

# ANNUAL REPORT 2018

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THE FUTURE  
IS YOU  SKB  
SOCIETE GENERALE GROUP



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# I. GENERAL INFORMATION FOR SKB GROUP

- Number of employees (end of year) 912
- Number of customers 244,827
  - bank SKB 200,734
  - SKB Leasing Group 44,093
- Number of outlets 54

## Evolution of SKB Group's balance sheet main items

(M EUR)	2018	2017	
Balance sheet	3,313.9	3,174.3	4.4%
Loans to customers	2,440.3	2,282.4	6.9%
Customers' deposits	2,499.0	2,341.2	6.7%
Equity	356.5	368.2	-3.2%
Capital adequacy ratio	12.7%	13.3%	-56 bt

## Key results and indicators of SKB Group's performance

(M EUR)	2018	2017	
Net banking income	121.2	110.7	9.5%
Overhead expenses	-60.4	-58.2	3.7%
Operating profit	60.9	52.5	15.9%
Provisions and impairments	9.5	0.5	1,865.6%
Net profit	57.6	43.4	32.7%
ROE	16.6%	11.7%	+492 bt
Cost/Income ratio	49.8%	52.6%	-281 bt

## Key result drivers

Individual clients' activity indicators	Δ in %	Dec. 2018
• Number of accounts	1.8%	173,463
- Number of accounts with regular payment	3.0%	126,582
• Number of E-banking users	8.7%	112,343
• Number of Moj@SKB users*		55,220
• Number of cards	2.6%	219,774
• Volume of loans	8.1%	1,122.0 M EUR
- Housing loans	9.7%	855.6M EUR
• Volume of leasing	7.2%	243.7 M EUR
• Volume of deposits	9.0%	1,624.5 M EUR

Corporate clients' activity indicators	Δ v %	Dec. 2018
• Number of accounts	2.8%	17,819
• Number of E-banking users	2.8%	16,616
• Number of Moj@SKB users*		3,849
• Number of domestic payment transactions	4.2%	13,766,220
• Number of international payment transactions	11.2%	975,706
• Volume of loans	2.2%	836.4 M EUR
- Loans without state	4.1%	779.7 M EUR
• Volume of leasing	12.8%	238.2 M EUR
• Volume of deposits	2.8%	874.5 M EUR

\*new product available for individuals since Nov 2017 and for corporates since Feb 2018

## MAJOR BUSINESS EVENTS

In SKB, with our work and expertise, we help build the future of our clients. We offer clients high-quality products and services, and at the same time we are aware of the importance of building good business relationships with them and our responsibility to the wider environment in which we operate. In order to further improve client satisfaction, we undertook a systematic measurement of their satisfaction with a visit of our outlets (On The Spot Project), which is an integral part of the broader "Customer Experience" Project of the parent Group Société Générale. In the near future, we will also begin to measure customer satisfaction with other types of contacts with the bank, that is, through the online and mobile banking and contact center.

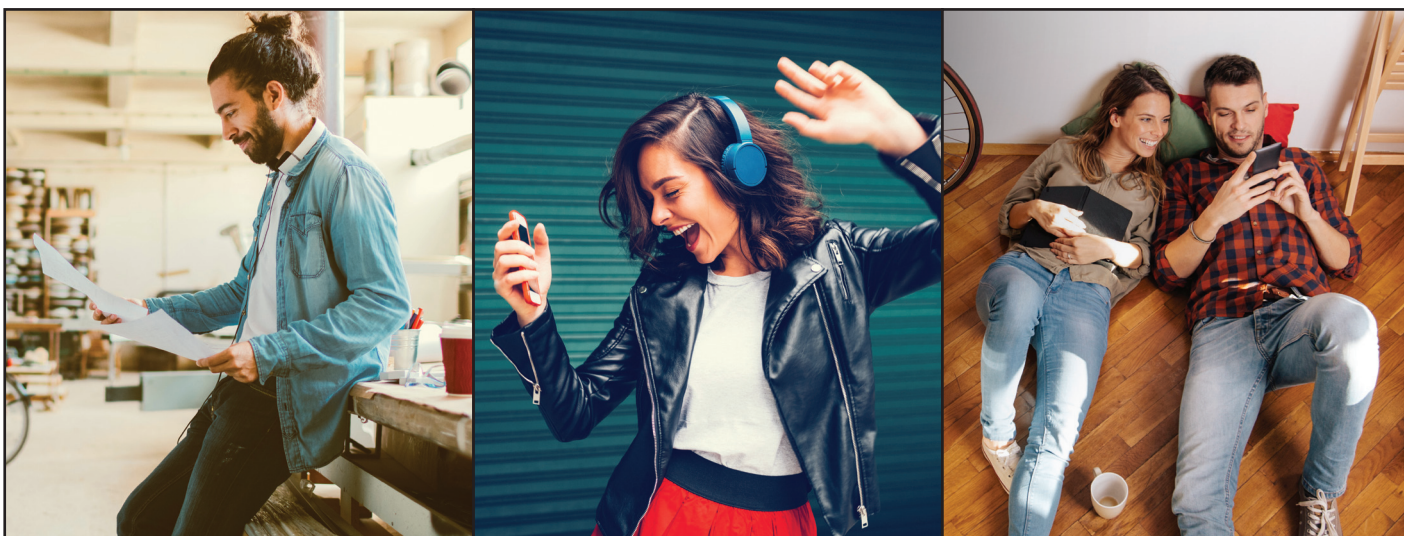
In order to be closer to our clients and to further improve their satisfaction with our services, in last year we completely transformed our sales network, enabled faster decision-making processes, and standardized and unified the way of work. We have improved our internal efficiency and at the same time introduced in our business operations a number of technological improvements, new processes, approaches and services. We are in process of transforming our daily banking offer with all the documentation related to the procedures for opening accounts, checking clients data as well as subscribing to services.

