider a client defaulted, when a serious financial and business deterioration has occurred that has an impact on client's creditworthiness, when there is a high probability of loss of part of financial asset or payment of commitment and when claims were individually impaired. A counterparty is also deemed in default when client's credit obligation is in delay more than 90 consecutive days with an amount which exceeds the absolute and relative materiality threshold.

As at 31 December 2020, SKB Group had non-performing loans in the amount of EUR 74,613 thousand.

As at 31 December 2020, SKB Bank had non-performing loans in the amount of EUR 63,203 thousand.

	Group		Bank	
	2020	2019	2020	2019
	EUR 000			
Receivables from card business	1,227	1,557	1,227	1,557
Fee and commission receivables	582	725	551	679
Receivables from securities	45	31	45	31
Receivables for financial advances	954	1,285	500	766
Other financial assets	193	574	206	603
Gross exposure	3,001	4,172	2,529	3,636
Provision for impairment	(45)	(28)	(34)	(17)
	2,956	4,144	2,495	3,619

Provisions for impairment of loans	Group		Bank	
	2020	2019	2020	2019
	EUR 000			
Debt securities				
• government	(73)	(11)	(73)	(11)
	(73)	(11)	(73)	(11)
Banks				
Non-bank customers				
• corporates	(31,582)	(23,398)	(30,848)	(22,590)
• government	(59)	(42)	(59)	(42)
• financial organisations	(20)	(11)	(4,497)	(91)
• individuals	(41,501)	(26,767)	(41,415)	(26,664)
• other	(2)	(7)	(2)	(7)
• sole proprietors	(1,082)	(914)	(1,078)	(910)
Long term financial leases	(10,675)	(8,998)	-	-
	(84,921)	(60,137)	(77,899)	(50,304)
Other financial assets	(45)	(28)	(34)	(17)
	(85,039)	(60,176)	(78,006)	(50,332)

Details of movement of gross value and provisions for impairment of loans are presented in Chapter 6.3.2. General quantitative information on credit risk

Financial leases	Group		Bank		
	EUR 000	2020	2019	2020	2019
Gross exposure from financial leases					
Less than one year		8,879	12,896	-	-
One to five years		158,391	177,908	-	-
More than five years		299,233	305,566	-	-
		466,503	496,370	-	-
Provisions					
Less than one year		(725)	(836)	-	-
One to five years		(4,704)	(3,974)	-	-
More than five years		(5,246)	(4,188)	-	-
		(10,675)	(8,998)	-	-
Net exposure		455,828	487,372	-	-
Unrecognized future income from financial leases		45,375	50,421	-	-

1.4.26. Hedging derivatives and Fair value changes of the hedged items in portfolio hedge of interest rate risk

Group and Bank			
	EUR 000	2020	2019
Derivatives - fair value hedge - macro hedging (assets)		-	843
Fair value changes of the hedged items in portfolio hedge of interest rate risk (liabilities)		1,732	1,879

The change in fair value is in hedge accounting recognized in the income statement and is presented in Note 1.4.8.

SKB Bank has terminated hedge accounting by selling financial instrument (interest rate swap) and transfers the fair value of the hedged item in income statement till maturity.

1.4.27. Investments in subsidiaries, associates and joint ventures

	Group		Bank		
	EUR 000	2020	2019	2020	2019
Other financial institutions		-	-	20,454	20,454
		-	-	20,454	20,454

Bank's investments in subsidiaries	Bank		% of share in capital		
	EUR 000	2020	2019	2020	2019
SKB Leasing		20,454	20,454	100,0	100,0
Investments in financial institutions		20,454	20,454		

SKB Bank's capital investments in the amount of EUR 20,454 thousand represent an investment in the subsidiary SKB Leasing d.o.o. SKB bank holds a 100 % ownership share in its subsidiary SKB Leasing.

The equity investment is measured at cost. As part of the medium-term business strategy for the period of the next three years, which was performed in 2020, SKB Leasing's future performance was assessed. The subsidiary's performance is expected to remain stable with stable future cash flows, therefore the value of the equity investment remained unchanged in 2020.

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:	27,920 EUR thousand
% of share in capital	100 %
Equity investment as of 31 December 2020	20,454 EUR thousand
Profit for the year ended 31 December 2020	9,250 EUR thousand

1.4.28. a) Property, plant and equipment

Movement of property, plant and equipment for SKB Group in 2020 and 2019 is summarised in the tables below.

Group SKB											
EUR 000	Land	Build-ings	Com-puter equip-ment	Furniture & fittings	Other equip-ment	Assets in course of construc-tion	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 1 January 2020	2,292	47,610	9,921	12,184	93	145	6,449	8,626	5,113	159	92,592
Additions	-	461	154	455	-	899	37	7,550	331	192	10,079
Disposals	-	-	(907)	(420)	(22)	(1,037)	(73)	(8,604)	(109)	(39)	(11,211)
Transfer*	34	807	-	-	-	-	-	-	-	-	841
At 31 December 2020	2,326	48,878	9,168	12,219	71	7	6,413	7,572	5,335	312	92,301
Depreciation											
At 1 January 2020	-	(23,820)	(7,975)	(11,212)	(72)	-	(5,777)	(2,186)	(987)	(55)	(52,084)
Depreciation charge for the year	-	(830)	(721)	(177)	(18)	-	(149)	(1,216)	(1,032)	(75)	(4,218)
Eliminations and disposals	-	-	907	415	21	-	70	1,515	111	37	3,076
Transfer*	-	(432)	-	-	-	-	-	-	-	-	(432)
At 31 December 2020	-	(25,082)	(7,789)	(10,974)	(69)	-	(5,856)	(1,887)	(1,908)	(93)	(53,658)
Impairment											
At 1 January 2020	(489)	(2,961)	-	-	-	-	-	-	-	-	(3,450)
Impairment for the year	-	(17)	-	-	-	-	-	-	-	-	(17)
At 31 December 2020	(489)	(2,978)	-	-	-	-	-	-	-	-	(3,467)
Net Book Value	1,837	20,818	1,379	1,245	2	7	557	5,685	3,427	219	35,176

SKB Group											
EUR 000	Land	Buildings	Computer equipment	Furniture & fittings	Other equipment	Assets in course of construction	Leasehold improvements	Assets leased through operating leases	IFRS 16 - Right of use - real estate	IFRS 16 - Right of use - equipment	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)	-	(180)	(1,407)	(1,008)	(55)	(4,735)
Eliminations and disposals	-	176	2,437	639	61	-	289	1,464	21	-	5,087
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

*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 (in year 2020 the bank's subsidiary has increased the part of rented premises).

On 1 January 2019, the SKB Group recognized the right to use of real estate in amount of EUR 4,985 thousand and the right of use of equipment in the amount of EUR 102 thousand among property, plant and equipment. The amount includes leased assets that were subject to operating leases prior to the transition to IFRS 16.

In 2020, SKB Group checked indicators for impairment of Property, plant and equipment, taking into account both external and internal sources of information and determined that impairments were not necessary because the recoverable amounts were not significantly different from carrying amounts.

In 2019, the SKB Group performed a real estate appraisal as part of the PPA (Purchase Price Allocation) requirements related to the purchase of the Bank by OTP Bank. The appraisal was performed by external, independent experts, certified appraisers. The valuations showed differences between the recoverable amount and the carrying amount, which is why the SKB Group recognised impairment of land and buildings in the amount of EUR 3,450 thousand. Valuations were made on the basis of real estate market analysis and other findings and taking into account the purpose of valuation and characteristics of the assessed real estate, so the valuation method used market comparisons and yield-based method (for assessment of value in use).

Property, plant and equipment are not pledged as security for liabilities.

As at 31 December 2020, SKB Group does not disclose advances for property, plant and equipment

Movement of property, plant and equipment of the SKB Bank in 2020 and 2019 is summarised in the tables below.

SKB Bank									
EUR 000	Land	Build-ings	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 1 January 2020	2,183	45,693	9,767	11,886	145	6,128	5,113	106	81,021
Additions	-	461	118	445	899	12	331	110	2,376
Disposals	-	-	(881)	(402)	(1,037)	(73)	(109)	(21)	(2,523)
At 31 December 2020	2,183	46,154	9,004	11,929	7	6,067	5,335	195	80,874
Depreciation									
At 1 January 2020	-	(22,772)	(7,853)	(10,994)	-	(5,511)	(987)	(35)	(48,152)
Depreciation charge for the year	-	(788)	(702)	(162)	-	(139)	(1,032)	(48)	(2,871)
Eliminations and disposals	-	-	880	397	-	70	111	19	1,477
At 31 December 2020	-	(23,560)	(7,675)	(10,759)	-	(5,580)	(1,908)	(64)	(49,546)
Impairment									
At 1 January 2020	(489)	(2,919)	-	-	-	-	-	-	(3,408)
Impairment for the year	-	-	-	-	-	-	-	-	-
At 31 December 2020	(489)	(2,919)	-	-	-	-	-	-	(3,408)
Net Book Value	1,694	19,675	1,329	1,170	7	487	3,427	131	27,920

SKB Bank									
EUR 000	Land	Build-ings	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

On 1 January 2019, the SKB Bank recognized the right to use of real estate in amount of EUR 4,985 thousand and the right of use of equipment in the amount of EUR 76 thousand among property, plant and equipment. The amount includes leased assets that were subject to operating leases prior to the transition to IFRS 16.

In 2020, SKB Bank checked indicators for impairment of Property, plant and equipment, taking into account both external and internal sources of information and determined that impairments were not necessary because the recoverable amounts were not significantly different from carrying amounts.

In 2019, the SKB Bank performed a real estate appraisal as part of the PPA (Purchase Price Allocation) requirements related to the purchase of the Bank by OTP Bank. The appraisal was performed by external, independent experts, certified appraisers. The valuations showed differences between the recoverable amount and the carrying amount, which is why the SKB Group recognised impairment of land and buildings in the amount of EUR 3,408 thousand. Valuations were made on the basis of real estate market analysis and other findings and taking into account the purpose of valuation and characteristics of the assessed real estate, so the valuation method used market comparisons and yield-based method (for assessment of value in use).

Property, plant and equipment are not pledged as security for liabilities.

As at 31 December 2020, SKB Bank does not disclose advances for property, plant and equipment.

The SKB Group and SKB Bank lease company vehicles and business premises. Leases of vehicles are usually concluded for a period of four years, and leases of business premises for a longer period. The terms of the lease are agreed for each lease separately.

Property, plant and equipment	Group		Bank		
	EUR 000	2020	2019	2020	2019
Property, plant and equipment owned		31,530	32,828	24,362	25,264
Right of use - real estate		3,427	4,126	3,427	4,126
Right of use - equipment (vehicles)		219	104	131	71
		35,176	37,058	27,920	29,461

Lease liabilities	Group		Bank		
	EUR 000	2020	2019	2020	2019
Current lease liabilities		1,058	1,059	1,031	1,042
Non-current lease liabilities		2,628	3,181	2,565	3,165
		3,686	4,240	3,596	4,207

Rental maturity analysis - contractual undiscounted cash flows	Group		Bank		
	EUR 000	2020	2019	2020	2019
Less than one year		1,046	1,074	1,015	1,056
One to five years		2,484	2,851	2,423	2,835
More than five years		163	442	163	442
		3,693	4,367	3,601	4,333

Rental expenses recognized in the income statement	Group		Bank		
	EUR 000	2020	2019	2020	2019
Depreciation		(1,107)	(1,063)	(1,080)	(1,043)
Interest on lease liability		(43)	(51)	(42)	(51)
Expenses relating to short-term leases		(76)	(101)	(12)	(58)
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets		(373)	(356)	(372)	(355)
		(1,599)	(1,571)	(1,506)	(1,507)

1.4.28. b) Investment properties

Movement of investment properties of the SKB Group in 2020 and 2019 is summarised in the tables below.

SKB Group				
	EUR 000	Land	Buildings	Total
Cost				
At 1 January 2020		190	3,864	4,054
Transfer*		(34)	(807)	(841)
At 31 December 2020		156	3,057	3,213
Depreciation				
At 1 January 2020		-	(2,062)	(2,062)
Depreciation charge for year		-	(46)	(46)
Transfer*		-	431	431
At 31 December 2020		-	(1,677)	(1,677)
Impairment				
At 1 January 2020		(25)	(148)	(173)
Transfer*		-	17	17
At 31 December 2020		(25)	(131)	(156)
Net Book Value		131	1,249	1,380
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		-	(66)	(66)
Eliminations and disposals		-	84	84
Transfer*		-	217	217
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

*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 (in year 2020 the bank's subsidiary has increased the part of rented premises).

In 2020, the SKB Group recognised EUR 104 thousand income from operating lease of investment properties (2019: EUR 147 thousand).

In 2020, SKB Group checked indicators for impairment of Investment properties, taking into account both external and internal sources of information and determined that impairments were not necessary because the recoverable amounts were not significantly different from carrying amounts.

In 2019, the SKB Group performed a real estate appraisal as part of the PPA (Purchase Price Allocation) requirements related to the purchase of the Bank by OTP Bank. The appraisal was performed by external, independent experts, certified appraisers. The valuations showed differences between the recoverable amount and the carrying amount, which is why the SKB Group recognised impairment of land and buildings in the amount of EUR 56 thousand. Valuations were made on the basis of real estate market analysis and other findings and taking into account the purpose of valuation and characteristics of the assessed real estate, so the valuation method used market comparisons and yield-based method (for assessment of value in use).

Investment property is not pledged as security for liabilities.

As at 31 December 2020, the SKB Group does not disclose advances for investment property.

Movement of investment properties of the SKB Group in 2020 and 2019 is summarised in the tables below.

Bank			
EUR 000	Land	Buildings	Total
Cost			
At 1 January 2020	276	5,781	6,057
At 31 December 2020	276	5,781	6,057
Depreciation			
At 1 January 2020	-	(3,110)	(3,110)
Depreciation charge for year	-	(88)	(88)
At 31 December 2020	-	(3,198)	(3,198)
Impairment			
At 1 January 2020	(25)	(190)	(215)
At 31 December 2020	(25)	(190)	(215)
Net Book Value	251	2,393	2,644
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

In 2020, SKB Bank had revenues from operating lease of investment property in the amount of EUR 254 thousand (2019: EUR 265 thousand).

In 2020, SKB Bank checked indicators for impairment of Investment properties, taking into account both external and internal sources of information and determined that impairments were not necessary because the recoverable amounts were not significantly different from carrying amounts.

In 2019, the SKB Bank performed a real estate appraisal as part of the PPA (Purchase Price Allocation) requirements related to the purchase of the SKB Bank by OTP Bank. The appraisal was performed by external, independent experts, certified appraisers. The valuations showed differences between the recoverable amount and the carrying amount, which is why the SKB Bank recognised impairment of land and buildings in the amount of EUR 98 thousand. Valuations were made on the basis of real estate market analysis and other findings and taking into account the purpose of valuation and characteristics of the assessed real estate, so the valuation method used market comparisons and yield-based method (for assessment of value in use).

Investment property is not pledged as security for liabilities.

As at 31 December 2020, SKB Bank does not disclose advances for acquiring of investment property.

1.4.29. Intangible assets

Movements of Intangible assets of the SKB Bank in 2020 and 2019 is displayed in the tables below.

Group						
	EUR 000	Goodwill	Software	Assets in course of construction	Other intangible assets	Total
Cost						
At 1 January 2020		1,290	20,568	2,192	5	24,055
Additions	-	-	2,380	1,793	-	4,173
Disposals	-	-	(61)	(1,902)	-	(1,963)
At 31 December 2020		1,290	22,887	2,083	5	26,265
Depreciation						
At 1 January 2020		-	(13,756)	-	(5)	(13,761)
Charge for the year	-	-	(1,837)	-	-	(1,837)
Eliminations and disposals	-	-	13	-	-	13
At 31 December 2020		-	(15,580)	-	(5)	(15,585)
Impairment						
At 1 January 2020		-	-	-	-	-
At 31 December 2020		-	-	-	-	-
Net Book Value		1,290	7,307	2,083	-	10,680
Cost						
At 1 January 2019		4,743	17,322	2,168	5	24,238
Additions	-	-	3,375	1,658	-	5,033
Disposals	(3,453)	(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)
Disposals	(2,953)	(2,953)	-	-	-	(2,953)
At 31 December 2019	3,453	3,453	-	-	-	3,453
Net Book Value		-	-	-	-	-
Sedanja vrednost		1,290	6,812	2,192	-	10,294

Intangible fixed assets consist mainly of software purchased or developed by SKB Group for its own use.

Impairment test of goodwill is performed on an annual basis at the end of year.

Goodwill in net book value of EUR 4,243 thousand as at 1 January 2019 arised 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.

The goodwill test resulting from the merger of SKB Bank with BSGL in 2019 showed that an impairment is necessary and was carried out in the amount of residual value. As at 31 December 2019, SKB Bank no longer had goodwill from the merger of SKB Bank with BSGL.

Method of the calculation was the net present values of the income and depreciation. The discount factor based on a 7.1 % ROE was used in the calculation. Impairment test shows that the net present values from 2020 to 2024 are higher as goodwill, so there is no need for impairment of goodwill related to SKB Leasing.

Intangible assets are not pledged as security for liabilities.

As at 31 December 2020, the SKB Group does not disclose advances for intangible assets.

Movements of Intangible assets of the SKB Bank in 2020 and 2019 is displayed in the tables below.

Bank						
	EUR 000	Goodwill	Software	Assets in course of construction	Other intangible assets	Total
Cost						
At 1 January 2020		-	19.164	2.156	-	21.320
Additions		-	2.259	1.660	-	3.919
Disposals		-	(61)	(1.780)	-	(1.841)
At 31 December 2020		-	21.362	2.036	-	23.398
Depreciation						
At 1 January 2020		-	(12.691)	-	-	(12.691)
Charge for the year		-	(1.762)	-	-	(1.762)
Eliminations and disposals		-	13	-	-	13
At 31 December 2020		-	(14.440)	-	-	(14.440)
Impairment						
At 1 January 2020		-	-	-	-	-
At 31 December 2020		-	-	-	-	-
Net Book Value		-	6.922	2.036	-	8.958
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

Intangible fixed assets consist mainly of software purchased or developed by SKB Bank for its own use.

Goodwill in net book value of EUR 2,953 thousand as at 1 January 2019 arised from the merger of SKB Bank with BSGL (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 BSGL clients.

The goodwill test resulting from the merger of SKB Bank with BSGL in 2019 showed that an impairment is necessary and was carried out in the amount of residual value. As at 31 December 2019, SKB Bank no longer had goodwill from the merger of SKB Bank with BSGL.

Intangible assets are not pledged as security for liabilities.

As at 31 December 2019, SKB banka does not disclose advances for intangible assets.

1.4.30. Other assets

	Group		Bank	
	2020	2019	2020	2019
	EUR 000			
Receivables for taxes and contributions paid	170	504	13	39
Costs and expenses deferred and paid in advance	12,772	13,927	1,941	2,202
Insurance premium paid in advance	13	244	13	244
Other inventories	339	451	-	-
Advances paid	616	8,141	85	5,335
Gross exposure	13,910	23,267	2,052	7,820
Provisions	-	-	-	-
Net exposure	13,910	23,267	2,052	7,820

The SKB Group and SKB Bank have among other assets mainly advances, receivables for paid taxes, contributions and other duties, as well as prepaid and deferred expenses or income. SKB Group and SKB Bank do not have any provisions for other assets.

Those assets are also not collateralised.

1.4.31. Non-current assets classified as held for sale

	Group		Bank	
	2020	2019	2020	2019
	EUR 000			
Non-current assets held for sale	63	304	63	304
	63	304	63	304

All non-current assets classified as held for sale are in the process of being sold.

1.4.32. Financial liabilities measured at amortised cost

The table below presents the distribution of financial liabilities measured at amortized cost by individual types of financial liabilities.