In the field of financing, we simplified and enriched the consumer loans with a changed offer of quick loans and introduced instalment credit cards. We increased our market share in loans in all segments of clients, retail and non-retail. Our housing loans offer with fixed interest rate was in particular attractive on the market.

We increased the number of accounts and the quality of already opened accounts, increased the share of active accounts and of Prestige accounts in the segment of private banking clients. For the latter, with the support of Société Générale Private banking, we created an attractive offer with special structured investment products for the refinement of the individual's assets. With this kind of offer we are unique on the Slovenian market. Thanks to the good cooperation with the e-Student Service, we managed to increase the number of clients from the youth segment. For micro and small enterprises and sole proprietors who want to provide economic security and protection against the loss of income of the company with the insurance of key persons, we introduced a novelty on the market, Podjetniška varovalka (the Enterprise Safeguard), at the beginning of 2018. With large companies, we have deepened our business cooperation by providing special services in the field of structural financing, simplification of documentary transactions, asset management and synergies within the SKB Group, SKB Leasing and SKB Leasing Select, as well as with our sister company, ALD Automotive, which is dealing with business rental vehicles.

We improved the contact points through which the client operates with the bank. We established a fresh, modern and to clients' digital needs customized website ([www.skb.si](http://www.skb.si)). In partnership with Nova KBM, we enabled to the clients significantly facilitated and expanded availability of network of ATMs throughout Slovenia territory. At the same time, we developed and upgraded the services of the mobile bank Moj@SKB, including in the ensuring of clients' security, and made improvements in the banking services' offer with the support of the Contact Center and with SMS messages. We also upgraded SWIFT messages.

In 2018, a large number of development force were dedicated to fulfilling the regulatory requirements, reporting on finance management, risks, insurance, and effective use and management of data. On the basis of the structural changes that we made in 2018, in the year 2019 we will be able to do some, for the bank and clients, significant commercial improvements, such as offer of packages, designed according to customer needs.



# PRESENTATION OF THE GROUP

## SKB GROUP

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

SKB Bank is a development-oriented universal bank, providing a comprehensive and diversified range of high-quality banking products and services, through various distribution channels, including 54 outlets across Slovenia as well as modern banking channels like e-banking, telephone banking, the ATM network, payment and credit cards. SKB Bank, as a retail bank, offers a wide variety of financial services to its clients (individuals, and small, mid and large entities) and does not deal with any financial instruments on its own account.

Companies SKB Leasing and SKB Leasing Select complement the banking services with the leasing products. They offer all leasing products, apart from real-estate leasing, to individuals as well as to companies through the branch network of SKB Bank, located in large regional centers and also through sales agents. SKB Leasing and SKB Leasing Select also share with the SKB Bank some services in order to benefit from all possible synergies.

The SKB Group pays special attention to building comprehensive and long-term relationships with its customers. The quality of our services, based on excellence in execution and expert advisory, is enhanced by our responsiveness to client needs and by continually improving the locations in our network. Both allow us to satisfy the needs of our existing clients while attracting new customers, individuals, and small and mid-size entities. We have clearly put the focus of our portfolios on individuals, sole proprietors and small & middle enterprises. For each segment of clients, we look for specific strategies with dedicated sales approaches and corresponding managerial support lines. At all stages of the sales process we try to develop a comprehensive and standardized approach.

As a subsidiary of the Group Société Générale, SKB Bank receives strong support in terms of transfers of technology and business opportunities and can also give access to the broad international network of Société Générale to Slovene companies, in particular for developing business in Central, Eastern and South-Eastern Europe.

With the inclusion of the specific products and services of Société Générale ALD Automotive, the range of our banking products meets all the financing needs of our clients. With respect to savings products, SKB's co-operation with the asset management company Amundi enables the Bank to offer to its customers a wide scope of investment opportunities. With selected insurance companies, SKB is also developing a wide variety of insurance and investment products to satisfy all needs of its clients.



Legend:

- Branches
- Outlets

## THE SOCIETE GENERALE GROUP

Founded in 1864, Société Générale is one of the leading financial services groups in Europe operating in 67 countries, employing 147,000 staff of different nationalities and serving 31 Millions of clients.

Société Générale Group used to be organized around three core businesses:

- **French Retail Banking**, which encompasses the Société Générale, Crédit du Nord and Boursorama brands. Each offers a full range of financial services with omni-channel products at the cutting edge of digital innovation;
- **International Retail Banking, Insurance and Financial Services to Corporates**, with networks in Africa, Russia, Central and Eastern Europe and specialised businesses that are leaders in their markets;
- **Global Banking and Investor Solutions**, which offers recognised expertise, key international locations and integrated solutions.

In 2017, and in order to make our organization more agile, more efficient and closer to our clients, Société Générale has decided to split its activities into 17 Business Units and 10 Service Units. SKB is now part of the "Europe- International Retail Banking" Business Unit.

Based on a diversified universal banking model, the Group SG combines financial solidity with a strategy of sustainable growth, and aims to be the reference for relationship banking, recognised "highest standards" on its markets, chosen by its clients for the quality of its products and services and for the commitment of its staff.

The values of the Group SG are: team spirit, innovation, responsibility and commitment.

Société Générale Group is rated:

- A1 by Moody's (December 2018),
- A by S&P (December 2018),
- A by Fitch (December 2018).

## INTERNATIONAL NETWORKS

For more than a decade, the Société Générale Group has pursued a diversification strategy to step up its international development in regions with considerable potential. Its success with its customers is the result of implementing a universal banking model adapted to local circumstances. As a result, SG enjoys a leadership position in regions such as Central and Eastern Europe, Russia, North Africa, Sub-Saharan Africa and French Overseas Territories.

The Group is involved in financing the different economies of the regions where it has expanded its operations via an innovative range of products and services and partnerships that it has formed with its customers.

## II. STATEMENT BY CHIEF EXECUTIVE OFFICER

In 2018, and for the fifth consecutive year, Slovenia has enjoyed an excellent year, with a significant growth and a new strengthening of all its economic and financial indicators.

In this favourable context, despite a still strong competitive environment and the increasing constraints coming from the legislators and from our regulators, SKB Group has performed very well.

SKB bank has indeed continued to increase its market shares, especially on individuals and on SMEs. It on boarded new clients and grew its portfolios of loans by 5.8%, for the benefit of the Slovene economy. Our bank has also successfully intensified its efforts in order to monitor its overhead expenses and has hence been able to post a satisfactory level of operating profit. In addition, and despite the fact that we have continuously implemented our conservative methodology of provisioning, SKB bank has enjoyed an excellent net cost of risk, due to the improvement of the situation of some corporate or individuals, and of course also to the good performance of our Assets Recovery Department.

SKB Group obtained a net profit of 57.6 M EUR, the second highest result ever in its history. The cost to income ratio landed below the 50% threshold, at 49.8%, and the return on equity reached 16.6%.

In 2018, SKB bank has launched new products, like the instalment cards, and has paved the way for new products innovations that will become accessible to clients as soon as the first half of 2019. It has further upgraded its trade finance and cash management capabilities, its private banking franchise, and has continued to invest heavily in its digital transition in order to provide its clients with better products and services and to increase their level of satisfaction.

Our leasing subsidiaries, SKB Leasing and SKB Leasing Select have also largely exceeded their commercial and financial targets for 2018, with growing market shares and volume of business, and a new highest result ever.

As a conclusion, I would like to thank each of our clients for their loyalty and their trust in Société Générale's companies in Slovenia – SKB bank, SKB Leasing, SKB Leasing Select and ALD Automotive Slovenija, our vehicle fleet management company. I also would like to congratulate each of our colleagues for their professionalism, and for the hard and successful work done again during the year 2018. Their commitment and their team spirit have largely contributed to the award we have obtained from "The Banker" (2018 Bank of the year in Slovenia), for the 7th time over the last 8 years.

As every year, SKB Group commits to reach even more ambitious goals in 2019, at the service of our clients. The future is you!



**Andre Gardella**  
Chief Executive Office



# III. REPORT OF THE BOARD OF DIRECTORS

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

The corporate governance system 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 competence. The Presidents of these Committees regularly report on their work to the Board of Directors.

The reports of the Board of Directors, Audit Committee, Risks Committee, Compensation Committee and Nomination Committee about their work in 2018 are presented hereinafter.