EUR 000	Group		Bank	
	2020	2019	2020	2019
Demand deposits				
Banks	4,590	1,667	4,590	1,667
Corporates	719,429	574,374	719,429	574,374
Government	2,343	2,729	2,343	2,729
Financial organisations	15,718	9,767	30,747	21,209
Individuals	963,312	819,923	963,312	819,923
Other	23,978	25,834	23,978	25,834
Sole proprietors	87,560	80,026	87,560	80,026
	1,816,930	1,514,320	1,831,959	1,525,762
Time deposits				
Corporates	294,876	227,046	294,876	227,046
Government	4,944	7,603	4,944	7,603
Financial organisations	8,872	6,318	8,872	6,318
Individuals	973,059	899,491	973,059	899,491
Other	14,190	7,866	14,190	7,866
Sole proprietors	1,362	1,560	1,362	1,560
	1,297,303	1,149,884	1,297,303	1,149,884
Long term loans from banks and corporates	71,876	280,307	71,876	280,307
Other financial liabilities	20,354	30,847	16,852	26,420
	3,206,463	2,975,358	3,217,990	2,982,373

In 2019 deposits due to customers include deposits in the amount of EUR 521 thousand held as collateral for irrevocable commitments under import letters of credit. In 2020 SKB Group and SKB Bank did not have such deposits.

Demand deposits include restricted deposits in the amount of EUR 2,585 thousand (2019: EUR 2,612 thousand).

1.4.33. Provisions

EUR 000	Group		Bank	
	2020	2019	2020	2019
Pensions and other post retirement benefit obligations	3,767	3,591	3,518	3,360
Other long-term employee benefits	815	589	774	545
Off-balance sheet commitments	9,884	6,556	9,884	6,556
Other	88	413	88	413
	14,554	11,149	14,264	10,874

Movement in provisions - Group							
	Pensions and other post retirement benefit obligations	Other long-term employee benefit	Off-balance sheet commitments			Other	Total
EUR 000			S1	S2	S3		
Balance at 1 January 2020	3,591	589	2,666	391	3,499	413	11,149
Provisions created during the year	173	137	6,293	6,063	1,247	-	13,913
Reversed	-	-	(4,725)	(4,878)	(604)	-	(10,207)
Utilised (paid)	(109)	(235)	-	-	-	(1)	(345)
Exchange gains and losses on foreign denominated items	-	324	-	-	-	(324)	-
Actuarial profits, recognized in other comprehensive income	-	-	-	(68)	-	-	(68)
Balance at 31 December 2020	112	-	-	-	-	-	112
Stanje 31. 12. 2020	3,767	815	4,234	1,508	4,142	88	14,554

Movement in provisions - Group								
	Pensions and other post retirement benefit obligations	Other long-term employee benefit	Pending legal issues	Off-balance sheet commitments			Other	Total
EUR 000				S1	S2	S3		
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	Off-balance sheet commitments			Other	Total
EUR 000			S1	S2	S3		
Balance at 1 January 2020	3,360	545	2,666	391	3,499	413	10,874
Provisions created during the year	158	136	6,293	6,063	1,247	-	13,897
Reversed	-	-	(4,725)	(4,878)	(604)	-	(10,207)
Utilised (paid)	(107)	(231)	-	-	-	(1)	(339)
Exchange gains and losses on foreign denominated items	-	324	-	-	-	(324)	-
Actuarial profits, recognized in other comprehensive income	-	-	-	(68)	-	-	(68)
Balance at 31 December 2020	107	-	-	-	-	-	107
Stanje 31. 12. 2020	3,518	774	4,234	1,508	4,142	88	14,264

Movement in provisions - Bank								
EUR 000	Pensions and other post retirement benefit obligations	Other long-term employee benefit	Pending legal issues	Off-balance sheet commitments			Other	Total
EUR 000				S1	S2	S3		
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

Pensions and similar liabilities to employees

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 0.46 % per year,
- increase of salaries 1.5 % per year,
- wage growth in the Republic of Slovenia 2.5 % per year,
- number of employees,
- fluctuation of employees, depending on their age,
- probability of mortality

Litigation

In years 2020 and 2019 SKB Group didn't made and didn't utilize provisions for litigation. In year 2019 SKB Group reversed unused provisions in the amount of EUR 26 thousand, so as at 31 December 2020 and 2019, SKB Group did not have provisions for litigation.

In years 2020 and 2019 SKB Bank didn't made and didn't utilize provisions for litigation. In year 2019 SKB Bank reversed unused provisions in the amount of EUR 11 thousand, so as at 31 December 2020 and 2019, SKB Bank did not have provisions for litigation.

Provisions for commitments and guarantees given

Provisions are calculated on established off-balance sheet liabilities for guarantee lines and insurances and guarantees, which were approved by the SKB Group and SKB Bank.

1.4.34. Other liabilities

EUR 000	Group		Bank	
	2020	2019	2020	2019
Liabilities for taxes and contributions	960	658	470	423
Advances received	2,729	5,301	145	90
Income deferred and paid in advance	5,164	5,486	985	1,058
	8,853	11,445	1,600	1,571

Among other liabilities, SKB Group and SKB Bank present mainly advances received, prepaid and deferred revenues, and liabilities for taxes, contributions and other duties.

4.35. Equity

	EUR 000	Skupina		Banka	
		2020	2019	2020	2019
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		25,820	20,050	25,820	20,050
• actuarial profits / (losses)		(1,101)	(1,001)	(945)	(849)
		24,719	19,049	24,875	19,201
Reserves from profit (including retained earnings)					
• reserves from profit		29,106	29,106	29,106	29,106
• retained earnings		160,462	106,349	143,462	91,378
		189,568	135,455	172,568	120,484
Profit / (loss) for the year		34,850	54,105	35,379	52,084
		405,982	365,454	389,667	348,614

The Bank's share capital consists of: called capital paid, share premium, accumulated other comprehensive income, reserves from profit, retained earnings and net profit / loss for the financial year.

In 2020, **called capital paid** remained the same as in the previous year. It consists of 12,649,200 no-par value shares. They are registered and issued in dematerialized form. Each no-par value share has the same share and the corresponding amount of the bank's called capital paid.

Net asset per share at 31 December 2020 amount to EUR 32.10 (2019: EUR 28.89) for SKB Group and EUR 30.81 (2019: EUR 27.56) for SKB Bank.

Capital reserves in the amount of EUR 104,061 thousand consist mainly of paid-in capital surplus, while the remainder arises from the former general revaluation of capital adjustments.

As at 31 December 2020, the SKB Bank has no treasury shares and has not formed reserves for the repurchase of treasury shares.

Accumulated other comprehensive income presents revaluation regarding financial assets measured at fair value through other comprehensive income and actuarial gains / losses from retirement benefits.

Reserves from profit includes statutory reserves in the amount of EUR 4,387 thousand (2019: EUR 4,387 thousand) and other reserves from profits in the amount of EUR 24,719 thousand (2019: EUR 24,719 thousand) and according to Bank statute they cannot be distributed.

The item **retained earnings** presents net profit from previous years.

SKB Bank ended the financial year 2020 with a net profit of EUR 35,379 thousand (2019: EUR 52,084 thousand), and SKB Group with a net profit of EUR 34,850 thousand (2019: EUR 54,105 thousand).

Basic earnings / (loss) per share	EUR 000	Group		Bank	
		2020	2019	2020	2019
Net profit attributable to shareholders		34,850	54,105	35,379	52,084
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)		2.76	4.28	2.80	4.12

The movement of retained earnings / (loss) and income / (loss) in 2020 is presented in the following table:

EUR 000	Group			Bank		
	Retained earnings / (loss)	Income from the current year	Total	Retained earnings / (loss)	Income from the current year	Total
Balance at 1 January 2020	106,349	54,105	160,454	91,378	52,084	143,462
Transfer of profit to retained earnings	54,105	(54,105)	-	52,084	(52,084)	-
Appropriation of (accounting for) dividends	-	-	-	-	-	-
Net profit / (loss) for the financial year	-	34,850	34,850	-	35,379	35,379
Other*	8	-	8	-	-	-
Balance at 31 December 2020	160,462	34,850	195,312	143,462	35,379	178,841
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

The Bank's distributable profit			
EUR 000	2020	2019	
Net profit for the financial year	35,379	52,084	
Retained earnings	143,462	91,378	
Long-term deferred development costs	(2,036)	(2,154)	
Distributable profit	176,805	141,308	
Distribution of dividends	-	-	
Transfer to following year	176,805	141,308	

In the 2020 financial year, SKB Bank generated net profit in the amount of EUR 35,379 thousand (2019: EUR 52,084 thousand). At the end of 2020, retained earnings amounted to EUR 143,462 thousand (2019: EUR 91,378 thousand).

The Bank's management will propose to the Bank's General Meeting that the profit for the 2020 financial year will not be paid out in accordance with the ECB's recommendation not to pay dividends during the COVID-19 pandemic and the Bank of Slovenia's decision on the macroprudential restriction on profit distribution.

1.4.36. 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 party in a financial instrument that failed 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 has 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 to off-balance sheet liabilities by original maturity is as follows:

EUR 000	Group		Bank	
	2020	2019	2020	2019
Guarantees	222,277	211,038	222,277	211,038
Service related	113,745	103,225	113,745	103,225
• up to 1 year	16,060	12,970	16,060	12,970
• over 1 year	97,685	90,255	97,685	90,255
Financial	108,532	107,813	108,532	107,813
• up to 1 year	15,477	13,020	15,477	13,020
• over 1 year	93,055	94,793	93,055	94,793
Undrawn facilities	512,414	460,174	512,437	460,196
• up to 1 year	366,560	311,205	366,583	311,227
• over 1 year	145,854	148,969	145,854	148,969
Spot	37,304	35,841	37,304	35,841
• up to 1 year	37,304	35,841	37,304	35,841
Derivative financial instruments	589,522	680,834	589,522	680,834
• up to 1 year	83,422	171,584	83,422	171,584
• over 1 year	506,100	509,250	506,100	509,250
	1,361,517	1,387,887	1,361,540	1,387,909

The SKB Group and SKB banka also enter into guarantee line agreements with customers. Upon conclusion, the Bank and the customer agree on all conditions for the issuance of guarantees, but the SKB Group and SKB Bank always have the option of termination or suspension of the issue of guarantees.

For assumed off-balance sheet liabilities, a provision is made immediately upon their occurrence. Provisions are presented in Note 1.4.33.

For the purpose of secondary liquidity with ECB, securities that are ECB eligible (bonds) amount to EUR 551,195 thousand (2019: EUR 511,095 thousand). In addition ECB eligible loans amount to EUR 68.331 thousand (2019: EUR 45,183 thousand). Together loans and securities eligible for ECB funding at end of 2020 amount to EUR 619,526 thousand (2019: EUR 556,278 thousand).

1.4.37. Distribution of dividends

The Bank's management will propose to the General Meeting that the profit for the 2020 financial year will not be paid out.

1.4.38. Operations on behalf and for the account of third parties

SKB Group and SKB Bank operate under the authority in the name and on behalf of third parties, mainly in the area lending and securities. They operate through a special account, separate from their assets, revenues and costs belong to the payer and are charged to the payer. SKB Group and SKB Bank charge a fee for its services according to the price list.

Group and Bank			
	EUR 000	2020	2019
ASSETS		1,855,811	1,568,764
Claims due to customers (settlement and current account)		1,855,476	1,567,792
Due to financial instruments		1,855,393	1,566,559
Due to KDD or settlement (custody) account for sold financial instruments		46	1,233
Due to other or settlement account for sold financial instruments (buyers)		37	-
Cash assets (customers)		335	972
On settlement account		149	521
On current account		186	451
LIABILITIES		1,855,810	1,568,764
Liabilities due to customers (settlement and current account)		1,855,810	1,568,764
Due to customer (cash and financial instruments)		1,855,771	1,567,531
Due to KDD or settlement (custody) account for bought financial instruments		38	1,233
Due to bank or settlement account for commission, fees etc.		1	-
OFF BALANCE SHEET		1,855,393	1,566,559
Customer financial instruments, diverse by services		1,855,393	1,566,559
Assets management services		1	-
Custody services		1,855,392	1,566,559

SKB Group and SKB Bank have performed as agent or member of syndicate in performing the syndicate loan in EUR 108,620 thousand (2019: EUR 94,629 thousand).

1.4.39. 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:

	Group		Bank		
	EUR 000	2020	2019	2020	2019
Cash in hand		22,141	31,076	22,141	31,076
Balances with central banks and other demand deposits		496,070	219,170	496,070	219,170
Loans to banks up to 90 days		-	3	-	3
		518,211	250,249	518,211	250,249

2. Related party transactions

Pursuant to Articles 545 and 546 of the Companies Act, the management of SKB banka submitted a report on relations with the parent company and subsidiaries in the group, in which it found that on the basis of circumstances known to the management at the time of legal transaction, SKB Bank was not disadvantaged in its transactions with the parent company and its subsidiaries. Also, in 2020, no legal transaction was performed nor an act committed or abandoned that would cause damage to SKB Bank and would be the result of the influence of the controlling company OTP Bank Nyrt.

Related party transactions with OTP Bank

	Group		Bank		
	EUR 000	2020	2019	2020	2019
Related party transactions with OTP at end of the year					
Time deposits and loans to other banks		429	1,226	429	1,226
Other borrowed funds		-	52,297	-	52,297
Forward foreign exchange - bought (nominal value)		44,539	24,216	44,539	24,216
Forward foreign exchange - sold (nominal value)		44,210	24,262	44,210	24,262
Interest rate swap - purchase (nominal value)		11,188	-	11,188	-
Interest rate swap - sale (nominal value)		11,188	-	11,188	-
Spot Forex bought (nominal value)		37,304	35,841	37,304	35,841
Spot Forex sold (nominal value)		37,331	35,717	37,331	35,717
Credit lines received		-	280,000	-	280,000
Variation margin - derivatives		410	-	410	-
Related party transactions with OTP in the year					
Interbank time deposits Income		234	6	234	6
Received loans (liabilities) - Income		6	3	6	3
Interest expenses - negativ interests		(465)	-	(465)	-
Income - Variation margin		4	-	4	-
Expense- Variation margin		(2)	-	(2)	-
Gains and losses on FX swap, swap and option deals		4,765	(275)	4,765	(275)
Expense Loans commision		(661)	(21)	(661)	(21)
Income CUSTODY		36	7	36	7
Expense CUSTODY		(13)	-	(13)	-

Related party transactions with other parties related to OTP Group (from purchase on)

EUR 000	Group		Bank	
	2020	2019	2020	2019
Related party transactions with other parties related to OTP at end of the year				
Time deposits and loans to other banks	2,609	1,630	2,609	1,630
Other borrowed funds	1,770	70,038	1,770	70,038
Other guarantee granted	1,304	99	1,304	99
Related party transactions with other parties related to OTP in the year				
Received loans (liabilities) - Income	52	-	52	-
Received loans (liabilities) - Expense	(14)	(4)	(14)	(4)
Gains and losses on FX swap, swap and option deals	31	20	31	20
Income Loans commission	2	1	2	1
Expense Loans commission	(7)	(9)	(7)	(9)
Income Custody	99	86	99	86
Expense Custody	(20)	(8)	(20)	(8)

Related party transactions with SKB Leasing

EUR 000	2020	2019
Related party transactions with SKB Leasing at end of the year		
Loans and other financial assets	480,305	505,145
Investment in associates and joint ventures	20,455	20,455
Financial liabilities measured at amortised cost	15,029	11,445
Related party transactions with SKB Leasing in the year		
Interest income and similar Income	5,874	2,912
Interest expense and similar expense	(2)	(1)
Dividend income	12,656	11,530
Fee and commission income	331	381
Other operating net income	198	191
Impairment of loans and other financial assets	(4,396)	(39)

Commonly used interest rates with OTP Group

	EUR	tuja valuta
Borrowing	3M EURIBOR from 0.17 to 0.097 %	
	Fix IR from -0.59 to -0.09 %	Fix IR to -0.41 %
Lending	Fix IR to -0.41 %	Fix IR from 0.23 to 1.85 %
overnight	Fix IR to -0.46 %	Fix IR from 0.03 to 1.67 %

Remunerations paid to members of the Board of Directors and Key Management Personnel

Remunerations paid to members of the Board of Directors

Skupina in Banka	2020								
	EUR 000	Anita Stojčevska	Vojka Ravbar	Zsolt Barna	Imre Bertalan	Draga Cukjati	Tamas Kamarasi	Miklos Nemeth	Anna Mitkova Florova
Fixed remuneration	276,0	140,6	-	-	-	-	-	-	-
Variable remuneration*	32,0	29,0	-	-	-	-	-	-	-
In - kind benefits**	-	-	-	-	-	-	-	-	-
Reimbursement of expenses	12,9	6,0	-	-	-	-	-	-	-
Insurance premium	2,9	7,7	-	-	-	-	-	-	-
Other payments	1,5	1,5	-	-	-	-	-	-	-
Meeting fees	-	-	11,5	15,4	13,2	8,8	8,8	13,2	
Monthly fees	-	-	-	-	-	-	-	-	
Deferred payments	-	-	-	-	-	-	-	-	
Total	325,3	184,8	11,5	15,4	13,2	8,8	8,8	13,2	

* Skladno s politiko OTP Banke zaposleni v tujini prejmejo nadomestila stroškov, ki se lokalno obravnavajo kot fiksni prejemki in so v tabeli ločeno prikazani.

**In line with OTP Bank 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, 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.

At the General Meeting of the SKB bank on 11 May 2020, the General Meeting was informed of the resignation statements of Milana Žirana, Manice Novak in Branka Mikše. Miklós Németh and Tamas Kamarasi were appointed as new members of the Management Board.

At the session, held on 12 February 2020, the Board of Directors of SKB Bank adopted the following:

All the members of the Board of Directors – non executive directors, receive monthly remuneration for executing the function in the amount of EUR 800.

President of Board of Directors is paid EUR 1,200 per month for presidency.

The members of the Board of Directors, who are not employed in the SKB Group or in the OTP Group, are entitled to reimbursement of the travel and other expenses related to the performance of the function.

SKB d. d. will not pay out the profit sharing or bonuses with options or comparable financial instruments neither to the members of the Board of Directors – non executive directors nor the members of the Committees for their work in the Board of Directors or Committees of the Board of Directors.

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.

	Group	Bank
EUR 000	2020	
Fixed remuneration	526.2	404.6
Variable remuneration	73.0	41.0
In - kind benefits*	33.5	33.5
Reimbursement of expenses	45.1	36.9
Insurance premium	8.6	5.6
Other payments	5.9	4.3
Meeting fees	-	-
Monthly fees	-	-
Deferred remuneration	-	-
Total	692.3	525.9

*In line with OTP Bank 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.

Related party transactions with the members of the Board of Directors and Key Management Personnel

	Group and Bank	Group	Bank
EUR 000	2020		
	Člani Upravnega odbora banke	Člani ravnateljskega osebja	Člani ravnateljskega osebja
Related party transactions with the members of the Board of Directors and Key Management Personnel at the end of the year			
Loans and advances	0.5	156.4	147.1
Loan commitments	8.8	19.8	11.2
Financial liabilities measured at amortised costs	1,216.1	317.0	309.2
Related party transactions with the members of the Board of Directors and Key Management Personnel in the year			
Interest income	-	1.3	1.1
Interest expense	(0.7)	(0.1)	-
Fee and commission income	0.6	0.8	0.6

*Interest rates were approved according to the SKB Bank's policy. Average interest rate is 1.88 % and represents the average of common or notional (Euribor + margin or fix) interest rate.

Related party transactions with the family members of the members of the Board of Directors and Key Management Personnel

	Group	Bank
EUR 000	2020	
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	16.2	16.1
Loan commitments	7.9	3.8
Financial liabilities measured at amortised costs	139.7	92.0
Related party transactions with the family members of the members of the Board of Directors and Key Management Personnel in the year		
Interest income	0.7	0.7
Interest expense	(0.2)	(0.2)
Fee and commission income	0.7	0.3

3. 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.