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

At the General Meeting of Shareholders held on 29 May 2018, some changes in the Statute of SKB d.d. were accepted, including the part that the Annual Report of the bank is adopted by the Board of Directors and no longer approved by the General Meeting of Shareholders. Therefore, in exercising its powers, the Board of Directors particularly:

- examines the Annual 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 to the Annual report of the Management,
- adopts and supervises execution of the general principles of incomes' policies,
- forms the Audit Committee, Risks Committee, Nomination Committee, Compensation Committee and other committees,
- 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 bank), the findings of other bodies when said findings refer to the bank, findings of the tax inspection and other regulatory bodies when performing supervision of the bank,
- performs other task 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 regards 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 Société Générale.

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%) or the acceptable capital of the bank,
- cancellation of the audit inspection contract, concluded between the bank and the audit company, before the termination of the term, agreed in the contract,
- dismissal of the Head of Risk Management,
- plan of activities for Risk management in the accordance with the strategies and policies of Risk accepting and managing,

- conclusion of the transaction with a person in a special relationship with the bank if due to this transaction or common value of all transactions the overall exposure of the bank to a single party including the indirect exposure reach or exceed 100,000 EUR, and for each further transaction whereby the overall exposure of the bank against a single party from all transactions increase for the subsequent 100,000 EUR whereas for conclusion of the legal transaction in cases from this paragraph the approval is also needed.

The General Meeting of Shareholders of the bank was held on 29 May 2018. Due to the expiration of the term of office to the previous members of the Board of Directors, the Board composition changed. The Board of Directors is still composed of seven (7) members, among them four (4) are newly appointed. In its new composition, the Board of Directors continued its work in accordance with the adopted plans of the Board of Directors in the previous structure, since they were directed towards ensuring safe and efficient business operations of the Group SKB.

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

The Board of Directors held its 1st constitutive session immediately after the session of the General Meeting of Shareholders and appointed the President of the Board of Directors, the General Management and the members of all four Committees of the Board of Directors.

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

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

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

We believe that the Board of Directors was provided with adequate regular reporting and other information, as well as with additional explanations at the meetings and had sufficient number of meetings with the General Management of the bank, in order to be able to responsibly monitor the bank's operations, risks management, activities of Internal Audit and Permanent Control as well as the compliance with the rules of operations. The Board of Directors actively participated in the formation and implementation of the Bank's business policy with focus on management and monitoring of various risks, ensured compliance of operations with the legal regulations in force and supervised the work of the General Management of the bank.

The President of the Board of Directors performed the task in line with the Rules of procedure on the work of the Board of Directors of SKB banka d.d. Ljubljana and cooperated regularly and professionally with the General Management of the bank. The President chaired the sessions of the Board of Directors in the way as to enable the Board of Directors to perform accountable and professional decision-making of the Board of Directors.

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

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, what is evident from the minutes of the sessions of the Board of Directors and its Committees.

The submitted descriptive self-assessment of the work of the Board of Directors and its Committees in 2018 shows that the members of the Board of Directors regularly attended the meetings and actively participated in the discussions and decision-making of the Board of Directors or its Committees and were thus successfully orienting and supervising the operations of the Bank in 2018.

In accordance with the provisions of the Banking Act and consequently also with the implementing regulations thereof, the Board of Directors started, very early, the discussion about the method of assessment of the suitability of its members and key function holders in the bank, as it passed the "Rules on assessment of suitability of the members of the Board of Directors and key function holders" already in 2014. The latter had been prepared in compliance with the technical standards and EBA guidelines. Over the last years, these Rules have also been upgraded. The assessment of work and suitability of each present and new member of the Board of Directors as well as the assessment of suitability and work of the Board of Directors as a whole were also prepared on that basis.

In 2018, the Board of Directors adopted, for the purpose of harmonization with the new regulations and good practices, and based on a preliminary discussion at the session of the Nomination Committee, the modifications and amendments to the "Rules of SKB banka d.d.

Ljubljana on assessment of suitability of the members of the Board of Directors”, defining more detailed criteria for the assessment of the members of the Board of Directors which contribute to the quality of the corporate governance of the bank and of SKB Group. 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 2018 of the SKB Group as a whole. This is evident from the report on operations of the bank and SKB Group in 2018, as the bank and SKB Group registered very good business results last year.

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

In 2018, five (5) regular sessions of the Board of Directors were held: two in the previous and three in the new composition. 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 2018, the Board of Directors above all:

- discussed and reviewed the Annual Report on SKB Group’s operations in 2017 and the Internal Audit Report for 2017 and was also informed about positive opinion of the independent external auditor Deloitte Revizija d. o. o., and suggested to the General Meeting of Shareholders for approval,
- discussed periodical reports on operations and on implementation of business policy in 2018, 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 the bank in the Slovenian banking sector,
- was regularly informed of the work and decisions of the Audit Committee, Risks Committee, Compensation Committee and Nomination Committee,
- contributed to the preparation of the material for the above stated Committees in order to achieve a better transparency and an easier understanding of more complex topics,
- discussed periodical reports on large exposures, paid special attention to the large exposures of the bank towards certain companies or groups of companies and towards individual sectors and agreed with the bank’s strategy for 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), regularly submitted by the bank to the Bank of Slovenia,
- discussed the report on ICAAP and ILAAP of SKB Group in 2017 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 2017,
- discussed the report on compliance of operations for 2017 and annual action plan for 2018,
- 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 2019 and guidelines for the period 2020-2021,
- discussed the reports of the Internal Audit Department on regular and extraordinary inspections of the bank’s units and was informed of the key findings and recommendations arising from the audits that had been carried out,
- passed the action plan of Internal Audit for 2019,
- was given information about the strategic plan of audit inspections for the 5-year cycle (2019 – 2023),
- passed the changes of the Rules on operations of internal auditing,
- was given oral information about the external audit of the Internal Audit Department in SKB Group
- passed the changes and amendments to the SKB d.d. Rules on assessment of suitability of members of the Board of Directors (harmonization with the regulatory changes and good practices),
- was informed about and agreed with the annual assessment of the Nomination Committee that each member of the Board of Directors individually and the members of the Board of Directors as a whole met the adopted criteria and attained the objectives as set,
- discussed and passed the changes and amendments to the Resolution on internal controls system in SKB Group,
- discussed and agreed with the SKB document representing the contribution of SKB Group in the Banks Resolution Plan within Société Générale Group, which is a part of its plan,
- confirmed the credit limits of SKB d.d. on its subsidiaries SKB Leasing and SKB Leasing Select,
- monitoring of the given ECB/BS inspection recommendations,

- passed the amended remuneration policy of SKB Group,
- passed the changes and amendments to the Rules on work of the Board of Directors of SKB d.d.,
- discussed the activities related to digitalization of banking operations, including the mobile banking project in SKB d.d. and monitored the implementation of the planned activities,
- passed the schedule of the Board of Directors sessions and its Committees for the year 2019,
- 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 which was already held in the new composition.

Compared to the previous year, the business environment improved in 2018. The economic growth had a positive impact on operations of the clients and consequently on operations of the bank as well, the banking activities were intensified. However, investments that are still modest and the weak consumption result in a surplus of liquidity, which is deposited in the central bank at a negative interest rate. Competition among the banks has tightened, the banking concentration process has started and the business models of banks are changing. In such conditions, the Board of Directors monitored the bank's operations with a particular care and analyzed its results.

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

The policy of timely and prudent measures with regard to the changing conditions on the market, in the banking sector and in the economy as a whole, orientation towards clients, diligent control over operating costs and risks enabled SKB Group to attain a very good business result in 2018.

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 32nd General Meeting of Shareholders of SKB banka d.d. Ljubljana, held on 29 May 2018.

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

Société Générale Group as well as the SKB Group pay 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 in the strained economic conditions, what is reflected in the very good business results of the bank. The Board of Directors congratulates the General Management of the bank and all its employees for the achieved result in 2018 and for having been awarded, once again, the title "Bank of the year 2018 in Slovenia" by the magazine The Banker.

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

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



**Jean-Philippe Guillaume**  
President of the Board of Directors

# 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 performing
- 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 2018 at four (4) regular sessions.

Quorum was met at all sessions of the Committee as evidenced in the minutes of the sessions of the Committee. In case of an absent member the latter authorized another member of the Board of Directors to represent and vote on his behalf at the session of the Committee. On 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.

The composition of the Committee changed after the General Meeting of Shareholders held on 29 May 2018 due to the newly appointed members of the Board of Directors.

At the 1<sup>st</sup> session of the Board of Directors held on 29 May 2018, Clara Grigore was appointed President of the Audit Committee. Since the function of the President of the Audit Committee has to be independent and due to the fact that Clara Grigore is in the Group SG the General Secretary for Europe and Russia, regions where also SKB d.d. resides, Clara Grigore was discharged at the 3<sup>rd</sup> session of the Board of Directors held on 7 November 2018 as the President of the Audit Committee, and remained further the Committee member. At that session Milorad Katnić, already the Committee member, was appointed as the President of the Audit Committee and consequently discharged as the President of the Risks Committee.