SKB Group					
	EUR 000	2020		2019	
		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		518,211	518,211	250,246	250,246
Financial assets at amortised cost		2,663,948	2,871,671	2,751,221	2,959,205
Financial liabilities not measured at fair value					
Financial liabilities measured at amortised cost		3,206,463	3,203,552	2,975,358	2,968,024

SKB Bank					
	EUR 000	2020		2019	
		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		518,211	518,211	250,246	250,246
Financial assets at amortised cost		2,652,331	2,817,832	2,736,167	2,902,918
Financial liabilities not measured at fair value					
Financial liabilities measured at amortised cost		3,217,990	3,215,079	2,982,373	2,975,039

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.

The table below summarises the breakdown of financial assets and liabilities by individual valuation method and by individual valuation levels (1, 2, 3). The breakdown is shown for SKB Group and SKB Bank for years 2020 and 2019.

SKB Group								
	2020				2019			
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	518,211	-	-	518,211	250,246	-	-	250,246
Loans	-	-	2,640,234	2,640,234	-	-	2,693,705	2,693,705
Government bonds - listed	-	231,437	-	231,437	-	265,500	-	265,500
ASSETS MEASURED AT FAIR VALUE								
Financial assets held for trading								
Derivative financial instruments								
• Forward	-	381	-	381	-	1,381	-	1,381
• Interest rate swap	-	8,062	-	8,062	-	7,244	-	7,244
• Currency swap	-	457	-	457	-	-	-	0
• Interest rate option	-	11	-	11	-	21	-	21
• Currency option	-	-	-	-	-	-	-	-
Non-trading financial assets mandatorily at fair value through profit of loss	-	8,911	-	8,911	-	8,646	-	8,646
Equity instruments								
Loans	-	-	20,937	20,937	-	-	16,062	16,062
Financial assets designated at fair value through profit or loss	-	-	6,944	6,944	-	-	8,520	8,520
Debt securities - listed								
Financial assets at fair value through other comprehensive income	-	-	27,881	27,881	-	-	24,582	24,582
Government bonds - listed								
Non-current assets and disposal groups classified as held for sale	-	6,120	-	6,120	-	6,053	-	6,053
Finančna sredstva, določena za merjenje po pošteni vrednosti prek drugega vseobsegajočega donosa	-	366,307	-	366,307	-	267,205	-	267,205
Državne obveznice - kotirajo na borzi								
Nekratkoročna sredstva v posesti za prodajo in ustavljeno poslovanje	-	-	63	63	-	-	461	461

SKB Bank								
EUR 000	2020				2019			
	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	518,211	-	-	518,211	250,246	-	-	250,246
Loans	-	-	2,586,395	2,586,395	-	-	2,637,418	2,637,418
Government bonds - listed	-	231,437	-	231,437	-	265,500	-	265,500
ASSETS MEASURED AT FAIR VALUE								
Financial assets held for trading								
Derivative financial instruments								
• Forward	-	381	-	381	-	1,381	-	1,381
• Interest rate swap	-	8,062	-	8,062	-	7,244	-	7,244
• Currency swap	-	457	-	457	-	-	-	-
• Interest rate option	-	11	-	11	-	21	-	21
• Currency option	-	-	-	-	-	-	-	-
	-	8,911	-	8,911	-	8,646	-	8,646
Non-trading financial assets mandatorily at fair value through profit of loss								
Equity instruments	-	-	20,937	20,937	-	-	16,062	16,062
Loans	-	-	6,944	6,944	-	-	8,520	8,520
	-	-	27,881	27,881	-	-	24,582	24,582
"Financial assets designated at fair value through profit or loss Debt securities - listed"	-	6,120	-	6,120	-	6,053	-	6,053
"Financial assets at fair value through other comprehensive income Government bonds - listed"	-	366,307	-	366,307	-	267,205	-	267,205
Non-current assets and disposal groups classified as held for sale	-	-	63	63	-	-	304	304

SKB Bank								
EUR 000	2020				2019			
	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	-	-	3,215,079	3,215,079	-	-	2,975,039	2,975,039
LIABILITIES MEASURED AT FAIR VALUE								
Financial liabilities held for trading								
Derivative financial instruments								
• Forward	-	381	-	381	-	395	-	395
• Interest rate swap	-	8,062	-	8,062	-	7,720	-	7,720
• Currency swap	-	457	-	457	-	962	-	962
• Interest rate option	-	11	-	11	-	30	-	30
• Currency option	-	-	-	0	-	-	-	0
	-	8,911	-	8,911	-	9,107	-	9,107
"Financial liabilities designated at fair value through profit or loss Structured deposit"	-	6,120	-	6,120	-	6,054	-	6,054

Movement of financial assets and liabilities to level 3

SKB Group and Bank			
EUR 000	Non-trading financial assets mandatorily at fair value through profit or loss		
	Securities	Loans	Total
At 1 January 2019	17,913	17,257	35,170
Valuation in profit or loss	127	5,015	5,142
Additions	-	-	-
Disposal (payment/sale)	(1,978)	(13,752)	(15,730)
At 31 December 2019	16,062	8,520	24,582
At 1 January 2020	16,062	8,520	24,582
Valuation in profit or loss	4,762	(426)	4,336
Additions	113	-	-
Disposal (payment/sale)	-	(1,150)	(1,150)
At 31 December 2020	20,937	6,944	27,881

In year 2020 SKB Group and SKB Bank did not have transitions between levels.

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

For the fair value calculation of financial assets and liabilities which are not measured at fair value in the statement of financial position, the SKB bank follows the net present value method for the whole SKB Group. As the discount factor the Bank uses discount curves consisting of a risk-free market curves, liquidity spreads and based on internal method, credit spreads separated by credit rating and customer segment. The risk-free market curve is defined as the Euribor curve on short term and as SWAP curve on longer term while the liquidity spread is defined as the financing cost by the parent bank, including the maturity premium.

Fair value estimation of loans and deposits takes into account the sum of individual contractual cash flows (principals and interests) using the discount curve, which consists of three components. For the estimation of interest cash flow involving the reference rate, the Bank is using the implied forward rates based on the last known data. The discount factor is linearly interpolated as a function of residual maturity in days. The net present value for products without contractual maturity (e.g. demand deposits, saving account, limits) and non-performing loans (financial assets classified in stage 3 based on own risk) are equal to their 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 takes into consideration 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.

4. Exposure in equity instruments not included in the trading book

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 group's core business objectives;
- Non-strategic equity instruments; SKB Group currently does not hold any non-strategic equity investments;
- 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 of 31 December 2020	Fair value in 000 EUR as of 31 December 2019
Equity instruments acquired through debt to equity swap	-	-
Peko, d.d	-	-
Strategic equity instrument	7,909	3,088
Bankart, d.o.o.	7,169	2,437
Pokojninska družba A, d.d.	717	630
S.W.I.F.T.	23	22
Equity instruments acquired for regulatory reasons	13,028	12,974
Sklad za reševanje bank	13,028	12,974
Total equity investments	20,938	16,062

Investment in Peko (in insolvency proceedings) was acquired through debt to equity swap, its fair value equals 0 EUR.

In 2020 SKB banka acquired additional 0.2221 % share in equity investment in Bankart; at the end of December of 2020 total SKB banka' share in Bankart counted for 13.84 %.

In May 2020, SKB banka revalued its equity investments in Bankart and Pokojninska družba A based on its ownership share in the equity of the investment. In December 2020 SKB banka again revalued its equity investment in Bankart based on discounted cash flow method (DCF method).

In the table below the total realized gains in 2020 from dividends, sale of equity investments and fair valuation are presented.

1. Dividends received	Realized gains in 000 EUR in 2020	Realized gains in 000 EUR in 2019
Total	231	257
Bankart, d.o.o.	231	241
Pokojninska družba A, d.d.	-	16
2. Sale of equity investments		
Total	-	3,201
Intereuropa, d.d.	-	3,201
3. Effects on income statement from fair valuation		
Total	4,762	(1,850)
Intereuropa, d.d.		(1,914)
S.W.I.F.T.	1	5
Sklad za reševanje bank	54	59
Bankart, d.o.o.	4,619	-
Pokojninska družba A, d.d.	88	-

5. Events after the date of the statement of financial position

No significant circumstances or events occurred after the balance sheet date that would require adjustments of the financial statements.

6. 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 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 2020 (either business report or accounting report), there is a reference to the respective chapter in the Annual Report 2020.

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.

Information on the scope of application of the regulatory framework

Institution to which the requirements of this Regulation apply is SKB 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.

6.1. Risk management objectives and policies

6.1.1. The institution's approach to risk management

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 designed 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, which the Group is prepared to take over, and steered by defined thresholds. The SKB Group sets thresholds according to the following principles:

- 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 2020 the Group demonstrated strong financial profile with stable levels of main risk types. Alert levels have been triggered only on credit risk as a result of macroeconomic environment and changes in stage 2 portfolio.

6.1.2. Information on risk management's 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.

6.1.3. 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 business

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.

6.1.4. Requirements for disclosure of qualitative information related to counterparty credit risk (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).

6.1.5. Information on governance arrangements

SKB 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 d.d. Ljubljana.

6.2. Equity risk

The Bank has identified capital risk as the risk when part of regulatory capital positions will not be available to cover losses in the future due to their maturity or other factors (such as: changed dividend policy, higher deductions, changes in legislation). This risk arises from:

- insufficient capital
- inappropriate capital structures
- difficulties in obtaining fresh capital, especially when an immediate increase in capital is required in unfavorable business conditions.
- implementation of legislative changes
- changes in the carrying amount of intangible assets)

The Group has incorporated a Risk Management Strategy, including a Statement of Risk Awareness, a limit system supported by an early warning system, policies, methodologies and appropriate procedures and mechanisms to ensure adequate capital structure and capital amount, and withholding dividends during capital needs and otherwise in the period of current operations, as well as in the period of the next three years.

Capital adequacy

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.

European banking legislation, that includes the CRR Regulation and the CRD IV Directive and is based on the Basel III guidelines, prescribes the fulfillment of three capital adequacy ratios, which reflect different capital qualities, and constitute a Pillar 1 requirement:

- Ordinary equity ratio (ratio between ordinary (CET1) capital and weighted risk exposure (RWA), which must be at least 4.5 %
- Share capital ratio (share capital (T1) to RWA ratio), which must be at least 6 %
- Total capital ratio (total capital to RWA ratio), which must be at least 8 %.

The SKB Group must also meet other requirements and recommendations prescribed by the supervisory institution and legislation:

- valid common buffer requirement and the capital buffer system to be added above the Pillar 1 capital requirement (TSCR)
- Pillar 2 requirement (SREP requirement) for the bank's own required reserves
- a recommendation on capital guidelines under Pillar 2, which is not mandatory, but non-compliance affects the distribution of dividends and other profit payments in order to restore the appropriate level of capital.

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 under pillar I requirement and the total capital requirement is set to 13,75 % on a consolidated basis, the Group sets its internal limit for capital adequacy to 14.25 % 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.

Regulatory capital and capital adequacy

The table below displays the components of regulatory capital and capital ratios of the SKB Group and SKB Bank. Regulatory capital consists of Common equity Tier 1 capital and additional capital.

EUR 000	Group		Bank	
	2020	2019	2020	2019
Paid up capital instruments	52,784	52,784	52,784	52,784
Share premium	104,061	104,061	104,061	104,061
Retained earnings	160,462	106,246	143,462	91,274
Profit eligible - from current year	34,850	54,104	35,379	52,084
Accumulated other comprehensive income	24,720	19,049	24,875	19,201
Other reserves	29,106	29,106	29,106	29,106
Prudential filters: Value adjustments due to the requirements for prudent valuation	(396)	(294)	(417)	(314)
(-) Goodwill	(1,290)	(1,290)	-	-
(-) Other intangible assets	(2,464)	(9,004)	(3,603)	(8,629)
(-) CET1 capital elements or deductions - other	(2,244)	-	(2,485)	-
COMMON EQUITY TIER 1 (CET1)	364,739	300,658	347,783	287,483
TIER 1 CAPITAL (T1)	364,739	300,658	347,783	287,483
TOTAL CAPITAL (OWN FUNDS)	364,739	300,658	347,783	287,483
Total credit risk exposure	2,209,666	2,242,926	2,347,664	2,384,561
Total market risk exposure	-	-	-	-
Total exposure to credit valuation adjustment risk	569	3,716	569	3,716
Total operative risk exposure	195,608	193,872	181,797	174,585
TOTAL RISK EXPOSURE (RWA)	2,405,843	2,440,514	2,530,030	2,562,862
Common share equity ratio (ratio CET1)	15.16%	12.32%	13.75%	11.22%
Share capital ratio (ratio Tier 1)	15.16%	12.32%	13.75%	11.22%
Total capital ratio	15.16%	12.32%	13.75%	11.22%

As at 31 December 2020, the capital ratios of the SKB Group are as follows:

- common share equity Ratio: 15.16 %
- share capital ratio: 15.16 %
- total capital ratio: 15.16 %

The total capital requirement of the SKB Group amounts to 13.75 % at the end of 2020 on a consolidated basis and includes:

- 10% TSCR (8 % required by 1st pillar and 2 % required by 2nd pillar)
- 2.5 % CCB buffer, 0.25 % buffer for other systemically important institutions
- 1% P2G.

The capital adequacy of SKB Group and SKB banka thus remains high at the end of 2020 and in line with risk-taking policies, at a level that covers all current and forecast capital requirements, including capital ratio requirements and other requirements and recommendations under Pillar II.

The internal capital adequacy assessment process

The Group implemented Internal Capital Adequacy Assessment Process (ICAAP) to be able to assess capital needs in accordance with 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 normative and economic 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 analysing 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.

6.3. Credit risk

6.3.1. General qualitative information on credit risk

6.3.1.1. Definition of past due and credit risk adjustment for accounting purpose

The group follows the overdue exposures from the due date when the client fails to fulfil his payment obligation specified in the contract. Any amount of principal, interest or fee that has not been paid is considered as a past due obligation.

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.

In 2020, the Group adjusted the definition of a default in accordance with the new regulatory requirement. The starting date of the calculation of the delay for default identification is the date on which the client's past due credit obligation is considered significant, namely the overdue credit obligation arising from the credit contract has exceeded the materiality threshold for 90 consecutive days. Monitoring of exceeding the materiality threshold is performed daily.

The Group retains customers in default for at least three months from the moment when the criteria for defining a default event are no longer met.

Forborne classification (Restructuring and Refinancing)

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, such assets – as a rule – trigger the classification in default. As such they are treated as non-performing loans. The decision to maintain the counterparty as performing is taken only with consideration of a non-material NPV loss after restructuring.

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 or two years after applying a performing forborne status,
- all required credit quality conditions for facility / debtor are fulfilled.

6.3.1.2. Description of approach for assessment of specific and general credit risk adjustment

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.

6.3.2. General quantitative information on credit risk

Maximum exposure to credit risk without collaterals received is displayed in the following table:

	Group		Bank		
	EUR 000	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Cash on hand, balances with central banks and sight deposits with banks		518,211	250,246	518,211	250,246
Financial assets held for trading		32	3	32	3
Financial assets measured at fair value through profit or loss that are not held for trading		27,881	24,582	27,881	24,582
Financial assets measured at fair value through other comprehensive income		366,307	267,205	366,307	267,205
Financial assets measured at fair value through profit or loss		6,120	6,053	6,120	6,053
Financial assets measured at amortized cost		2,748,987	2,811,397	2,730,337	2,786,499
• Debt securities		214,834	249,280	214,834	249,280
• Loans to State		99	539	99	539
• Loans to banks		43,507	43,004	43,504	42,996
• Loans to Financial organizations		1,442,155	1,447,885	1,200,111	1,190,895
• Loans to individuals		-	-	-	-
• Loans to other customers		1,045,391	1,066,517	1,269,260	1,299,153
• Other financial assets		3,001	4,172	2,529	3,636
Derivatives, held for trading		8,911	8,646	8,911	8,646
Total gross financial assets		3,676,449	3,368,132	3,657,799	3,343,234
Total guarantees and potential liabilities		734,691	671,212	734,714	671,234
Total maximum exposure to credit risk		4,411,140	4,039,344	4,392,513	4,014,468

Note: Exposure value is gross value of balance and off balance credit risk exposure

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 are 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 by client name and by industrial sector

Group	Loans to banks measured at amortized cost		Loans to non-banks measured at amortized cost		Debt securities measured at amortized cost		Financial assets measured at fair value through other comprehensive income		Financial guarantees and other off-balance sheet liabilities	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Agriculture and forestry, finshing	-	-	3,419	4,411	-	-	-	-	363	378
Mining	-	-	3,082	4,756	-	-	-	-	3,238	247
Manufacturing	-	-	291,737	306,380	-	-	-	-	143,769	113,898
Electricity, gas and water services	-	-	54,832	60,181	-	-	-	-	73,120	58,090
Construction	-	-	59,086	58,343	-	-	-	-	65,274	61,465
Commerce	-	-	216,740	210,973	-	-	-	-	169,509	140,751
Hotel trading	-	-	21,636	21,374	-	-	-	-	9,440	7,168
Traffic, warehousing and communication	-	-	230,342	232,054	-	-	-	-	84,574	95,788
Other financial organizations	99	539	35,931	33,827	-	-	-	-	15,693	14,005
Real estate	-	-	26,596	22,419	-	-	-	-	2,537	1,343
Government	-	-	70,356	69,925	99,254	133,081	290,221	245,714	22,767	22,734
Education	-	-	707	858	-	-	-	-	1,510	523
Health and social services	-	-	7,013	7,978	-	-	-	-	1,689	1,481
Other public, collective and personal services	-	-	67,314	75,911	115,580	116,199	76,086	21,491	47,680	66,009
Individuals	-	-	1,442,262	1,448,016	-	-	-	-	93,528	87,354
• mortgage secured	-	-	760,135	-	-	-	-	-	2,620	-
• unsecured	-	-	428,748	-	-	-	-	-	90,350	-
Total	99	539	2,531,053	2,557,406	214,834	249,280	366,307	267,205	734,691	671,212

Bank	Loans to banks measured at amortized cost		Loans to non-banks measured at amortized cost		Debt securities measured at amortized cost		Financial assets measured at fair value through other comprehensive income		Financial guarantees and other off-balance sheet liabilities	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Agriculture and forestry, finshing	-	-	663	790	-	-	-	-	363	378
Mining	-	-	2,297	4,114	-	-	-	-	3,238	247
Manufacturing	-	-	241,092	252,978	-	-	-	-	143,769	113,898
Electricity, gas and water services	-	-	50,348	56,917	-	-	-	-	73,120	58,090
Construction	-	-	23,596	23,353	-	-	-	-	65,274	61,465
Commerce	-	-	144,417	142,587	-	-	-	-	169,509	140,751
Hotel trading	-	-	18,986	18,559	-	-	-	-	9,440	7,168
Traffic, warehousing and communication	-	-	162,146	157,002	-	-	-	-	84,574	95,788
Other financial organizations	99	539	520,159	538,485	-	-	-	-	15,716	14,005
Real estate	-	-	24,894	20,456	-	-	-	-	2,537	1,343
Government	-	-	70,068	69,550	99,254	133,081	290,221	245,714	22,767	22,734
Education	-	-	305	486	-	-	-	-	1,510	523
Health and social services	-	-	5,864	6,638	-	-	-	-	1,689	1,481
Other public, collective and personal services	-	-	47,929	50,235	115,580	116,199	76,086	21,491	47,680	66,009
Individuals	-	-	1,200,111	1,190,894	-	-	-	-	93,528	87,354
• mortgage secured	-	-	760,135	-	-	-	-	-	2,620	-
• unsecured	-	-	186,729	-	-	-	-	-	90,350	-
Total	99	539	2,512,875	2,533,044	214,834	249,280	366,307	267,205	734,714	671,234

Note: the counterparties have been allocated to the groups according to Standard industry classification. Exposure value is gross value of balance and off balance credit risk exposure

Group	Loans to banks measured at amortized cost		Loans to non-banks measured at amortized cost		Debt securities measured at amortized cost		Financial assets measured at fair value through other comprehensive income		Financial guarantees and other off-balance sheet liabilities	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
European Union	-	486	2,520,603	2,548,888	214,834	249,280	366,307	267,205	732,553	669,082
Of which: Slovenia	-	3	2,510,462	2,538,343	99,254	133,081	272,534	245,714	719,775	657,527
SE Europe	-	-	9,694	7,802	-	-	-	-	129	122
Other	99	53	756	716	-	-	-	-	2,009	2,008
Total	99	539	2,531,053	2,557,406	214,834	249,280	366,307	267,205	734,7691	671,212

Bank	Loans to banks measured at amortized cost		Loans to non-banks measured at amortized cost		Debt securities measured at amortized cost		Financial assets measured at fair value through other comprehensive income		Financial guarantees and other off-balance sheet liabilities	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
European Union	-	486	2,502,869	2,525,027	214,834	249,280	366,307	267,205	732,576	669,104
Of which: Slovenia	-	3	2,492,888	2,514,698	99,254	133,081	272,534	245,714	719,793	657,548
SE Europe	-	-	9,315	7,374	-	-	-	-	129	122
Other	99	53	691	643	-	-	-	-	2,009	2,008
Total	99	539	2,512,875	2,533,044	214,834	249,280	366,307	267,205	734,714	671,234

The vast majority of Group's exposure at the end of 2020 is allocated on Slovenian debtors (93.6 % of total exposure). Geographical breakdown structure demonstrates no significant change when comparing to 2019.

Credit quality of exposures by exposure class and instrument

SKB Group – as per 31.12.2020							
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	-	1,127,467	-	381	-	352	1,127,086
Regional governments or local authorities	-	51,573	-	216	-	173	51,357
Public sector entities	-	-	-	-	-	-	-
Multilateral Development Banks	-	-	-	-	-	-	-
International Organisations	-	-	-	-	-	-	-
Institutions	-	62,004	-	62	-	55	61,943
Corporates	-	1,378,439	-	15,051	-	9,965	1,363,388
• Of which SME	-	613,678	-	7,451	-	5,710	606,227
Retail	-	1,704,481	-	17,812	-	17,919	1,686,668
• Of which SME	-	205,702	-	3,336	-	2,774	202,366
• Of which secured by mortgages on immovable property	-	920,797	-	10,094	-	10,630	910,703
Exposures in default	87,176	-	27,094	26,416	3,443	-	25,484
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	-	-	-	-	-	-	-
Total Standardised Approach	87,176	4,323,964	27,094	33,522	3,443	28,464	4,315,926
• Of which: loans	80,099	3,185,746	27,094	67,712	3,443	28,112	3,152,604
• Of which: debt securities	-	587,550	-	362	-	334	587,188
• Of which: off-balance sheet items	5,619	729,072	3,935	5,949	-	3,328	723,254

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	-	778,852	-	29	-	(72)	778,823
Regional governments or local authorities	-	29,396	-	43	-	(61)	29,354
Public sector entities	-	-	-	-	-	-	-
Multilateral Development Banks	-	-	-	-	-	-	-
International Organisations	-	-	-	-	-	-	-
Institutions	-	76,773	-	7	-	(11)	76,766
Corporates	-	1,341,600	15,163	9,982	-	(24,528)	1,331,619
• Of which SME	-	575,592	9,235	6,744	-	2,114	568,848
Retail	-	1,738,967	5,952	9,159	-	(4,298)	1,729,809
• Of which SME	-	234,177	695	2,648	-	(792)	231,529
• Of which secured by mortgages on immovable property	-	896,868	3,001	3,763	-	(1,778)	890,104
Exposures in default	73,755	-	21,115	26,417	25,857	-	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	-	-	-	-	-	-	-
Total Standardised Approach	73,755	3,965,589	21,115	45,635	25,857	(28,969)	3,972,594
• Of which: loans	65,102	3,164,056	21,115	45,579	25,857	(28,933)	3,144,881
• Of which: debt securities	-	522,556	-	29	-	(18)	522,527
• Of which: off-balance sheet items	4,755	666,606	3,356	3,201	-	(2,032)	663,539

SKB Bank – as per 31.12.2020

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	-	1,127,395	-	381	-	352	1,127,014
Regional governments or local authorities	-	51,435	-	215	-	174	51,220
Public sector entities	-	-	-	-	-	-	-
Multilateral Development Banks	-	-	-	-	-	-	-
International Organisations	-	-	-	-	-	-	-
Institutions	-	62,004	-	62	-	55	61,943
Corporates	-	1,704,084	-	17,633	-	13,920	1,686,451
• Of which SME	-	484,276	-	5,923	-	5,245	478,353
Retail	-	1,371,828	-	15,355	-	16,772	1,356,473
• Of which SME	-	111,772	-	1,818	-	1,857	109,954
• Of which secured by mortgages on immovable property	-	920,797	-	10,094	-	10,630	910,703
Exposures in default	75,766	-	25,363	29,171	3,137	-	21,231
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	-	-	-	-	-	-	-
Total Standardised Approach	75,766	4,316,747	25,363	62,816	3,137	31,273	4,304,333
• Of which: loans	68,799	3,178,889	25,363	60,770	3,137	30,923	3,145,622
• Of which: debt securities	-	587,550	-	362	-	334	587,188
• Of which: off-balance sheet items	5,619	729,090	3,935	4,299	-	3,328	723,271

SKB Bank – 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	-	778,532	-	29	-	(72)	778,503
Regional governments or local authorities	-	29,205	-	40	-	(58)	29,165
Public sector entities	-	-	-	-	-	-	-
Multilateral Development Banks	-	-	-	-	-	-	-
International Organisations	-	-	-	-	-	-	-
Institutions	-	85,597	-	7	-	(11)	85,591
Corporates	-	1,678,691	-	8,456	-	(22,308)	1,670,236
• Of which SME	-	432,361	-	5,551	-	1,877	426,810
Retail	-	1,378,044	-	6,657	-	(3,497)	1,371,387
• Of which SME	-	127,271	-	1,296	-	(451)	125,976
• Of which secured by mortgages on immovable property	-	896,868	-	3,763	-	(1,778)	893,105
Exposures in default	64,398	-	19,336	22,380	22,577	-	22,681
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	-	-	-	-	-	-	-
Total Standardised Approach	64,398	3,950,070	19,336	37,570	22,577	(25,945)	3,957,562
• Of which: loans	55,871	3,148,946	19,336	37,525	-	(25,914)	3,133,799
• Of which: debt securities	-	522,556	-	29	-	(20)	522,527
• Of which: off-balance sheet items	4,755	666,628	3,356	3,201	-	(2,210)	663,561

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. Credit risk adjustments include balance and off balance part.

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. Credit risk adjustments include balance and off balance part.

At the end of 2020 the share of defaulted exposures represented 2 % of the gross exposure of the Group. The level of defaulted exposures increased in comparison with 2019 by 18%. The amount of specific credit risk adjustments was higher by 28 % compared with 2019, even higher increase was observed on the level of general risk adjustment (almost 50 %). While the increase of defaulted exposures primarily corresponds to modification of accounting treatment of non performing portfolio (additional explanations regarding the change in the accounting for non-performing exposures are explained in Section 1.2.3. Comparative data), the increase of general risk adjustment can be contributed to deterioration of market situation leading to higher coverage ratios and significant increase of stage 2 portfolio. The coverage of the defaulted exposure with provisions also increased when compared with 2019.

Credit quality of loans and other financial assets by industry

SKB Group – as per 31.12.2020							
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	370	3,413	4	253	27	20	3,526
Mining	971	5,350	276	46	-	197	5,999
Manufacturing	13,055	422,545	7,780	8,303	291	3,599	419,517
Electricity, gas and water services	266	127,726	116	1,244	-	513	126,632
Construction	8,642	115,929	5,566	3,067	122	1,740	115,937
Commerce	13,528	382,483	2,679	5,868	278	1,741	387,464
Hotel trading	1,482	29,644	488	939	248	143	29,698
Traffic, warehousing and communication	6,878	320,744	1,263	6,252	32	3,885	320,106
Other financial organizations	17	592,830	-	240	1	102	592,607
Real estate	567	28,568	-	828	6	273	28,307
Government	-	482,793	-	361	-	281	482,432
Education	43	2,180	-	40	-	(1)	2,182
Health and social services	21	8,687	6	106	-	31	8,595
Other public, collective and personal services	4,093	302,655	1,598	2,738	450	816	302,413
Individuals	37,245	1,498,419	7,318	37,834	1,987	15,124	1,490,511
Total	87,176	4,323,964	27,094	68,120	3,443	28,464	4,315,926

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	-	31	4,552
Mining	-	5,003	-	125	-	(35)	4,879
Manufacturing	10,689	410,682	5,964	6,519	139	2,372	408,886
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	346,921	3,261	3,545	14,482	(19,537)	356,388
Hotel trading	1,475	27,105	495	790	32	217	27,295
Traffic, warehousing and communication	3,939	331,267	269	3,360	33	(2,586)	331,576
Other financial organizations	30	322,508	-	138	31	(1,074)	322,400
Real estate	398	23,365	-	555	-	82	23,208
Government	24	470,723	-	80	-	(101)	470,666
Education	56	1,332	-	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	276,445	1,470	2,050	126	350	276,197
Individuals	30,503	1,504,764	5,257	24,772	2,851	(3,516)	1,505,239
Total	73,755	3,965,589	21,115	45,635	23,221	(28,969)	3,972,594

SKB Bank- as per 31.12.2020

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	50	976	-	49	1	31	977
Mining	971	4,565	276	38	-	194	5,221
Manufacturing	12,197	370,619	7,586	7,284	108	3,577	367,947
Electricity, gas and water services	66	123,716	-	1,156	-	462	122,626
Construction	7,653	81,404	5,404	2,142	62	1,547	81,510
Commerce	12,086	320,128	2,394	4,449	265	1,924	325,371
Hotel trading	1,439	26,098	488	877	248	162	26,172
Traffic, warehousing and communication	4,078	255,330	730	4,201	15	2,864	254,477
Other financial organizations	8	1,077,104	-	4,700	1	4,506	1,072,412
Real estate	438	26,994	-	760	1	254	26,672
Government	0	482,410	-	351	-	274	482,059
Education	25	1,795	-	21	-	(1)	1,799
Health and social services	4	7,551	-	89	-	31	7,466
Other public, collective and personal services	3,152	278,424	1,594	1,910	450	542	278,072
Individuals	33,599	1,259,634	6,892	34,790	1,987	14,908	1,251,552
Total	75,766	4,316,747	25,363	62,816	3,137	31,273	4,304,333

SKB Bank – 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	-	1,168	-	18	5	(31)	1,151
Mining	-	4,361	-	120	-	(194)	4,241
Manufacturing	10,022	357,196	5,613	5,679	780	(3,577)	355,926
Electricity, gas and water services	9	115,000	-	694	3	(462)	114,315
Construction	5,871	79,140	4,160	1,839	446	(1,547)	79,012
Commerce	14,161	280,492	2,599	2,320	1,909	(1,924)	289,734
Hotel trading	1,354	23,337	495	709	1,783	(162)	23,488
Traffic, warehousing and communication	2,521	257,593	144	1,923	105	(2,864)	258,046
Other financial organizations	10	835,199	-	194	4	(4,506)	835,015
Real estate	323	21,477	-	506	5	(254)	21,294
Government	24	471,229	-	77	-	(274)	471,176
Education	20	995	-	22	1	1	993
Health and social services	4	8,119	-	59	-	(31)	8,064
Other public, collective and personal services	2,735	244,422	1,466	1,496	3,238	(542)	244,195
Individuals	27,345	1,250,343	4,859	21,915	14,298	(9,578)	1,250,914
Total	64,398	3,950,070	19,336	37,570	22,577	(25,945)	3,957,562

Note: counterparties have been allocated to the groups according to Standard industry classification. Specific credit risk adjustment are the ones that are individually impaired. General credit risk adjustments are the ones, calculated based on statistical model. Credit risk adjustments include balance and off balance part.

The highest share of defaulted exposures at the end of 2020 was observed in the commerce industry (15.5%). Manufacturing industry took the second place with almost 15% share of defaulted exposures. Construction industry follows with almost 10% share of total defaulted exposure.

Defaulted exposures on individuals' portfolio represent a 43% share of total defaulted portfolio.

Comparison of defaulted exposure with 2019 for the top three mentioned industries shows a reduction of defaulted exposure in the commerce industry (17%), but increase on the other two (manufacturing 22%, construction 30%).

At the end of 2020 the manufacturing industry also had the highest share of specific credit risk adjustments (28.7%).

Quality of non - performing exposures by geographical area

SKB Group – as per 31.12.2020							
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	80,214	4,303,820	27,094	68,022	3,387	28,515	4,288,917
Of which: Slovenia	80,167	4,046,865	27,094	67,651	3,139	28,290	4,032,288
South East Europe	6,948	9,854	-	79	17	(67)	16,723
Other	15	10,290	-	19	40	16	10,286
Total	87,176	4,323,964	27,094	68,120	3,443	28,464	4,315,926

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	3,948,328	21,115	45,487	23,204	(28,923)	3,946,959
Of which: Slovenia	65,135	3,799,056	21,115	45,339	22,474	(28,917)	3,797,737
South East Europe	8,522	7,953	-	146	11	(43)	16,329
Other	-	9,308	-	3	6	(4)	9,305
Total	73,755	3,965,589	21,115	45,635	23,221	(28,969)	3,972,594

Note: exposure value is gross value 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. Credit risk adjustments include balance and off balance part.

At the end of 2020 the majority of defaulted exposure (92 %) 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.

SKB Bank – as per 31.12.2020							
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	68,806	4,297,043	25,363	62,722	3,081	31,324	4,277,765
Of which: Slovenia	68,760	4,031,882	25,363	62,351	2,833	31,100	4,012,927
South East Europe	6,944	9,479	-	76	17	67	16,347
Other	15	10,224	-	19	40	16	10,221
Total	75,766	4,316,747	25,363	62,816	3,137	31,273	4,304,333

SKB Bank – 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	55,877	3,933,309	19,336	37,424	22,577	(25,904)	3,932,426
Of which: Slovenia	55,780	3,740,939	19,336	37,278	22,577	(25,899)	3,740,104
South East Europe	8,520	7,527	-	143	-	(38)	15,904
Other	-	9,234	-	2	-	(3)	9,232
Total	64,398	3,950,070	19,336	37,570	22,577	(25,945)	3,957,562

Credit quality of exposures by rating buckets

The credit quality of financial assets is managed by using internal credit ratings.

2020 - SKB Group	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1	3,318,897	261,502	-	-	3,580,399
Rating group 2	522,262	140,846	-	-	663,108
Rating group 3	76	79,777	-	-	79,853
Rating group 4	-	792	87,176	-	87,968
Total gross values	3,841,234	482,917	87,176	-	4,411,327
Risk adjustments	(14,621)	(18,900)	(61,692)	-	(95,214)
Net values	3,826,613	464,017	25,484	-	4,316,113

2019 - SKB Group	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1	2,507,962	30,988	-	-	2,538,950
Rating group 2	1,357,346	39,474	-	-	1,396,820
Rating group 3	331	30,498	-	-	30,829
Rating group 4	-	-	73,755	-	73,755
Total gross values	3,865,639	100,960	73,755	-	4,040,354
Risk adjustments	11,072	8,147	47,532	-	66,750
Net values	3,854,567	92,813	26,223	-	3,973,603

2020 - SKB Bank	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1	3,504,892	246,201	-	-	3,751,093
Rating group 2	420,072	90,047	-	-	510,119
Rating group 3	20	55,007	-	-	55,027
Rating group 4	-	792	75,766	-	76,557
Total gross values	3,924,984	392,046	75,766	-	4,392,796
Risk adjustments	(14,621)	(18,900)	(61,692)	-	(95,214)
Net values	3,910,363	373,146	14,073	-	4,297,582

2019 - SKB Bank	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1	2,699,047	22,479	-	-	2,721,527
Rating group 2	1,191,776	26,533	-	-	1,218,309
Rating group 3	326	10,918	-	-	11,244
Rating group 4	-	-	64,398	-	64,398
Total gross values	3,891,150	59,930	64,398	-	4,015,477
Risk adjustments	9,152	6,037	41,717	-	56,906
Net values	3,881,997	53,893	22,681	-	3,958,571

Note: exposure value is expressed in 000 EUR and includes gross value of balance and off-balance credit risk exposure. Exposure value includes financial assets measured at amortized cost as well as financial assets at fair value through other comprehensive income.

The distribution of portfolio by rating buckets demonstrates high increase of the share of Stage 2 in total portfolio. Shift of portfolio from Stage 1 to Stage 2 is the result of deteriorated macroeconomic conditions in 2020 following COVID-19 pandemic.

Exposure to credit risk by by credit rating groups

a) Financial assets measured at fair value through other comprehensive income – debt securities

2020 - SKB Group and SKB Bank	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1	366,307	-	-	-	366,307
Rating group 2	-	-	-	-	-
Rating group 3	-	-	-	-	-
Rating group 4	-	-	-	-	-
Total gross values	366,307	-	-	-	366,307
Risk adjustments	-	-	-	-	-
Net values	366,307	-	-	-	366,307

b) Debt securities measured at amortized cost

2020 - SKB Group and SKB Bank	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1	214,834	-	-	-	214,834
Rating group 2	-	-	-	-	-
Rating group 3	-	-	-	-	-
Rating group 4	-	-	-	-	-
Total gross values	214,834	-	-	-	214,834
Risk adjustments	(73)	-	-	-	(73)
Net values	214,761	-	-	-	214,761

c) Loans to banks

2020 - SKB Group and SKB Bank	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1	-	-	-	-	-
Rating group 2	99	-	-	-	99
Rating group 3	-	-	-	-	-
Rating group 4	-	-	-	-	-
Total gross values	99	-	-	-	99
Risk adjustments	-	-	-	-	-
Net values	99	-	-	-	99

d) Loans to clients, other than banks

2020 - SKB Group and SKB Bank	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1	1,739,773	235,123	-	-	1,974,896
Rating group 2	325,182	87,863	-	-	413,045
Rating group 3	57	68,575	-	-	68,632
Rating group 4	-	-	74,479	-	74,479
Total gross values	2,065,013	391,561	74,479	-	2,531,053
Risk adjustments	(10,089)	(17,234)	(57,599)	-	(84,921)
Net values	2,054,924	374,328	16,881	-	2,446,132

2020 - SKB Bank	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1	1,925,938	219,821	-	-	2,145,759
Rating group 2	222,998	37,121	-	-	260,119
Rating group 3	2	43,815	-	-	43,817
Rating group 4	-	-	63,180	-	63,180
Total gross values	2,148,938	300,756	63,180	-	2,512,875
Risk adjustments	(12,552)	(14,895)	(50,452)	-	(77,899)
Net values	2,136,386	285,862	12,728	-	2,434,976

e) Financial guarantees and other off-balance items

2020 - SKB Group	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1	454,416	16,884	-	-	471,299
Rating group 2	192,938	52,834	-	-	245,772
Rating group 3	18	11,983	-	-	12,001
Rating group 4	-	-	5,619	-	5,619
Total gross values	647,372	81,701	5,619	-	734,691
Risk adjustments	(4,196)	(1,623)	(4,065)	-	(9,884)
Net values	643,176	80,077	1,554	-	724,807

2020 - SKB Bank	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1	454,439	16,884	-	-	471,322
Rating group 2	192,938	52,834	-	-	245,772
Rating group 3	18	11,983	-	-	12,001
Rating group 4	-	-	5,619	-	5,619
Total gross values	647,396	81,701	5,619	-	734,714
Risk adjustments	(4,196)	(1,623)	(4,065)	-	(9,884)
Net values	643,200	80,077	1,554	-	724,830