In 2018 the Audit Committee above all:

- discussed the report on SKB Group's operations in 2017 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 2017,
- discussed draft report on the work of the Internal Audit in the year 2017,
- got acquainted with the positive assessment of the IFACI (Institut Français de l'Audit et du Contrôle Internes), which in 2017 conducted independent external audit of the work of the Internal Audit in SKB, and in 2018 issued the Certificate to SKB on the basis of the findings compliant with the international standards,
- discussed the report on risks, impairments and provisions of the bank in the year 2017,
- regularly discussed quarterly and half-yearly reports of the Internal Audit on their work and special reports on the review of recommendations of the Internal Audit that had not been realized in due time,

- discussed the reports on implementation of Permanent Control that includes, 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 plan and presentation of scenario analysis (SA); regularly discussed IT security, security mechanisms for persons and equipment of the bank, bank's Business Continuity Management (BCM), crisis management; special attention was given to compliance, prevention of money laundering and terrorist financing; regularly discussed also structural risks, tax risks and major legal risks, introduction of new products, operations with important external partners (EOS), risks related to human resources and other topics,
- was regularly informed by a detailed report on information technology security policy in the bank,
- discussed and confirmed the action plan of the Internal Audit Department for the year 2019 and submitted it to the Board of Directors for adoption,
- was informed about the audit strategic plan for a 5-year cycle (2019-2023) and submitted it to the Board of Directors for adoption,
- agreed with the changes of the Rules of the work of Internal Audit Department and submitted them to the Board of Directors for adoption,
- proposed appointment of the independent external audit of SKB Group for 2018, 2019 and 2020 and submitted it to the Board of Directors for adoption,
- discussed the implementation of IFRS9 project,
- discussed the results of SG CACI questionnaire related to the implementation of the Audit Committee activities from which it derived that the Committee performed its job very well,
- confirmed the schedule of Audit Committee sessions in 2019,
- performed other tasks in compliance with the Statute of the bank and resolutions passed by 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 and of the Internal Audit of the Société Générale Group, the Audit Committee significantly contributed to the efficient work of the Board of Directors.

**Clara Grigore**

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 on risk management strategy,
- assists in performing supervision over the senior management regarding the execution of risk management strategy,
- examines, without intervening in the Compensation and Benefits 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 Société Générale Group,
  - adequacy of the level of provisions for risks exposure,
  - efficiency of bad debt recovery,
  - changes in credit policy,
  - review of collateral management.

In 2018, three (3) 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.

The composition of the Committee changed after the General Meeting of Shareholders held on 29 May 2018 due to the newly appointed members of the Board of Directors. At the 1st session of the Board of Directors held on 29 May 2018, Milorad Katnić was appointed President of the Risks Committee.

Due to the takeover of the function of the President of the Audit Committee, Milorad Katnić was discharged as the President of the Risk Committee and Maria Koytcheva Rousseva, already the member of the Risk Committee, was appointed President of the Risks Committee at the 3rd session of the Board of Directors held on 7 November 2018.

At its meetings the Risks Committee discussed above all:

- 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,
- follow-up on Risk appetite framework and Risk appetite statement,
- the draft SG intra-group limits and proposed the Board of Directors to pass them,
- the final report on implementation of IFRS 9 project,
- SKB d.d. contribution to the Group Recovery & Resolution plan for 2018.
- other matters in accordance with the Statute of the bank and resolutions passed by the Board of Directors.

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

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



**Milorad Katnić**

President of the Risks Committee

# REPORT OF THE COMPENSATION COMMITTEE

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

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

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

In 2018, the Compensation and Benefits Committee assembled at three (3) regular sessions, whereby one was held as a correspondence session. The Committee had also several consultations with the General Management of the bank.

Quorum was met at all sessions as evident from the minutes of the sessions of the Committee.

The composition of the Committee changed after the General Meeting of Shareholders held on 29 May 2018 due to the newly appointed members of the Board of Directors. The name of the Committee was also changed (only in English) to the Compensation Committee.

At its sessions held in 2018, the Compensation and Benefits Committee discussed above all:

- reward to the two members of the General Management of the bank and members of the Executive Committee - ExCo (including key function holders) for their work and confirmed the proposal. The Board of Directors agreed with the conclusions of the Compensation and Benefits Committee.
- annual review of compensation for 2018 and guidelines for 2019,
- review of remuneration policy – report of Internal Audit from audit plan 2018,
- presentation of the results of the Employees Barometer 2017,
- presentation on the result C&C (Culture&Conduct) and anticipated actions,
- modification of the document 'Compensation and Benefits Policy' proposed to the Board of Directors for approval,
- report on the progress of implementation of the General Data Protection Regulation (GDPR) in Human Resources area.

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



**Jean-Philippe Guillaume**

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 fulfilling 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 2018 the Nomination Committee assembled at one (1) session where all the members were present and at which it discussed:

- the annual assessment of the members of the Board of Directors in accordance with SKB Rules on assessment of suitability of the members of the Board of Directors of SKB d.d.,
- proposal for amendments to the SKB Rules on assessment of suitability of the members of the Board of Directors and proposed it to the Board of Directors for their adoption,
- a proposal to the General Meeting of Shareholders of the bank on the expiration of the term of office for the members of the Board of Directors, appointment of the new members of the Board of Directors and proposal for defining the attendance fees and fees for performing the function.