Exposures by exposure categories and by stage

Group 31.12.2020	Gross carrying amount / nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
	Performing exposures			Non-performing exposures			Performing exposures - accumulated impairment and provisions			Non-performing exposures - accumulated negative changes in fair value due to credit risk and provisions		
		of which: stage 1	of which: stage 2		of which: stage 2	of which: stage 3		of which: stage 1	of which: stage 2		of which: stage 2	of which: stage 3
Loans and advances	2,459,541	2,066,356	393,184	83,736	-	83,736	(27,340)	(10,090)	(17,250)	(59,806)	-	(59,806)
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	93,515	93,356	160	-	-	-	(60)	(57)	(3)	-	-	-
Credit institutions	2,025	495	1,531	-	-	-	(8)	(1)	(8)	-	-	-
Other financial corporations	2,803	2,780	23	2	-	2	(21)	(20)	(1)	-	-	-
Non-financial corporations	890,047	750,412	139,635	43,825	-	43,825	(11,976)	(6,851)	(5,125)	(27,389)	-	(27,389)
Of which: Small and Medium-sized Enterprises	459,527	354,210	105,317	30,550	-	30,550	(6,944)	(3,296)	(3,648)	(21,532)	-	(21,532)
Households	1,471,151	1,219,314	251,837	39,909	-	39,909	(15,275)	(3,161)	(12,114)	(32,417)	-	(32,417)
Debt securities	587,550	587,550	-	-	-	-	(362)	(362)	-	-	-	-
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	581,430	581,430	-	-	-	-	(362)	(362)	-	-	-	-
Credit institutions	6,120	6,120	-	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
OFF-BALANCE SHEET EXPOSURES	729,073	647,372	81,701	5,619	-	5,619	5,819	4,196	1,623	4,065	-	4,065
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	24,376	24,373	3	-	-	-	5	5	-	-	-	-
Credit institutions	14,893	14,747	145	-	-	-	53	53	-	-	-	-
Other financial corporations	581	581	-	-	-	-	2	2	-	-	-	-
Non-financial corporations	581,110	507,309	73,800	5,568	-	5,568	5,288	3,888	1,400	4,064	-	4,064
Households	108,113	100,361	7,752	51	-	51	471	248	224	1	-	1
Total	3,776,163	3,301,278	474,885	89,356	-	89,356	(33,522)	(14,648)	(18,873)	(63,872)	-	(63,872)

Group 31.12.2019	Gross carrying amount / nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
	Performing exposures			Non-performing exposures			Performing exposures - accumulated impairment and provisions			Non-performing exposures - accumulated negative changes in fair value due to credit risk and provisions		
		of which: stage 1	of which: stage 2		of which: stage 2	of which: stage 3		of which: stage 1	of which: stage 2		of which: stage 2	of which: stage 3
Loans and advances	2,501,621	2,409,544	92,077	69,016	-	69,016	(16,109)	(8,420)	(7,688)	(45,461)	-	(45,461)
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	94,197	94,196	1	-	-	-	(44)	(44)	-	-	-	-
Credit institutions	3,037	3,037	-	-	-	-	-	-	-	-	-	-
Other financial corporations	3,993	3,536	457	5	-	5	(11)	(11)	-	(3)	-	(3)
Non-financial corporations	908,399	863,102	45,297	36,253	-	36,253	(8,724)	(4,965)	(3,759)	(20,450)	-	(20,450)
Of which: Small and Medium-sized Enterprises	470,003	434,411	35,592	22,246	-	22,246	(6,633)	(3,151)	(3,482)	(15,279)	-	(15,279)
Households	1,491,995	1,445,673	46,322	32,758	-	32,758	(7,329)	(3,400)	(3,929)	(25,008)	-	(25,008)
Debt securities	522,556	522,556	-	-	-	-	(29)	(29)	-	-	-	-
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	516,503	516,503	-	-	-	-	(29)	(29)	-	-	-	-
Credit institutions	6,053	6,053	-	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
OFF-BALANCE SHEET EXPOSURES	666,457	653,536	12,921	4,755	-	4,755	3,067	2,651	416	3,490	-	3,490
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	23,649	23,649	-	-	-	-	5	5	-	-	-	-
Credit institutions	13,501	13,501	-	-	-	-	7	7	-	-	-	-
Other financial corporations	463	460	3	-	-	-	1	1	-	-	-	-
Non-financial corporations	528,675	516,653	12,022	4,727	-	4,727	2,848	2,472	376	3,487	-	3,487
Households	100,169	99,274	895	29	-	29	205	166	40	2	-	2
Total	3,690,634	3,585,636	104,998	73,771	-	73,771	(19,204)	(11,100)	(8,104)	(48,951)	-	(48,951)

Note. The table shows exposures by categories and by stage and include loans at amortized cost, loans mandatorily at fair value through profit or loss, debt securities at amortized cost, debt securities at fair value through other comprehensive income, debt securities designated at fair value through profit or loss and off balance sheet exposure.

The worsening of macroeconomic situation in 2020, caused by COVID-19 pandemic, reflected in significant increase of Stage 2 portfolio. Overall, the share of Stage 2 portfolio increased from 3 % in 2019 to 13 % in 2020. The increase of non-performing exposure does not result from portfolio deterioration, but instead from modification of accounting treatment of non performing portfolio.

In 2020, the Group has introduced a new methodology for the calculation of expected credit loss with no major impact on the total amount of calculated ECL. The effect of deteriorated macroeconomic environment is reflected in almost 75 % increase of accumulated impairment and provision of performing exposures driven by higher coverage ratios and shifting part of portfolio to stage 2. The increase in stage 3 provision is mostly attributed to the modification of accounting treatment of non performing portfolio.

Ageing of past-due exposures

SKB Group	2020			2019		
	Loans to banks	Loans to non-banks	Total debt securities	Loans to banks	Loans to non-banks	Total debt securities
Not past due	14,992	3,113,406	581,141	11,625	3,061,350	516,485
Past due up to 30 days	-	70,513	-	2,414	86,737	-
Past due from 31 to 60 days	-	13,114	-	-	24,523	-
Past due from 61 to 90 days	-	3,419	-	-	7,524	-
Past due from 91 to 180 days	-	3,185	-	-	3,254	-
Past due from 181 to 360 days	-	3,678	-	-	3,033	-
Past due more than 360 days	-	43,538	-	-	34,033	-
Total past due exposures	14,992	3,250,853	581,141	14,039	3,220,454	516,485

Note: Exposure value to loans and other securities includes gross value of balance and off-balance exposure. Debt securities includes debt securities measured at other comprehensive income and debt securities measured at amortized cost.

SKB Bank	2020			2019		
	Loans to banks	Loans to non-banks	Total debt securities	Loans to banks	Loans to non-banks	Total debt securities
Not past due	14,992	3,152,193	581,141	11,625	3,111,383	516,485
Past due up to 30 days	-	28,670	-	2,414	35,274	-
Past due from 31 to 60 days	-	3,853	-	-	12,034	-
Past due from 61 to 90 days	-	1,257	-	-	4,536	-
Past due from 91 to 180 days	-	2,237	-	-	1,973	-
Past due from 181 to 360 days	-	3,376	-	-	2,380	-
Past due more than 360 days	-	41,112	-	-	31,718	-
Total past due exposures	14,992	3,232,699	581,141	14,039	3,199,298	516,485

Note: Exposure value to loans and other securities includes gross value of balance and off balance exposure

The vast majority (over 96 %) of total portfolio has no overdue at all, less than 2 % of total portfolio falls into past due up to 30 days bucket. Comparing to 2019 the share of portfolio with no overdue is slightly higher than previous year.

Non-performing and forborne exposures

GROUP – as per 31.12.2020								
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 on exposures with forbearance measures	
	Performing exposures with forbearance measures	Non-performing exposures with forbearance measures		on performing exposures with forbearance measures	on non-performing exposures with forbearance measures		Financial guarantees received on non-performing exposures with forbearance measures	
			of which: Defaulted					of which: Impaired
Loans and advances	602	24,941	24,941	24,941	(151)	(19,563)	3,215	-
Central banks	-	-	-	-	-	-	-	-
Central governments	-	-	-	-	-	-	-	-
Regional governments or local authorities	-	-	-	-	-	-	-	-
Institutions	-	-	-	-	-	-	-	-
Non-financial corporations	62	13,594	13,594	13,594	(11)	(9,999)	2,006	-
Households	541	11,347	11,347	11,347	(140)	(9,564)	1,209	-
Debt securities	-	-	-	-	-	-	-	-
Loan commitments given	-	-	-	-	-	-	-	-
Total	602	24,941	24,941	24,941	(151)	(19,563)	3,215	-

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 on exposures with forbearance measures	
	Performing exposures with forbearance measures	Non-performing exposures with forbearance measures		on performing exposures with forbearance measures	on non-performing exposures with forbearance measures		Financial guarantees received on non-performing exposures with forbearance measures	
			of which: Defaulted					of which: Impaired
Loans and advances	10,476	19,971	19,971	19,971	(68)	(14,604)	2,005	-
Central banks	-	-	-	-	-	-	-	-
Central governments	-	-	-	-	-	-	-	-
Regional governments or local authorities	-	-	-	-	-	-	-	-
Institutions	-	-	-	-	-	-	-	-
Non-financial corporations	10,019	12,720	12,720	12,720	(47)	(8,243)	1,717	-
Households	457	7,251	7,251	7,251	(21)	(6,361)	288	-
Debt securities	-	-	-	-	-	-	-	-
Loan commitments given	3,570	19,971	7,697	12,274	(68)	(14,604)	2,005	-
Total	10,476	19,971	19,971	19,971	(68)	(14,604)	2,005	-

Comparing to 2019 the exposure on accounts with forbearance measures has increased due to modification in accounting treatment of non-performing portfolio. Contrary, the exposure on accounts with forbearance measures has decreased on the sound portfolio due to repayments.

Modified financial assets

Group SKB and Bank SKB			
	EUR 000	2020	2019
Financial assets with contractual cash flows change		-	-
Groups S2 and S3 (lifetime losses)		-	-
• Amortised value before change		87,525	2,630
• Net profit / loss because of change		(19)	(9)
Financial assets with contractual cash flows change		-	-
Transition from group S2 (lifetime losses) to group S1 (12-month losses)		-	-
• Gross carrying amount on reporting day		14,606	102

Changes in stock exposure between stages

SKB Group as per 31.12.2020						
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	374,484	177,719	8,952	7,640	732	2,751
Non-financial corporations	123,506	78,577	3,648	4,408	563	1,952
Households	250,978	99,143	5,304	3,233	169	799

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	40.828	32.452	4.726	996	1.611	7.612
Non-financial corporations	14.096	13.563	1.963	38	872	7.595
Households	26.732	18.889	2.763	958	740	17

An observable shift of gross exposure from Stage 1 to Stage 2 occurred in 2020, when comparing to 2019. The transfer is the result of:

- change of methodology for the calculation of expected credit loss (alignment with the methodology of the mother bank). Its effect is estimated to 190 million EUR,
- worsening of macroeconomic conditions in 2020 following Covid-19 pandemic. When analyzing the effects of COVID-19 on the clients' operations and liquidity, the Bank categorized the industries and clients into categories according to their riskiness and reclassified them to the watch list in accordance with the results of the analysis. The estimated effect of reclassifications in terms of exposure amounted to EUR 120 million.

Detailed movement in stock exposure between stages is presented hereafter.

a) Financial instruments at amortized cost - Loans and advances to clients other than

SKB Group – as per 31.12.2020					
Loans and advances to clients other than banks	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1.1.2020	2,395,557	101,504	60,346	-	2,557,406
Transfer to stage 1	180,471	(177,719)	(2,751)	-	-
Transfer to stage 2	(374,484)	382,124	(7,640)	-	-
Transfer to stage 3	(732)	(8,952)	9,683	-	-
Changes due to change in credit risk	16,132	(160,675)	833	-	(143,710)
Increases due to origination and acquisition	567,129	376,122	16,728	-	959,979
Decreases due to derecognition	(528,760)	(312,789)	(11,760)	-	(853,309)
Changes due to update in the institution's methodology	(190,304)	190,304	-	-	-
Write-offs	-	-	(4,882)	-	(4,882)
Changes due to modifications without derecognition	-	1,646	97	-	1,743
Other adjustments	-	-	13,825	-	13,825
Closing balance 31.12.2020	2,065,009	391,565	74,479	-	2,531,053
Loss allowance 31.12.2020	(10,089)	(17,235)	(57,597)	-	(84,921)

SKB Group – 31.12.2019					
Loans and advances to clients other than banks	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1.1.2019	2,298,003	105,943	106,995	-	2,510,941
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)	-	(363,704)
Increases due to origination and acquisition	858,178	32,869	27,401	-	918,448
Decreases due to derecognition	(443,980)	(16,025)	(19,924)	-	(479,929)
Changes due to update in the institution's methodology	-	-	(28,349)	-	(28,349)
Write-offs	-	-	-	-	-
Changes due to modifications without derecognition	-	-	-	-	-
Other adjustments	-	-	-	-	-
Closing balance 31.12.2019	2,395,557	101,504	60,346	-	2,557,406
Loss allowance 31.12.2019	(8,420)	(7,688)	(44,029)	-	(60,137)

SKB Bank – as per 31.12.2020					
Loans and advances to clients other than banks	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1.1.2020	2,421,419	60,509	51,115	-	2,533,044
Transfer to stage 1	120,039	(119,960)	(79)	-	-
Transfer to stage 2	(293,441)	297,568	(4,159)	-	-
Transfer to stage 3	(475)	(6,825)	7,300	-	-
Changes due to change in credit risk	(98,047)	(180,562)	(3,723)	-	(282,332)
Increases due to origination and acquisition	613,025	357,578	13,925	-	984,528
Decreases due to derecognition	(451,299)	(271,511)	(9,810)	-	(732,620)
Changes due to update in the institution's methodology	(162,313)	162,313	-	-	-
Write-offs	-	-	(4,486)	-	(4,486)
Changes due to modifications without derecognition	-	1,646	97	-	1,743
Other adjustments	-	-	12,997	-	12,997
Closing balance 31.12.2020	2,148,938	300,756	63,180	-	2,512,875
Loss allowance 31.12.2020	(12,552)	(14,894)	(50,453)	-	(77,899)

SKB Bank – as per 31.12.2019					
Loans and advances to clients other than banks	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1.1.2019	2,135,824	60,998	93,294	-	2,290,116
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)	-	(261,659)
Increases due to origination and acquisition	900,122	20,292	27,206	-	947,620
Decreases due to derecognition	(396,552)	(798)	(17,496)	-	(414,846)
Write-offs	-	-	(28,188)	-	(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	-	2,533,044
Loss allowance 31.12.2019	(6,501)	(5,564)	(38,238)	-	(50,304)

In accordance with the regulations of the Bank of Slovenia, SKB Group and SKB Bank switched to gross method of presenting interests on impaired part of the principal.

If the SKB Group took into account the gross method of presenting interests on the impaired part of the principal in 2019, the gross exposure of loans to non-bank customers would increase by EUR 11,965 thousand, other financial assets by EUR 1 thousand and long-term financial leases by EUR 874 thousand. Provisions for

If the SKB Bank took into account the gross method of presenting interests on the impaired part of the principal in 2019, the gross exposure of loans to non-bank customers would increase by EUR 11,971 thousand and other financial assets by EUR 1 thousand. Provisions for impairment would also increase by the same amount

b) Financial instruments at amortized cost - Debt securities

SKB Group and SKB Bank – as per 31.12.2020					
Debt securities	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1.1.2020	249,280	-	-	-	249,280
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Changes due to change in credit risk	(3,198)	-	-	-	(3,198)
Increases due to origination and acquisition	-	-	-	-	-
Decreases due to derecognition	(31,248)	-	-	-	(31,248)
Changes due to update in the institution's methodology	-	-	-	-	-
Write-offs	-	-	-	-	-
Changes due to modifications without derecognition	-	-	-	-	-
Other adjustments	-	-	-	-	-
Closing balance 31.12.2020	214,834	-	-	-	214,834
Loss allowance 31.12.2020	(73)	-	-	-	(73)

SKB Group and SKB Bank – as per 31.12.2019					
Debt securities	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1.1.2019	253,829	-	-	-	253,829
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Changes due to change in credit risk	(4,549)	-	-	-	(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	-	-	-	249,280
Loss allowance 31.12.2019	(11)	-	-	-	(11)

c) Financial instruments at amortized cost - Loans and advances to

SKB Group and SKB Bank – as per 31.12.2020					
Loans and advances to banks	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1.1.2020	539	-	-	-	539
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Changes due to change in credit risk	(27)	-	-	-	(27)
Increases due to origination and acquisition	156,127	-	-	-	156,127
Decreases due to derecognition	(156,540)	-	-	-	(156,540)
Changes due to update in the institution's methodology	-	-	-	-	-
Write-offs	-	-	-	-	-
Changes due to modifications without derecognition	-	-	-	-	-
Other adjustments	-	-	-	-	-
Closing balance 31.12.2020	99	-	-	-	99
Loss allowance 31.12.2020	-	-	-	-	-

SKB Group and SKB Bank – as per 31.12.2019					
Loans and advances to banks	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1.1.2019	45,318	-	-	-	45,318
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Changes due to change in credit risk	68	-	-	-	68
Increases due to origination and acquisition	94,350	-	-	-	94,350
Decreases due to derecognition	(139,197)	-	-	-	(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	-	-	-	539
Loss allowance 31.12.2019	-	-	-	-	-

d) Debt instruments through other comprehensive income

SKB Group and SKB Bank – as per 31.12.2020					
Debt instruments through other comprehensive income	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1.1.2020	267,205	-	-	-	267,205
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Changes due to change in credit risk	48,174	-	-	-	48,174
Increases due to origination and acquisition	71,195	-	-	-	71,195
Decreases due to derecognition	(20,267)	-	-	-	(20,267)
Changes due to update in the institution's methodology	-	-	-	-	-
Write-offs	-	-	-	-	-
Changes due to modifications without derecognition	-	-	-	-	-
Other adjustments	-	-	-	-	-
Closing balance 31.12.2020	366,307	-	-	-	366,307
Loss allowance 31.12.2020	-	-	-	-	-

SKB Group and SKB Bank – as per 31.12.2019					
Debt instruments through other comprehensive income	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1.1.2019	258,682	-	-	-	258,682
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Changes due to change in credit risk	2,033	-	-	-	2,033
Increases due to origination and acquisition	27,809	-	-	-	27,809
Decreases due to derecognition	(21,319)	-	-	-	(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	-	-	-	267,205
Loss allowance 31.12.2019	-	-	-	-	-

e) Off-balance sheet liabilities

SKB Group – as per 31.12.2020					
Off-balance sheet liabilities	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1.1.2020	653,536	12,921	4,755	-	671,212
Transfer to stage 1	13,243	(13,197)	(47)	-	-
Transfer to stage 2	(121,168)	121,746	(579)	-	-
Transfer to stage 3	(40)	(987)	1,027	-	-
Changes due to change in credit risk	71,917	(92,259)	(406)	-	(20,748)
Increases due to origination and acquisition	456,567	99,732	1,331	-	557,630
Decreases due to derecognition	(423,424)	(49,517)	(462)	-	(473,403)
Changes due to update in the institution's methodology	(3,261)	3,261	-	-	-
Write-offs	-	-	-	-	-
Changes due to modifications without derecognition	-	-	-	-	-
Other adjustments	-	-	-	-	-
Closing balance 31.12.2020	647,370	81,701	5,619	-	734,691
Loss allowance 31.12.2020	4,234	1,508	4,142	-	9,884

SKB Group – as per 31.12.2019					
Off-balance sheet liabilities	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1.1.2019	625,894	27,571	12,429	-	665,894
Transfer to stage 1	5,239	(1,669)	(3,570)	-	-
Transfer to stage 2	(3,254)	3,262	(8)	-	-
Transfer to stage 3	(11)	(34)	45	-	-
Changes due to change in credit risk	(36,186)	1,950	1,086	-	(33,150)
Increases due to origination and acquisition	433,427	19,769	27,819	-	481,015
Decreases due to derecognition	(371,572)	(37,929)	(33,046)	-	(442,547)
Write-offs	-	-	-	-	-
Changes due to update in the institution's methodology	-	-	-	-	-
Changes due to modifications without derecognition	-	-	-	-	-
Other adjustments	-	-	-	-	-
Closing balance 31.12.2019	653,536	12,921	4,755	-	671,212
Loss allowance 31.12.2019	2,666	393	3,499	-	6,557

SKB Bank- as per 31.12.2020					
Off-balance sheet liabilities	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1.1.2020	653,558	12,921	4,755	-	671,234
Transfer to stage 1	13,243	(13,197)	(47)	-	-
Transfer to stage 2	(121,168)	121,746	(579)	-	-
Transfer to stage 3	(40)	(987)	1,027	-	-
Changes due to change in credit risk	71,941	(92,259)	(406)	-	(20,724)
Increases due to origination and acquisition	456,544	99,732	1,331	-	557,607
Decreases due to derecognition	(423,424)	(49,517)	(462)	-	(473,403)
Changes due to update in the institution's methodology	(3,261)	3,261		-	
Write-offs	-	-	-	-	-
Changes due to modifications without derecognition	-	-	-	-	-
Other adjustments	-	-	-	-	-
Closing balance 31.12.2020	647,393	81,701	5,619	-	734,714
Loss allowance 31.12.2020	4,234	1,508	4,142	-	9,884

SKB Bank- as per 31.12.2019					
Off-balance sheet liabilities	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1.1.2019	625,918	27,571	12,429	-	665,918
Transfer to stage 1	5,239	(1,669)	(3,570)	-	-
Transfer to stage 2	(3,254)	3,262	(8)	-	-
Transfer to stage 3	(11)	(34)	45	-	-
Changes due to change in credit risk	(36,233)	1,950	1,086	-	(33,197)
Increases due to origination and acquisition	433,472	19,769	27,819	-	481,060
Decreases due to derecognition	(371,572)	(37,929)	(33,046)	-	(442,547)
Write-offs	-	-	-	-	-
Changes due to update in the institution's methodology	-	-	-	-	-
Changes due to modifications without derecognition	-	-	-	-	-
Other adjustments	-	-	-	-	-
Closing balance 31.12.2019	653,558	12,921	4,755	-	671,234
Loss allowance 31.12.2019	2,666	393	3,499	-	6,557

Movement of specific and general credit risk adjustment

a) Movement of specific and general credit risk adjustment for financial assets measured at amortized cost

SKB Group	Debt securities	Loans to banks			Loans to non-bank customers			Other financial assets		
	12-month expected credit losses	12-month expected credit losses	Lifetime ECL	12-month expected credit losses	Lifetime ECL	Lifetime ECL	12-month expected credit losses	Lifetime ECL	Lifetime ECL	
EUR 000	S1	S1	S2	S1	S2	S3	S1	S2	S3	
Opening balance 01.01.2020	(11)	-	-	(8.420)	(7.687)	(44.030)	(15)	0	(13)	
Increases due to origination and acquisition	-	(9)	-	(17.969)	(16.269)	(9.750)	(1)	(11)	(13)	
Decreases due to derecognition	-	9	-	5.878	11.112	10.413	15	10	3	
Changes due to change in credit risk	(62)	-	-	(8.270)	9.108	(1.673)	1	(16)	(5)	
Changes due to modifications without derecognition	-	-	-	-	(225)	(62)	-	-	-	
Changes due to update in the institution's methodology	-	-	-	6.293	(3.037)	-	-	-	-	
Write-offs	-	-	-	-	-	3.544	-	-	-	
Other adjustments	-	-	-	123	(129)	(13.870)	(1)	1	-	
Transfer S1-S2	-	-	-	18.006	(18.006)	-	-	-	-	
Transfer S1-S3	-	-	-	411	-	(411)	-	-	-	
Transfer S2-S1	-	-	-	(6.020)	6.020	-	-	-	-	
Transfer S2-S3	-	-	-	-	4.221	(4.221)	-	-	-	
Transfer S3-S1	-	-	-	(120)	-	120	-	-	-	
Transfer S3-S2	-	-	-	-	(2.343)	2.343	-	-	-	
Closing balance 31.12.2020	(73)	-	-	(10.089)	(17.235)	(57.597)	(1)	(16)	(28)	

SKB 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
Opening balance 01.01.2019	(32)	(2)	(7.863)	(7.872)	(72.117)	(4)	(3)	(121)
Increases 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 change in credit risk	23	2	(3.744)	3.621	(6.069)	(11)	1	86
Changes due to modifications without derecognition	-	-	-	-	-	-	-	-
Changes due to update in the institution's methodology	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	20.713	-	-	-
Other adjustments	-	-	3	(1)	(888)	-	-	-
Transfer S1-S2	-	-	4.769	(4.769)	-	-	-	-
Transfer S1-S3	-	-	1.220	-	(1.220)	-	-	-
Transfer S2-S1	-	-	(198)	198	-	-	-	-
Transfer S2-S3	-	-	-	2.465	(2.465)	-	-	-
Transfer S3-S1	-	-	-	-	-	-	-	-
Transfer S3-S2	-	-	-	(8)	8	-	-	-
Closing balance 31.12.2019	(11)	-	(8.420)	(7.687)	(44.030)	(15)	-	(13)

SKB Bank	Debt securities	Loans to banks		Loans to non-bank customers			Other financial assets		
	12-month expected credit losses	12-month expected credit losses	Lifetime ECL	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	(3)
Opening balance 01.01.2020	(11)	-	-	(6,501)	(5,565)	(38,238)	(14)	-	(3)
Increases due to origination and acquisition	-	(9)	-	(14,854)	(11,471)	(6,279)	0	(9)	(13)
Decreases due to derecognition	-	9	-	4,631	8,154	8,013	14	9	5
Changes due to change in credit risk	(62)	-	-	(13,346)	4,665	(2,320)	(1)	(16)	(6)
Changes due to modifications without derecognition	-	-	-	-	(225)	(62)	-	-	-
Changes due to update in the institution's methodology	-	-	-	6,469	(1,103)	-	-	-	-
Write-offs	-	-	-	-	-	3,191	-	-	-
Other adjustments	-	-	-	85	(99)	(13,042)	-	-	-
Transfer S1-S2	-	-	-	15,141	(15,141)	-	-	-	-
Transfer S1-S3	-	-	-	369	-	(369)	-	-	-
Transfer S2-S1	-	-	-	(4,517)	4,517	-	-	-	-
Transfer S2-S3	-	-	-	-	2,956	(2,956)	-	-	-
Transfer S3-S1	-	-	-	(30)	-	30	-	-	-
Transfer S3-S2	-	-	-	-	(1,581)	1,581	-	-	-
Closing balance 31.12.2020	(73)	-	-	(12,552)	(14,894)	(50,452)	(1)	(16)	(17)

SKB 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
Opening balance 01.01.2019	(32)	(2)	(5,799)	(5,832)	(64,987)	(4)	(1)	(105)
Increases 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 change in credit risk	23	2	(2,989)	2,310	(9,855)	(10)	(1)	(2)
Changes due to modifications without derecognition	-	-	-	-	-	-	-	-
Changes due to update in the institution's methodology	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	20,558	-	-	-
Other adjustments	-	-	1	(4)	(896)	-	-	-
Transfer S1-S2	-	-	3,043	(3,043)	-	-	-	-
Transfer S1-S3	-	-	639	-	(639)	-	-	-
Transfer S2-S1	-	-	(79)	79	-	-	-	-
Transfer S2-S3	-	-	-	802	(802)	-	-	-
Transfer S3-S1	-	-	-	-	-	-	-	-
Transfer S3-S2	-	-	-	(4)	4	-	-	-
Closing balance 31.12.2019	(11)	-	(6,501)	(5,565)	(38,238)	(14)	-	(3)

In accordance with the regulations of the Bank of Slovenia, SKB Group and SKB Bank switched to gross method of presenting interests on impaired part of the principal.

If the SKB Group took into account the gross method of presenting interests on the impaired part of the principal in 2019, the gross exposure of loans to non-bank customers would increase by EUR 11,965 thousand, other financial assets by EUR 1 thousand and long-term financial leases by EUR 874 thousand. Provisions for impairment would also increase by the same amount

If the SKB Bank took into account the gross method of presenting interests on the impaired part of the principal in 2019, the gross exposure of loans to non-bank customers would increase by EUR 11,971 thousand and other financial assets by EUR 1 thousand. Provisions for impairment would also increase by the same amount.

b) Movement of provisions for financial assets measured at fair value through OCI

SKB Group and SKB Bank	12-month expected credit losses	Lifetime ECL	Lifetime ECL
EUR 000	S1	S2	S3
Opening balance 01.01.2020	(18)	-	-
Increase due to origination and acquisition	(192)	-	-
Decreases due to derecognition	1	-	-
Changes due to credit risk (net)	(80)	-	-
Changes due to updating of the institution's assessment methodology (net)	-	-	-
Decreases due to write-offs	-	-	-
Other adjustments	-	-	-
Transfer S1-S2	-	-	-
Transfer S1-S3	-	-	-
Transfer S2-S1	-	-	-
Transfer S2-S3	-	-	-
Transfer S3-S1	-	-	-
Transfer S3-S2	-	-	-
Closing balance 31.12.2020	(289)	-	-

SKB Group and SKB Bank	12-month expected credit losses	Lifetime ECL	Lifetime ECL
EUR 000	S1	S2	S3
Opening balance 01.01.2019	(43)	-	-
Increase due to origination and acquisition	(2)	-	-
Decreases due to derecognition	2	-	-
Changes due to credit risk (net)	25	-	-
Changes due to updating of the institution's assessment methodology (net)	-	-	-
Decreases due to write-offs	-	-	-
Other adjustments	-	-	-
Transfer S1-S2	-	-	-
Transfer S1-S3	-	-	-
Transfer S2-S1	-	-	-
Transfer S2-S3	-	-	-
Transfer S3-S1	-	-	-
Transfer S3-S2	-	-	-
Closing balance 31.12.2019	(18)	-	-

c) Movement in specific and general credit risk adjustment for off-balance sheet liabilities

SKB Group and SKB Bank	12-month expected credit losses	Lifetime ECL	Lifetime ECL
EUR 000	S1	S2	S3
Opening balance 01.01.2020	2,666	393	3,499
Increase due to origination and acquisition	2,736	4,248	171
Decreases due to derecognition	(1,705)	(1,654)	(462)
Changes due to credit risk (net)	1,849	(1,912)	124
Changes due to updating of the institution's assessment methodology (net)	-	-	-
Decreases due to write-offs	-	-	-
Other adjustments	-	-	(67)
Transfer S1-S2	(1,409)	1,409	-
Transfer S1-S3	(28)	0	28
Transfer S2-S1	125	(125)	0
Transfer S2-S3	-	(853)	853
Transfer S3-S1	-	-	-
Transfer S3-S2	-	3	(3)
Closing balance 31.12.2020	4,234	1,508	4,142

SKB Group and SKB Bank	12-month expected credit losses	Lifetime ECL	Lifetime ECL
EUR 000	S1	S2	S3
Opening balance 01.01.2019	1,264	393	5,969
Increase due to origination and acquisition	1,247	963	9,419
Decreases due to derecognition	(925)	(1,302)	(12,165)
Changes due to credit risk (net)	1,728	341	(376)
Changes due to updating of the institution's assessment methodology (net)	-	-	-
Decreases due to write-offs	-	-	-
Other adjustments	-	-	-
Transfer S1-S2	(663)	663	-
Transfer S1-S3	(26)	-	26
Transfer S2-S1	40	(40)	-
Transfer S2-S3	-	(631)	631
Transfer S3-S1	-	-	-
Transfer S3-S2	-	6	(6)
Closing balance 31.12.2019	2,666	393	3,499

Noticeable increased movement from stage 1 to stage 2 can be attributed:

- In lesser effect to change of methodology for the calculation of expected credit loss (allignment to the methodology of the mother bank). The effect is estimated to 2 million EUR,
- In particular to deterioration of macroeconomic situation due to COVID-19 pandemic. Estimated impact amounts to 13 million EUR.

6.3.3. General qualitative information on credit risk mitigation measures (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

6.3.4. General quantitative information on credit risk mitigation measures (CRM)

SKB Group - as per 31.12.2020					
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	3,136,481	129,338	3,400	125,938	-
Total debt securities	587,550	-	-	-	-
Total exposures	3,547,305	129,338	3,400	125,938	-
Of which defaulted	79,065	8,111	629	7,483	-

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	-

The table represents only collaterals eligible for regulatory reporting purposes. Share of secured exposure in total exposure was at the end of 2020 3.5 % and has slightly increased in comparison to 2019.

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 31.12.2020			
EUR 000	Primary collateral	Gross Exposure of collateralized loans	Collateral value
Banks	Guarantees (except state)	14,654	14,661
Territorial authorities	State guarantee (cov-19 moratorium)	109	2
	Deposits	36	36
	Commercial RE	778	1,205
	Guarantees (except state)	51	51
Large enterprises	State guarantee (regular)	59,028	59,892
	State guarantee (ZDLGPE)	1,060	850
	State guarantee (cov-19 moratorium)	8,281	821
	Deposits	1,669	729
	Commercial RE	94,152	101,138
	Shares	3,988	4,000
	Guarantees (except state)	96,216	91,524
SME	State guarantee (regular)	18,679	13,445
	State guarantee (ZDLGPE)	2,891	2,086
	State guarantee (cov-19 moratorium)	6,308	643
	Deposits	20,247	3,024
	Residential RE	7,151	5,551
	Commercial RE	135,050	170,274
	Shares	1,721	4,225
	Guarantees (except state)	44,605	63,102
Retail/SME	State guarantee (regular)	4,775	3,476
	State guarantee (ZDLGPE)	1,557	1,255
	State guarantee (cov-19 moratorium)	1,059	268
	Deposits	5,693	1,706
	Residential RE	2,220	5,997
	Commercial RE	6,389	20,122
	Guarantees (except state)	19,071	22,181
Retail/Individuals	State guarantee (cov-19 moratorium)	12,076	997
	Deposits	302	374
	Residential RE	757,534	1,311,888
	Commercial RE	5,149	9,140
	Insurance company	109,190	109,961
	Debt securities	539	590
	Guarantees (except state)	45,546	50,868
Total		1,487,774	2,076,079

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	-	-
	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	-	-
	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

Collateral type wise, the Bank's portfolio of collaterals was expanded in 2020 by state guarantees based on government intervention acts intended to mitigate the consequences of COVID-19 epidemic:

- state guarantees for COVID-19 moratoria,
- state guarantees for new approved loans (in line with ZDLGPE)

Overall gross exposure of collateralized loans increased when comparing to previous year. The main reason of this increase are additional state guarantees, deriving from government acts on the mitigation of the consequences COVID-19 and to some extent the increase on residential real-estate segment.

6.3.5. Disclosures related to COVID-19 pandemic

Information on loans and advances subject to legislative and non-legislative moratoria

SKB Group - 31.12.2020															
EUR 000	Gross carrying amount										Akumulirane oslabitve, akumulirane negativne spremembe poštene vrednosti zaradi kreditnega tveganja				Gross carrying amount
		Performing				Non performing				Performing		Non performing			Inflows to non-performing exposures
			"Of which: exposures with forbearance measures"	"Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)"		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days			Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)"		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	
Loans and advances subject to moratorium	122,972	118,837	345	84,392	4,135	2,757	3,560	(1,038)	(426)	(1)	(339)	(612)	(6)	(612)	2,143
of which: Households	60,438	57,885	345	54,265	2,553	2,465	1,979	(181)	(177)	(1)	(162)	(4)	(4)	(3)	700
of which: Collateralised by residential immovable property	15,118	14,693	188	14,202	426	340	315	(9)	(8)	-	(7)	(1)	(1)	(1)	154
of which: Non-financial corporations	62,374	60,793	-	29,967	1,581	292	1,581	(857)	(249)	-	(177)	(608)	(2)	(608)	1,442
of which: Small and Medium-sized Enterprises	40,458	38,877	-	25,351	1,581	292	1,581	(830)	(222)	-	(171)	(608)	(2)	(608)	1,442
of which: Collateralised by commercial immovable property	16,979	16,954	-	2,847	25	25	25	(3)	(3)	-	(2)	-	-	-	-

Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria

SKB Group- 31.12.2020									
EUR 000	Gross carrying amount								
	Number of obligors		Of which: legislative moratoria	Of which: expired	Residual maturity of moratoria				
					<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Loans and advances for which moratorium was offered	2,267								
Loans and advances subject to moratorium (granted)	2,267	142,322	142,322	19,350	45,889	61,702	6,251	9,130	-
of which: Households		-	72,126	11,688	18,422	34,962	4,153	2,901	-
of which: Collateralised by residential immovable property		-	17,644	2,526	4,255	9,007	1,150	706	-
of which: Non-financial corporations		-	70,036	7,662	27,307	26,740	2,098	6,230	-
of which: Small and Medium-sized Enterprises		-	47,170	6,712	17,625	14,505	2,098	6,230	-
of which: Collateralised by commercial immovable property		-	16,982	3	11,446	5,533	-	-	-

Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis

SKB Group- 31.12.2020				
EUR 000	Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
		of which: orborne	Public guarantees received	Inflows to non-performing exposures
Newly originated loans and advances subject to public guarantee schemes	4,368	-	3,278	-
of which: Households	106	-	-	-
of which: Collateralised by residential immovable property	-	-	-	-
of which: Non-financial corporations	4,263	-	3,193	-
of which: Small and Medium-sized Enterprises	3,802	-	-	-
of which: Collateralised by commercial immovable property	-	-	-	-
od tega: zavarovani s poslovnimi nepremičninami		-	-	-

6.4. Market risk

Market risk is the risk of loss resulting from movements in market prices, in particular, changes in:

- Interest rates,
- Foreign exchange rates,
- Equity and commodity prices.

The SKB Group and the companies in the SKB Group are bearing foreign exchange and interest rate risk. The SKB Group has established an independent Market Risk management function, which monitors market risks in accordance with legal requirements and methodologies that reflect their activities and scope of operations.

6.4.1. Position risk

Position risk is the risk of loss due to a change in the price of a financial instrument held by the Group in its portfolio for trading purposes in its equity account. The SKB Group does not have this risk because it does not trade with financial instruments for its own account.

6.4.2. Structural currency risk

Foreign exchange risk represents potential loss arising from an open foreign exchange position and from changes in foreign exchange rates. It shows the change in the fair value or future cash flows of financial instruments due to changes in foreign exchange rates. The SKB Group monitors its foreign exchange risk in accordance with the requirements of its parent bank OTP and optimizes its foreign exchange risk within the approved limits. 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.

The daily foreign exchange position is regulated by the Financial Markets and Liquidity department. The daily and intra daily foreign exchange position is monitored by the Market Risk Management Department. The monitoring process is supported by the OTP Group Market Risk Information System, which allows continuous control of the compliance of positions with limits. The limit system contains currency position limits, global limit, maximum loss limits (P&L) and Value at Risk (VaR) limits. The structural foreign exchange position of the bank 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 Group's exposure to currency risk was minimal. As at 31 December 2020, the Group estimated that would not be sensitive to +/- 5 % change in foreign exchange rates as the foreign currencies represents less than 4 % of total on and off balance sheet.