The Rules on assessment of suitability of members of the Board of Directors in the bank define, in particular, the activities to be carried out with regard to the assessment of suitability of each member of the Board of Directors (acquisition of corresponding documentation according to EBA questionnaire and questionnaire of Bank of Slovenia) as well as the assessment criteria, like for example reputation criteria (eventual criminal proceedings, judicial proceedings, proceedings with regulatory bodies, connotations in media, etc.), experience criteria (professional career, education level, working experience, trainings, etc.) and management criteria (eventual conflict of interests and expectations, available time for performing this function, membership in governing bodies of other companies and organizations, etc.). The data on experience of the members of the Board of Directors are publicly published on the bank's website (Board of Directors). The Board of Directors is on 31 December 2018 composed of seven (7) members – three (3) women and four (4) men, of various age, various education profiles and experience, what enables them to ensure a constructive and critical judgment of decisions made by the General Management as well as an efficient control over the latter.

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

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

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

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

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

The composition of the Committee changed after the General Meeting of Shareholders held on 29 May 2018 due to the newly appointed members of the Board of Directors.



**Pierre-Yves Demoures**

President of the Nomination Committee

# VIEW OF THE BOARD OF DIRECTORS ON THE REPORT ON SKB GROUP OPERATIONS IN 2018

On 26 February 2019 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 2018. The Board of Directors received also draft report on the work of the Board of Directors and its Committees in 2018. At the same time, the Annual Report of the Internal Audit was submitted as well.

The Board of Directors discussed the report on its work and on work of its Committees at its 4th session, held on 7 March 2019.

On 2 April 2019, the General Management of SKB d.d. submitted proposal to the members of the Board of Directors to adopt the audited Annual Report of SKB Group for 2018.

The report on operations in 2018 shows that both SKB Group and SKB bank performed well, as SKB Group registered a net profit of 57,569 thousand EUR and SKB bank a net profit of 53,693 thousand EUR, whereby the distributable net profit of SKB bank amounts to 136,251 thousand EUR.

The report on operations of SKB d.d. and SKB Group in 2018 with financial statements and attachments was examined by the auditing company Deloitte Revizija d.o.o., which performed the audit in accordance with international accounting and audit standards.

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

At its 5th regular session held on 23 April 2019, the Board of Directors discussed the audited Annual Report with the report of the auditing company Deloitte Revizija d.o.o. and had no remarks and has adopted Annual Report of SKB Group for 2018.

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

The Board of Directors has established that the Annual Report of SKB Group shows comprehensive contents of operations of SKB bank and SKB Group in 2018 and thus completes all previous information already submitted to the Board of Directors during the business year. The Board of Directors also examined the proposal of the General Management of SKB bank for distribution of distributable net profit for which the final decision will be made by the shareholders at 33rd session of the General Meeting of Shareholders that will be held on 6 June 2019.

The Board of Directors fully agrees with the proposal of the General Management and proposes to the General Meeting to distribute the net profit of SKB bank generated in 2018 in the amount of 47.055.024,00 EUR.

Net profit of SKB banka d.d. Ljubljana in the financial year 2018 amounts to 136.250.907,46 EUR. SKB Banka's net profit for the financial year 2018 amounts to 53.693.122,82 EUR, the amount of 47.055.024,00 EUR is used for the payment of dividends, and the amount of 6.638.098,82 EUR is transferred to retained earnings.

Gross dividend in 2018 amounts to 3,72 EUR per share.

As at the date of the General Meeting of Shareholders the net profit shall be transferred from the item net profit of business year 2018 to the item dues from participation in profit – dividends.

Dividends shall be paid out on the sixth working day following the General Meeting of Shareholders, that will decide on the use of distributable net profit, to the shareholders being registered in the central securities registry as holders of the shares of SKB banka d.d. Ljubljana at the end of the fifth working day following the date of the General Meeting of Shareholders.

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 2018.

The Board of Directors establishes that also in 2018 the economic situation was rather strained and complex. The liquidity in the bank, as well as in the entire banking system, was high what caused a strong competition among the banks and consequently a decrease of interest rate and of the interest margin, too.

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

In 2018, the SKB Group has therefore intensified even more its activities leading to restructuring and optimization of operational processes, reduction of costs and at the same time the activities for the growth of the volume of operations, increase of income and reduction of all types of risks in the bank.

The rapid reactivity to the mentioned conditions in the economy and on the market and management of operational costs of the bank in 2018 have led to a good business result, whereby the main contribution consisted above all in a successful commercial activity, consistent implementation of risk management policy and adequate formation of provisions and impairments, operating costs management and endeavor of the employees to achieve the set goals.