	000 EUR	USD	CHF	GBP	Other*
Impact on P&L +5%		(1)	5	0	(5)
Impact on P&L -5%		1	(4)	0	6

* mainly 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 2020							
	EUR 000	EUR	USD	CHF	GBP	OTHER	TOTAL
ASSETS							
Cash, cash balances at central banks and other demand deposits at banks	497,887	2,991	8,654	887	7,792	518,211	
Financial assets held for trading	8,942	-	-	-	-	8,942	
Non-trading financial assets mandatorily at fair value through profit or loss	27,881	-	-	-	-	27,881	
Financial assets designated at fair value through profit or loss	6,120	-	-	-	-	6,120	
Financial assets at fair value through other comprehensive income	366,307	-	-	-	-	366,307	
Financial assets at amortised cost	2,649,727	125	14,093	3	-	2,663,948	
• debt securities	214,761	-	-	-	-	214,761	
• loans to banks	99	-	-	-	-	99	
• loans to non-bank customers	2,431,918	121	14,093	-	-	2,446,132	
• other financial assets	2,950	4	-	3	-	2,957	
Other assets	64,766	-	-	-	-	64,766	
Total financial assets	3,621,630	3,116	22,747	890	7,792	3,656,175	
LIABILITIES							
Financial liabilities held for trading	9,160	-	-	-	-	9,160	
Financial liabilities designated at fair value through profit or loss	6,120	-	-	-	-	6,120	
Financial liabilities measured at amortised cost	3,135,410	35,171	22,836	4,875	8,171	3,206,463	
• deposits from banks and central banks	4,590	-	-	-	-	4,590	
• deposits from non-bank customers	3,038,995	34,849	22,829	4,843	8,127	3,109,643	
• loans from banks and central banks	71,876	-	-	-	-	71,876	
• other financial liabilities	19,949	322	7	32	44	20,354	
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,732	-	-	-	-	1,732	
Other liabilities and equity	431,940	686	1	-	73	432,700	
Total financial liabilities	3,584,362	35,857	22,837	4,875	8,244	3,656,175	
Net balance sheet position	37,268	(32,741)	(90)	(3,985)	(452)	-	

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
• 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	-

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 2020							
	EUR 000	EUR	USD	CHF	GBP	OTHER	TOTAL
ASSETS							
Cash, cash balances at central banks and other demand deposits at banks	497,887	2,991	8,654	887	7,792	518,211	
Financial assets held for trading	8,942	-	-	-	-	8,942	
Non-trading financial assets mandatorily at fair value through profit or loss	27,881	-	-	-	-	27,881	
Financial assets designated at fair value through profit or loss	6,120	-	-	-	-	6,120	
Financial assets at fair value through other comprehensive income	366,307	-	-	-	-	366,307	
Financial assets at amortised cost	2,638,110	125	14,093	3	-	2,652,331	
• debt securities	214,761	-	-	-	-	214,761	
• loans to banks	99	-	-	-	-	99	
• loans to non-bank customers	2,420,762	121	14,093	-	-	2,434,976	
• other financial assets	2,488	4	-	3	-	2,495	
Other assets	65,648	-	-	-	-	65,648	
Total financial assets	3,610,895	3,116	22,747	890	7,792	3,645,440	
LIABILITIES							
Financial liabilities held for trading	9,160	-	-	-	-	9,160	
Financial liabilities designated at fair value through profit or loss	6,120	-	-	-	-	6,120	
Financial liabilities measured at amortised cost	3,146,937	35,171	22,836	4,875	8,171	3,217,990	
• deposits from banks and central banks	4,590	-	-	-	-	4,590	
• deposits from non-bank customers	3,054,024	34,849	22,829	4,843	8,127	3,124,672	
• loans from banks and central banks	71,876	-	-	-	-	71,876	
• other financial liabilities	16,447	322	7	32	44	16,852	
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,732	-	-	-	-	1,732	
Other liabilities and equity	409,678	686	1	-	73	410,438	
Total financial liabilities	3,573,627	35,857	22,837	4,875	8,244	3,645,440	
Net balance sheet position	37,268	(32,741)	(90)	(3,985)	(452)	-	

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
• 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	-

6.4.3. Structural interest rate risk

The structural interest rate risk in the banking book (IRRBB) is arising from mismatches in repricing behaviour of balance and off balance sheet items, which causes volatility of interest income and economic value of equity, depending on the volatility of market interest rates. 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.

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 (ALM) 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 (EVE) based on new EBA IRRBB methodology. EVE sensitivity is calculated based on eight predefined interest rate shock scenarios (parallel shift, shock on short term curve and change in steepness of the curve) for all interest bearing on-balance sheet and certain off-balance sheet. In the calculation behaviour options and models for non-maturing items are used. SKB Group manages EVE sensitivity within regulatory limits

Group - As of 31 December 2020	31.12.2020					31.12.2019					
	EUR 000	EUR	USD	CHF	Other	Total	EUR	USD	CHF	Other	Total
Standardize stress tests											
Parallel -200 bp shift	4,379	(2,997)	(2,179)	(1,022)	(1,819)	293	(3,910)	(2,720)	(1,030)	(7,367)	
Parallel +200 bp shift	(6,460)	1,248	887	423	(3,902)	(1,855)	1,606	1,075	418	1,244	
Parallel shift											
Parallel down	4,379	(2,997)	(1,032)	(1,210)	(860)	293	(3,910)	(1,278)	(1,268)	(6,163)	
Parallel up	(6,460)	1,248	466	482	(4,264)	(1,855)	1,606	568	492	811	
Shift of curve inclination											
Flattener	2,149	(148)	(235)	(62)	1,704	(1,447)	(392)	(397)	(131)	(2,367)	
Steepener	(5,323)	334	239	122	(4,628)	417	523	343	154	1,437	
Short rates shift											
Short rate down	(2,088)	(1,035)	(307)	(371)	(3,801)	842	(1,158)	(289)	(307)	(912)	
Short rate up	958	491	149	175	1,773	(1,626)	550	141	144	(791)	

Net interest income (NII sensitivity) is calculated based on the new EBA IRRBB requirements. NII sensitivity calculates the impact of different interest rate shock scenarios to SKB Group net interests over a three-year rolling horizon. NII sensitivity is calculated based on six interest rate shock scenarios prescribed by the EBA and five internally defined shock scenarios.

Group	31.12.2020			31.12.2019			
	EUR 000	EUR	Other	Total	EUR	Other	Total
Standardize stress tests							
Parallel -200 bp shift							
Parallel +200 bp shift							
Parallel shift							
Parallel down		(5,569)	(57)	(5,626)	(10,902)	(32)	(10,934)
Parallel up		71,515	254	71,769	71,313	273	71,586
Shift of curve inclination							
Flattener		15,766	89	15,855	17,997	101	18,098
Steeper		(338)	(38)	(376)	(1,885)	(36)	(1,921)
Short rates shift							
Short rate down		(5,308)	(57)	(5,365)	(9,489)	(54)	(9,543)
Short rate up		35,376	215	35,591	38,740	230	38,970

- SKB Group calculates Net present value sensitivity (NPV) for all on-balance sheet and certain off-balance sheet items, taking into account the client's behaviour options, modelling for non-maturing items and based on different interest rate shocks scenarios: parallel 10 basis points rise/fall in the yield curve and an immediate non-parallel yield curve shocks, currency by currency.
- 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.
- 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 income (NII) sensitivity taken into account base budget and adverse scenarios for 3-year period. Net interest income 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 profiles of non-maturing products. Currently the 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 and for non-performing loans. Models are reviewed and prepared in line with internal SKB and OTP methodology. Models are back tested on a regular basis and are approved by ALCO Committee.

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 2020 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.

Realized interest rates (in %) by currency for SKB bank:

As of 31 December 2020	Domestic currency	Foreign currency
Assets		
Cash and balances with central banks	-0.1%	0.0%
Due from banks	-0.3%	0.4%
Loans and advances to customers	2.1%	1.2%
Debt securities	1.7%	-
Derivatives - hedge accounting	16.8%	-
Other assets	-	-
Liabilities		
Due to banks	0.0%	0.0%
Due to customers	0.1%	0.4%
Debt securities in issue	-	-
Other borrowed funds	-	-

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	-	-

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 2020								
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	38,309	479,902	-	-	-	-	-	518,211
Financial assets held for trading	-	8,942	-	-	-	-	-	8,942
Non-trading financial assets mandatorily at fair value through profit or loss	-	187	386	2,539	20,451	4,318	-	27,881
Financial assets designated at fair value through profit or loss	-	-	6,139	-	-	-	(19)	6,120
Financial assets at fair value through other comprehensive income	-	10,000	-	-	88,554	231,038	36,715	366,307
Financial assets at amortised cost	42,020	466,699	716,828	473,310	415,159	545,507	4,425	2,663,948
Other assets	-	-	-	-	-	-	13,910	13,910
Total financial assets	80,329	965,730	723,353	475,849	524,164	780,863	55,031	3,605,319
LIABILITIES								
Financial liabilities held for trading	-	9,160	-	-	-	-	-	9,160
Financial liabilities designated at fair value through profit or loss	-	-	6,139	-	-	-	(19)	6,120
Financial liabilities measured at amortised cost	1,814,115	578,507	548,011	114,865	137,597	13,368	-	3,206,463
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-	1,732	1,732
Other liabilities	-	-	-	-	-	-	8,853	8,853
Total financial liabilities	1,814,115	587,667	554,150	114,865	137,597	13,368	10,566	3,232,328
Net balance sheet position	(1,733,786)	378,063	169,203	360,984	386,567	767,495	44,465	372,991

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
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
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

The tables below represent the Bank's assets and liabilities at carrying amounts, categorized by the earlier of the contractual repricing or the maturity dates.

Bank - As of 31 December 2020								
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	38,309	479,902	-	-	-	-	-	518,211
Financial assets held for trading	-	8,942	-	-	-	-	-	8,942
Non-trading financial assets mandatorily at fair value through profit or loss	-	187	386	2,539	20,451	4,318	-	27,881
Financial assets designated at fair value through profit or loss	-	-	6,139	-	-	-	(19)	6,120
Financial assets at fair value through other comprehensive income	-	10,000	-	-	88,554	231,038	36,715	366,307
Financial assets at amortised cost	42,020	393,938	798,415	499,944	370,942	542,647	4,425	2,652,331
Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	-	20,454	20,454
Other assets	-	-	-	-	-	-	2,052	2,052
Total financial assets	80,329	892,969	804,940	502,483	479,947	778,003	63,627	3,602,298
LIABILITIES								
Financial liabilities held for trading	-	9,160	-	-	-	-	-	9,160
Financial liabilities designated at fair value through profit or loss	-	-	6,139	-	-	-	(19)	6,120
Financial liabilities measured at amortised cost	1,829,144	575,095	548,009	114,857	137,557	13,328	-	3,217,990
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-	1,732	1,732
Other liabilities	-	-	-	-	-	-	1,600	1,600
Total financial liabilities	1,829,144	584,255	554,148	114,857	137,557	13,328	3,313	3,236,602
Net balance sheet position	(1,748,815)	308,714	250,792	387,626	342,390	764,675	60,314	365,696

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
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

6.5. 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 at 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.

Operational risk management activities

- **Risk awareness**

Proper risk awareness is key for successful management of operational risk and quality internal control system. In order to raise and maintain the risk awareness among employees the Bank and its HR department organizes various types of trainings, regulatory ones or by initiative of Operational risk management.

- **Determining the value of operational risk appetite**

The target relating to the operational risk appetite is defined in the Risk appetite Framework and Risk appetite Statement. The operational risk appetite expresses the maximum exposure the Bank is willing to take and tolerate in relation to the individual event types.

- **Loss data collection**

An operating loss is a financial effect associated with an operating event that is recorded in the financial statement of a financial institution in accordance with International Financial Reporting Standards.

Better operational risk management means the use of effective methods, such as the accurate collection of losses associated with incident data, so that corrective action can be taken to reduce the possibility of recurrence of such losses. The operational risk management department is responsible for collecting data on losses.

Data on losses and incidents provide essential information for identifying, evaluating and effectively managing operational risks. Identification, reporting, analysis and definition of measures are key activities for risk control and an effective system of internal controls. The centralization and analysis of this information, together with other risk indicators, should enable the development of a global vision of the bank's exposure to operational risk in order to monitor its development and optimize related coverage (especially bank capital and insurance).

All employees and all departments in the bank are responsible for reporting operating losses.

- **Risk and control self-assessment (RCSA)**

Self-assessment and its associated methodology allow process owners to identify and assess the risks associated with the processes they control. The Bank conducts appraisals once a year, identifying vulnerabilities in procedures and controls.

Each year before the RCSA workshop, the head of the project management, organization and processes department in the bank and the ORM department evaluates the bank's procedures and determines the process owners. The process structure and list of process owners are approved by the ORCC.

The responsibilities of process owners include identifying, measuring, and monitoring potential ones risks in their processes as well as the coordination of its management. In the case of processes that

affecting several business organizations is also providing the necessary communication between these units their responsibility.

The process owner must carry out a close assessment of the risks specific to the processes (self-assessment) in cooperation with the Operational Risk Management Department.

The self-assessment is followed by an action plan for the implementation of corrective measures. The Operational Risk Management Department is responsible for monitoring implementation and reports to the Operational Risk Committee.

- **Follow-up of key risk indicators (KRI)**

In addition to monitoring operational loss events, SKB bank identified appropriate indicators that provide early warning of an increased risk of future losses.

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.

- **Accounting reconciliation**

The internal loss declaration process must ensure consistency with accounting principles, so that it can be audited. Consistency checking is done by reconciling the data from these accounts with the amounts from the loss database.

Monthly reconciliation is performed between records booked on accounts and declared operational losses, provisions and insurance recoveries which are greater than 10.000 EUR.

The list of accounts in which the amounts to be declared may be recorded is determined and enclosed to the Accounting reconciliation procedure.

All accounts from the list are classified as sensitive and controlled at least quarterly in a frame of Permanent Supervision. It is defined by the Head of Accounting department in cooperation with ORM department.

- **Scenario analysis and stress testing**

Testing of exceptional situations in the field of operational risk provides an estimate of the maximum financial loss that the bank would still be able to face. Scenario analysis is necessary to evaluate such testing, with which we can determine all the factors that could lead to such a loss. Scenario analysis is a strategy that involves assessing various possible future events and developing scenarios regarding the probability of occurrence of events if different combinations of these events occur.

The Bank uses scenario analysis and stress testing to test operational effectiveness, to cover high-risk areas, to identify major action plans to prevent similar losses, and to calculate regulatory capital. The results of the scenario analysis are reviewed and analysed by the Bank's Management Board, the Operational Risk Committee and the parent bank.

- **New products process management**

In compliance with EBA guidelines and local Framework policies and processes to approve and manage new products and outsourced services New Product Approval Committee (NPC) has been established by the Bank.

Any new product (activity or service) or big change of existing service in the Bank must be submitted to an approval process before it is put in place in line with regulation. The objective is to ensure that all types of risks that a new product/service generates have been correctly identified and assessed and that, as a result, its launch and execution will take place with the highest possible level of security. Compliance has been assessed with respect to current laws and Framework, standard industry practices and any risks that may harm the Bank's image and reputation.

All related activities are managed by NPC, a decision-making body that decides on the production & marketing of "new products".

- **Outsourced services management**

In the Bank any new outsourced activity or service is submitted to an approval process before it is put in place. For the purpose of managing risks inherent in outsourcing of services the Bank adopted and implemented a policy for the use of external contractors.

The outsourcing of services is a subject to specific management and controls within the framework of the internal control and risk management system. Any outsourcing must be carried out in a manner that is in line with the Bank's regulatory and ethical practices and must not impair the internal control system or the control of risks, particularly operational risks, or impair the resilience of the Bank's business.

- **Estimation of ICT risks**

The ICT risks (Information and Communication Technology Risk, ICT risk) mean such a combined risk type which stems from the interruption of the availability and continuity of ICT systems and services, incidents relating to data integrity and data security, the lack of tracking the changes in ICT systems, and the negligent follow-up of the outsourced ICT services.

The ORM Unit focuses on the quantification of the potential reputation losses relating to ICT risks. The expert-based estimation methodology is established for this purpose which quantifies the potential reputation losses stemming from the critical nature of the IT systems, the priority of IT incidents, the period of service outages and the financial effect of the incidents.

ICT incidents reported to the regulator are monitored separately.

- **Model risk governance framework**

Model risk means the potential loss an institution may incur, as a consequence of decisions that could be principally based on the output of internal models, due to errors in the development, implementation or use of such models (CRD IV, 2013).

Model risks are managed through the establishment of an adequate control environment.

A model inventory is prepared under the coordination of ORM Unit in order to assess the Banking models. The models included in the model inventory are classified into 3 categories (Tier 1, Tier 2 and Tier 3) based on their complexity, impact on decisions and materiality. Different control criteria are assigned to each category in relation to the review, approval, validation, business continuity plan and documentation of the model.

The ORM department reviews the model inventory annually with the involvement of the model owners.

Calculation of the operational risk capital requirement under Standardized approach

In the Standardised Approach, Banks activities are divided into standardized business units and business lines. Within each business line, there is a specified broad indicator that reflects the size or volume of Banks activities in that area. The indicator serves as a rough proxy for the amount of operational risk within each of the following business lines:

- Corporate finance (Issuing of securities, capital market transactions),
- Trading and sales,
- Retail Banking,
- Commercial Banking,
- Payment and settlement,
- Retail brokerage,
- Agency services,
- Asset management.

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. Performances were made with performers working from home.

Permanent supervision

Permanent Control includes all controls carried out inside the departments. It is a part of internal control system ensuring its effectiveness in reducing exposure to operational risk.

It is under responsibility of business lines as a part of first line of defence and consists of :

- **Day to day Control**

Day to day Control corresponds to the correct application of the rules and procedures by all employees as well as to the day to day accounts controls they are in charge of. Moreover, it includes the day to day supervision of their work by their hierarchical senior.

- **Managerial Supervision**

It corresponds to the supervision by heads of department of the correct application of the rules of day to day control. It is brought into action through a periodical verification of the accounts and procedures considered as sensitive in line with valid control library. These verifications are formalized in control files and their results are reported in dedicated control application for statistical quarterly reporting. Synthesis reports are created on a quarterly basis to the different levels of the hierarchy.

6.6. Liquidity

Liquidity risk represents a risk in a situation that SKB 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. In year 2020 there were no material changes in the liquidity risk management process.

Assets and liabilities management department (ALM) within Finance Division is responsible for overall liquidity of the Group and the Group's structural and regulatory liquidity. ALM cooperates with Financial market and liquidity department (FML) within Corporate Banking and Financial markets Division by giving guidelines and instructions for Group's daily and short term liquidity, while for long term liquidity ALM is responsible for raising and execution of funding. SKB bank monitors and manages liquidity risk on the Group level, consisting of SKB bank, SKB Leasing and SKB Leasing Select.

Liquidity management

In addition to regulatory liquidity ratios, SKB Group monitors and regularly discusses a number of internal liquidity indicators on the Asset and Liability Committee (ALCO). Eventual deterioration of liquidity indicators are also used as early warning signals indicating potential liquidity crisis.

Group - liquidity indicators in %	2020		2019	
	Average 2020	31.12.2020	Average 2019	31.12.2019
Liquid assets / Total assets	26%	29%	24%	23%
Liquid assets / Short term deposits	80%	86%	83%	74%
Customer loans / Customer deposits	86%	79%	97%	94%

SKB Group's liquidity position remains strong despite the COVID-19 epidemic. The effects of the crisis, caused by the COVID-19 pandemic, did not result in material liquidity outflows. Customers who used the option of COVID-19 moratorium (delay of instalment payments up to one year) represent approximately 7% of the bank's total loan portfolio.

SKB calculates daily Class I and Class II liquidity ratios. 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.

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 31.12.2020 SKB bank's liquidity buffer amounted to EUR 1,033 million, while the net cash outflows amounted to EUR 394 million resulting in LCR of 262 %.

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. As at 31. 12. 2020 NSFR ratio amounted of 154 %, of which available amount of stable funding 3,104 million and required amount of stable funding 2,013 million.

Group - liquidity indicators in %	2020		2019	
	Average 2020	31.12.2020	Average 2019	31.12.2019
Liquidity coverage ratio (LCR)	245%	262%	274%	237%
Net stable funding ratio (NSFR)	148%	154%	143%	139%
Liquidity class I Ratio (maturity within 30 days)	101%	93%	105%	100%

Within regular reports to the Bank of Slovenia SKB Group calculates additional liquidity monitoring metrics (ALMM) 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.

Operative liquidity is also monitored on a monthly basis through Primary and operative liquidity report in line with the mother bank guidelines. Report includes information related to excess liquidity of the bank placed to the Bank of Slovenia and other nostro accounts, level of obligatory reserve, bank's secondary liquidity, expected inflows and outflows within next month and within next three months, business forecast and the level of deposit shock within next three months.

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. SKB Group analyses and estimates the liquidity risk profile of non-maturing products.

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 funding is comprised of a mix of customer deposits, wholesale funding and ECB funding. SKB Group manages this within risk appetite settings to ensure suitable funding of its asset base and to adapt and respond to changing market conditions and regulatory requirements. SKB Group's funding amounted to EUR 3,186 million as at 31 December 2020, which represents 87 % of the Group's total liabilities, consisting mainly of customer deposits. The Group has EUR 50 million of European Central Bank (ECB) funding and EUR 22 million funding taken from The Council of Europe Development Bank (CEB) as at 31 December 2020.

SKB bank maintained a sufficient and diversified pool of ECB liquid assets in the amount of EUR 620 million as at 31 December 2020. 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 In-house Credit Assessment System (ICAS) eligible loans).

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 regular basis through different time periods: 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 available funding sources that can be gathered in times of stress. Liquidity transactions summarize potential interbank, money market and commercial funding sources which can be used in a contingency liquidity scenario.

Internal Liquidity Adequacy Assessment Process (ILAAP)

Internal liquidity adequacy review for the year 2020 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 shows the residual maturity of Group's contractual undiscounted financial liabilities, including the future interest from non-derivative financial instruments, 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 2020							
Financial liabilities held for trading	9,160	-	-	-	-	-	9,160
Financial liabilities designated at fair value through profit or loss	(19)	6,139	-	-	-	-	6,120
Financial liabilities measured at amortised cost	2,049,831	119,247	221,348	449,087	368,710	3,208,223	
Derivatives - hedge accounting	-	-	-	-	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,732	-	-	-	-	-	1,732
Other liabilities	8,853	-	-	-	-	-	8,853
Total undiscounted financial liabilities	2,069,557	125,386	221,348	449,087	368,710	3,234,088	
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	

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 2020							
Financial liabilities held for trading		9,160	-	-	-	-	9,160
Financial liabilities designated at fair value through profit or loss		(19)	6,139	-	-	-	6,120
Financial liabilities measured at amortised cost		2,061,453	119,245	221,340	449,047	368,670	3,219,755
Derivatives - hedge accounting		-	-	-	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk		1,732	-	-	-	-	1,732
Other liabilities		1,600	-	-	-	-	1,600
Total undiscounted financial liabilities		2,073,926	125,384	221,340	449,047	368,670	3,238,367
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

Contractual expiry by maturity of the Group's contingent financial liabilities and commitments:

Group	2020						
	000 EUR	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Contingent financial liabilities and commitments		506,904	35,408	74,349	84,048	33,982	734,691

Group	2019						
	000 EUR	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

Contractual expiry by maturity of the Bank's contingent financial liabilities and commitments:

Bank	2020						
	000 EUR	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Contingent financial liabilities and commitments		506,927	35,408	74,349	84,048	33,982	734,714

Bank	2019						
	000 EUR	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

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

The tables below represent the assets and liabilities at carrying amounts, categorized by contractual maturity dates.

Group - As of 31 December 2020							
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	38,309	479,902	-	-	-	-	518,211
Financial assets held for trading	-	8,942	-	-	-	-	8,942
Non-trading financial assets mandatorily at fair value through profit or loss	-	187	386	2,539	20,451	4,318	27,881
Financial assets designated at fair value through profit or loss	-	(19)	6,139	-	-	-	6,120
Financial assets at fair value through other comprehensive income	-	46,715	-	-	88,554	231,038	366,307
Financial assets at amortised cost	42,020	65,976	86,994	411,000	1,175,652	882,306	2,663,948
Other assets	-	13,910	-	-	-	-	13,910
Total financial assets	80,329	615,613	93,519	413,539	1,284,657	1,117,662	3,605,319
LIABILITIES							
Financial liabilities held for trading	-	9,160	-	-	-	-	9,160
Financial liabilities designated at fair value through profit or loss	-	(19)	6,139	-	-	-	6,120
Financial liabilities measured at amortised cost	1,814,115	422,450	132,558	249,400	436,203	151,737	3,206,463
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	1,732	-	-	-	-	1,732
Other liabilities	-	8,853	-	-	-	-	8,853
Total financial liabilities	1,814,115	442,176	138,697	249,400	436,203	151,737	3,232,328
Net balance sheet position	(1,733,786)	173,437	(45,178)	164,139	848,454	965,925	372,991

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
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
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

Bank - As of 31 December 2020

	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	38,309	479,902	-	-	-	-	-	518,211
Financial assets held for trading	-	8,942	-	-	-	-	-	8,942
Non-trading financial assets mandatorily at fair value through profit or loss	-	187	386	2,539	20,451	4,318		27,881
Financial assets designated at fair value through profit or loss	-	(19)	6,139	-	-	-	-	6,120
Financial assets at fair value through other comprehensive income	-	46,715	-	-	88,554	231,038		366,307
Financial assets at amortised cost	42,020	47,781	53,976	369,872	1,209,046	929,636		2,652,331
Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	20,454		20,454
Other assets	-	2,052	-	-	-	-	-	2,052
Total financial assets	80,329	585,560	60,501	372,411	1,318,051	1,185,446		3,602,298
LIABILITIES								
Financial liabilities held for trading	-	9,160	-	-	-	-	-	9,160
Financial liabilities designated at fair value through profit or loss	-	(19)	6,139	-	-	-	-	6,120
Financial liabilities measured at amortised cost	1,829,144	419,036	132,557	249,393	436,163	151,697		3,217,990
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	1,732	-	-	-	-	-	1,732
Other liabilities	-	1,600	-	-	-	-	-	1,600
Total financial liabilities	1,829,144	431,509	138,696	249,393	436,163	151,697		3,236,602
Net balance sheet position	(1,748,815)	154,051	(78,195)	123,018	881,888	1,033,749		365,696

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	
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	

Maturity analysis of assets and liabilities according to expected cash flows

The tables below show an analysis of the assets' and liabilities' expected cash flows as of the end of the year (taking into account the client's behavioural options and bank's funding assumptions).

Group - As of 31 December 2020				
	EUR 000	Within 12 months	After 12 months	Total
ASSETS				
Cash, cash balances at central banks and other demand deposits at banks		518,211	-	518,211
Financial assets held for trading		8,942	-	8,942
Non-trading financial assets mandatorily at fair value through profit or loss		3,113	24,768	27,881
Financial assets designated at fair value through profit or loss		6,120	-	6,120
Financial assets at fair value through other comprehensive income		46,715	319,592	366,307
Financial assets at amortised cost		641,176	2,022,772	2,663,948
Tangible assets		1,542	35,014	36,556
Intangible assets		129	10,551	10,680
Tax assets		3,557	-	3,557
Other assets		13,910	-	13,910
Non-current assets and disposal groups classified as held for sale		63	-	63
Total financial assets		1,243,478	2,412,697	3,656,175
LIABILITIES				
Financial liabilities held for trading		9,160	-	9,160
Financial liabilities designated at fair value through profit or loss		6,120	-	6,120
Financial liabilities measured at amortised cost		654,291	2,552,172	3,206,463
Fair value changes of the hedged items in portfolio hedge of interest rate risk		1,732	-	1,732
Provisions		5,445	9,109	14,554
Tax liabilities		3,311	-	3,311
Other liabilities		8,853	-	8,853
Total financial liabilities		688,912	2,561,281	3,250,193
Net balance sheet position		554,566	(148,584)	405,982

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
Tangible assets		1,941	36,936	38,877
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
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

Bank - As of 31 December 2020				
	EUR 000	Within 12 months	After 12 months	Total
ASSETS				
Cash, cash balances at central banks and other demand deposits at banks		518,211	-	518,211
Financial assets held for trading		8,942	-	8,942
Non-trading financial assets mandatorily at fair value through profit or loss		3,113	24,768	27,881
Financial assets designated at fair value through profit or loss		6,120	-	6,120
Financial assets at fair value through other comprehensive income		46,715	319,592	366,307
Financial assets at amortised cost		553,291	2,099,040	2,652,331
Investments in subsidiaries, associates and joint ventures		2,045	18,409	20,454
Tangible assets		1,157	29,407	30,564
Intangible assets		-	8,958	8,958
Tax assets		3,557	-	3,557
Other assets		2,052	-	2,052
Non-current assets and disposal groups classified as held for sale		63	-	63
Total financial assets		1,145,266	2,500,174	3,645,440
LIABILITIES				
Financial liabilities held for trading		9,160	-	9,160
Financial liabilities designated at fair value through profit or loss		6,120	-	6,120
Financial liabilities measured at amortised cost		644,963	2,573,027	3,217,990
Fair value changes of the hedged items in portfolio hedge of interest rate risk		1,732	-	1,732
Provisions		5,415	8,849	14,264
Tax liabilities		4,907	-	4,907
Other liabilities		1,600	-	1,600
Total financial liabilities		673,897	2,581,876	3,255,773
Net balance sheet position		471,369	(81,702)	389,667

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
Investments in subsidiaries, associates and joint ventures		2,045	18,409	20,454
Tangible assets		1,383	30,810	32,193
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
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

6.7. 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 2020 SKB Group's encumbrance ratio stood at the level of 2.76 % as the Group had EUR 101 million of encumbered assets compared to EUR 44 million encumbered assets and 1.30 % encumbered ratio as at 31. 12. 2019.

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, loans and government bonds pledged in the amount of EUR 52 million due to European Central Bank (ECB) funding raised and ECB required mandatory reserve which has to be held on the Bank of Slovenia target account in the amount of EUR 31 million.

Tabela A: Sredstva

Group - as of 31 December 2020									
		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		010	of which:	040	of which:	060	of which:	090	of which:
			central bank's eligible		central bank's eligible		central bank's eligible		central bank's eligible
(EUR 000)		010	030	040	050	060	080	090	100
010	Assets, of which:	100,768	69,883	-	-	3,555,407	661,796	-	-
020	• Loans on demand	30,886	-	-	-	465,184	-	-	-
030	• equity instruments	-	-	-	-	20,938	-	20,938	-
040	• debt securities	63,450	63,450	55,090	55,090	523,738	499,931	431,512	407,705
070	of which: issued by general governments	63,450	63,450	55,090	55,090	517,618	499,931	425,392	407,705
080	of which: issued by financial corporations	-	-	-	-	6,120	-	6,120	-
100	• Loans and advances other than loans on demand	6,433	6,433	-	-	2,449,729	161,865	-	-
110	of which: mortgage loan	673	673	-	-	929,587	26,210	-	-
120	• other assets	-	-	-	-	95,819	-	-	-

Group - as of 31 December 2019

		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		010	of which: central bank's eligible	040	of which: central bank's eligible	060	of which: central bank's eligible	090	of which: central bank's eligible
			030		050		080		100
(EUR 000)									
010	Assets, of which:	43,852	17,892	-	-	3,341,698	660,143	-	-
020	• Loans on demand	25,960	-	-	-	193,210	-	-	-
030	• equity instruments	-	-	-	-	16,062	-	16,062	-
040	• debt securities	17,892	17,892	17,892	17,892	504,635	498,582	410,358	404,305
070	of which: issued by general governments	17,892	17,892	17,892	17,892	498,582	498,582	404,305	404,305
080	of which: issued by financial corporations	-	-	-	-	6,053	-	6,053	-
100	• Loans and advances other than loans on demand	-	-	-	-	2,510,475	161,561	-	-
110	of which: mortgage loan	-	-	-	-	912,841	42,856	-	-
120	• other assets	-	-	-	-	117,316	-	-	-

Tabela B: Prejeto zavarovanje s premoženjem

Skupina - 31. 12. 2020

		Fair value of encumbered collateral received or own debt securities issued		Unencumbered assets	
		Fair value of collateral received or own debt securities issued available for encumbrance		Fair value of collateral received or own debt securities issued available for encumbrance	
		010	of which: central bank's eligible	040	of which: central bank's eligible
			030		060
(EUR 000)					
130	Collateral received by the reporting institution	-	-	-	1,437,973
230	• other collateral received	-	-	-	1,437,973
250	Total assets, collateral received and own debt securities issued	100,768	69,883	-	-

Group - as of 31 December 2019

		Unencumbered assets			
		Fair value of encumbered collateral received or own debt securities issued		Fair value of collateral received or own debt securities issued available for encumbrance	
			of which: central bank's eligible		of which: central bank's eligible
		(EUR 000)	010	030	040
130	Collateral received by the reporting institution	-	-	-	1,393,237
230	• other collateral received	-	-	-	1,393,237
250	Total assets, collateral received and own debt securities issued	43,852	17,892	-	-

Table C: Sources of encumbrance

Skupina		2020		2019	
		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own securities issued	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own securities issued
(EUR 000)		010	030	010	030
010	Carrying amount of selected financial liabilities	50,170	53,855	300	2,060

Table D: Encumbrance information
Informacije o pomenu obremenitve

SKB Group maintained very low level of encumbered assets in year 2020.

At the end of the year 2020 SKB Group's encumbrance ratio stood at the level of 2.76 % as the Group had EUR 101 million of encumbered assets compared to EUR 44 million encumbered assets and 1.30 % encumbered ratio as at 31. 12. 2019. Main reason for increased encumbered assets was encumbrance of government bonds and loans due to the new long term loan raised from European Central Bank (ECB) in 2020.

Encumbered assets for SKB bank standalone and SKB Group 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, loans and government bonds pledged in the amount of EUR 52 million due ECB funding raised and ECB required mandatory reserve which has to be held on the Bank of Slovenia target account in the amount of EUR 31 million.

SKB Group classified all received collateral as unavailable for encumbrance.

6.8. Risk management statements

SKB d.d. Ljubljana risk management statement

Management of all material risks of SKB Group (SKB banka 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 and identifies all important risks to which the Group is exposed. ICAAP process includes quantitative and qualitative elements of risk management process. The ICAAP process identifies the risks, that have a great impact on the Group's risk exposure. 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 purpose of risk assessment is to allocate economic capital among the relevant risks and to determine their influence on the capital (credit risk, market risk, interest rate risk, liquidity risk, operational risk, non-compliance risk, model risk, strategic risk, reputation risk, profitability risk and capital risk). As all the relevant risks were identified and assessed, the Group is able to predict and establish additional controls to minimize the negative impact from above mentioned risks.

The total residual risk evaluation for SKB Group increased from 1,51 in 2019 to 1,58 in 2020. Average assessment of residual risk for credit, operational, compliance and profitability risk increased, while assessment of reputational and capital decreased. For the first time, the model risk is also assessed separately, as last year the model risk was included into the frame of all relevant risks. Average assessment of residual risk for interest rate, liquidity, strategy and market risk remained on same level as in 2019.

SKB GROUP'S RESIDUAL RISK ASSESSMENT in year 2020		86,4%	3,6%	3,6%	1,0%	2,0%	1,0%	0,5%	0,5%	0,5%	0,5%	0,5%
RISK AREA		CREDIT RISK	OPERATIONAL RISK	COMPLIANCE and AML RISK	INTEREST RATE RISK	LIQUIDITY RISK	MODEL RISK	PROFITABILITY RISK	STRATEGIC RISK	REPUTATION RISK	CAPITAL RISK	MARKET RISK
BUSINESS ACTIVITY												
Retail business (RETAIL)		1,54	2,93	1,74	0,00	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	0,00	1,00
Joint functions - finance (FIN)		0,00	2,52	1,35	1,60	1,45	0,00	2,48	0,00	0,00	1,44	0,00
Joint functions - central back offices and payment system (CBS)		0,00	2,76	2,41	0,00	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	0,00	2,55	2,07	0,00	0,00
Joint functions - risks and bad debts (RISK)		1,20	1,34	1,67	0,00	0,00	2,44	0,00	0,00	0,00	0,00	0,00
Joint functions - informatics, technology, organization (GMS)		0,00	3,00	2,13	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Subsidiaries - SKB Leasing		1,80	1,95	2,10	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Subsidiaries - SKB Leasing Select		1,80	1,84	1,67	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Average assessment by type of risk		1,52	2,39	1,81	1,60	1,45	2,44	2,48	2,55	2,07	1,44	1,00
Total weighted assessment by the type of risk		1,582 Calculated residual risk for 2020 (acceptable)										
		1,513 Calculated residual risk for 2019 (acceptable)										

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. 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 economic and normative 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 the Group is exposed to including stress test scenarios.

¹⁴ 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.

¹⁵ 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 the Group is exposed, including stress test scenarios.

SKB Group	Economic perspective	Normative perspective - base scenario			Normative perspective - adverse scenario		
	CAPITAL ADEQUACY (in %)	31.12.20	31.12.21	31.12.22	31.12.23	31.12.21	31.12.22
Total capital ratio	15,16%	15,22%	16,00%	16,74%	15,57%	15,78%	16,48%
CAPITAL in MEUR	31.12.20	31.12.21	31.12.22	31.12.23	31.12.21	31.12.22	31.12.23
Capital (own funds) of the group:	364,7	389,0	426,8	469,5	380,1	392,5	419,5
Tier 1 capital of which	364,7	389,0	426,8	469,5	380,1	392,5	419,5
- Common equity tier 1 capital	364,7	389,0	426,8	469,5	380,1	392,5	419,5
- Additional tier 1 capital	0,0	0,00	0,00	0,00	0,00	0,00	0,00
Tier 2 capital	0,0	0,00	0,00	0,00	0,00	0,00	0,00
INTERNAL ESTIMATE OF CAPITAL NEEDS in MEUR	31.12.20	31.12.21	31.12.22	31.12.23	31.12.21	31.12.22	31.12.23
Material risks	210,0	223,0	232,7	243,6	223,5	227,7	232,6
Credit risk	176,8	188,4	197,2	207,3	179,7	183,7	188,3
Concentration risk	10,6	11,3	11,8	12,4	18,0	18,4	18,8
Operational risk	15,6	15,5	15,1	15,0	15,4	14,8	14,6
Interest rate risk	1,8	1,9	2,4	2,5	1,9	2,2	2,2
Liquidity risk	4,3	4,3	4,5	4,7	6,5	6,5	6,6
Model risk	0,8	1,6	1,6	1,6	2,1	2,1	2,1
Stress tests	37,1	61,9	79,5	92,2	59,4	63,7	70,4
Capital needs for non-material risks	4,3	4,6	4,8	5,0	4,6	4,7	4,8
Overall capital requirements / internal estimate of capital needs	251,3	289,5	317,0	340,8	287,5	296,1	307,8
Capital buffer	113,4	99,6	109,9	128,7	92,5	96,4	111,8

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, 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 %)	31.12.20	31.12.21	31.12.22	31.12.23	31.12.21	31.12.22
LCR	262%	246%	245%	239%	244%	234%	231%
NSFR	154%	150%	150%	149%	150%	148%	147%

By signing this statement, we, the undersigned members of the General Management and Board of Directors of the bank, hereby confirm, that SKB 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 the Group level.

Members of the Board of Directors

Signature

Imre Bertalan



Tamás Kamarási



Draga Cukjati



Anna Mitkova Florova



Miklós Németh



Anita Stojčevska



Vojka Ravbar



Place and date: Ljubljana, 29. 3. 2021



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 the 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 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 the 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. General Management and Board of Directors of the bank acknowledged the path to fulfill the group's goal for sustainable risk appetite. Risk management in SKB d.d. Ljubljana is independent as a function and as such can properly assess and allocate economic capital among the relevant risks (credit risk, market risk, interest rate risk, liquidity risk, operational risk, non-compliance risk, model risk, strategic risk, reputation risk, profitability risk and capital risk). Another part of risk management monitoring system are stress tests, which help risk management function to plan and optimize capital, liquidity and regulatory requirements. Furthermore, the way the Bank is monitoring its prudential ratios is stated in the Risk Appetite Statement by which SKB ž d.d. Ljubljana is monitoring and assessing performance in business lines. In relation to macroeconomic and financial environment and by keeping in mind group's strategic and financial objectives, the prepared Risk Appetite Framework controls and exercises risk appetite accordingly to the determined limits.

The following documentation has been submitted by the SKB bank to the Bank of Slovenia:

- qualitative and quantitative ICAAP analysis with all appendixes,
- qualitative and quantitative ILAAP analysis with all appendixes.

Members of the Board of Directors**Signature**

Imre Bertalan



Tamás Kamarási



Draga Cukjati



Anna Mitkova Florova



Miklós Németh



Anita Stojčevska



Vojka Ravbar



Kraj in datum: Ljubljana, 29. 3. 2021

Anita Stojčevska
Chief Executive Officer

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