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

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

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



**Jean-Philippe Guillaume**  
President of the Compensation Committee

## IV. SKB GROUP STRATEGY

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As a member of the Société Générale Group, the SKB Group is committed to constantly improving its business mix by combining quality financial services and prudent risk management while continuously developing the synergies between its businesses. Our goal is to build a solid, strong and safe relationship-focused bank, considered as the bank of the highest standards on the market, chosen by its clients for the quality of its products and services and for the commitment of its staff. By enjoying client trust and focusing on long-term quality and profitable growth, we are determined to remain a major Slovenian financial Group and to fulfil the expectations of our shareholders. The Group also seeks to build a creative and encouraging atmosphere for its employees and to contribute to the overall development of the Slovene society and economy as a whole.

### Changes in the banking world

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

### Meeting the challenge of economic growth

By supporting our customers' projects on a daily basis and over the long term, SKB Group takes part in financing the client's financing needs by delivering competitive financial services. We aim to improve our market shares on loans, leasing and deposits, however, not at any risk / reward ratio.

### Various distribution channels

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

### Well balanced business model

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

### Leasing contribution

SKB Leasing, a subsidiary of SKB bank offers all leasing products, apart from real-estate leasing, to individuals as well as to companies, through the branch network of SKB bank located in large regional centres, and also through sales agents. The commercial network, as well as the risk management and the finance functions of SKB Leasing, are shared with SKB bank in order to benefit from all possible synergies. SKB Leasing Select, a subsidiary of SKB leasing, offers all leasing products for selected brands of vehicles to individuals and to companies, through the network of respected dealers. All business support functions as well as risk management and the finance functions of SKB Leasing Select are shared with SKB Leasing and SKB bank.

### Serving a broad range of customers

The SKB Group pays special attention to building comprehensive and long-term relationships with its customers. To achieve a stronger position on the market, we keep pace with our commercial activities by seizing all opportunities available on the market and by using our competitive advantages, namely those deriving from our wide-spread network, our Société Générale affiliation, our diversified funding and our specialized IT support, as well as from our strong capital base.

We, as retail oriented bank, have clearly put our focus on portfolios of individuals, sole proprietors and SMEs. Our offer to bigger clients is primarily oriented to participation on their investment projects. For each segment of clients, we look for specific strategies backed by dedicated sales approaches and the corresponding managerial lines.

### Quality of services

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

As a subsidiary of the Société Générale Group, SKB bank receives strong support in terms of transfers of technology and business opportunities, and can also provide access to the broad international network of Société Générale to Slovene companies.

### **Taking advantage of new technology**

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

SKB Group is embracing these technological developments as new opportunities to respond to changes in the methods of using banking services and to build the bank of tomorrow. To better support commercial activities, we will optimize processes and organization in order to free up additional time for our commercial officers. We will improve the documentation management for our operations to save some costs and to reduce operational risks. We will offer our clients contemporary services when searching a simple, fast and quality banking product.

### **Improvement of efficiency**

We are targeting a permanent improvement of our efficiency, as measured by the cost-to-income ratio. We shall continue to seek out savings opportunities on any simplification in processes, by outsourcing services and all types of overheads as well as to increase all sources of revenue while enhancing our control system and gradually transforming our processes.

In order to comply with its major shareholder's strategy, the Bank aims to achieve a long term sustainable return on equity by generating recurring revenues, pursuing stringent overhead cost management on all types of expenses and by continuing its prudent risk management.

### **Prudent risk management**

SKB Group is continuing to improve its risk profile by remaining very conservative at risk appetite, cautious in monitoring all types of risks and responsive to any possible deterioration of the financial conditions of our clients, in order to adequately present the level of net cost of risk.

### **Strong capital base**

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

### **Compliance with regulation**

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

### **Professional, creative and motivated staff**

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

We know that our ambitious goals can be met only by team work that involves professional, creative and motivated staff. Our strategic goal is to improve the knowledge and the culture of all employees and to especially focus performance assessments on profitability rather than volume. We shall further strengthen the internal mobility of SKB bank and its subsidiaries staff, as well as promote Société Générale intra-group mobility. The SKB Group also invests in the future of its employees by co-financing their supplementary pension insurance and by promoting the participation of employees in the global employee's ownership plan of the parent bank.

### **Committed to local environment**

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

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The progress we have made over the past few years illustrates the relevance of our business model and our ability to mobilize our resources and move forward.

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

# V. BUSINESS REPORT

## 1. ECONOMIC TRENDS IN THE YEAR 2018<sup>1</sup>

In Slovenia, favourable economic growth continued also in the year 2018, remaining among the highest in Euro zone. According to the Institute of macroeconomic analysis and development of the Republic of Slovenia (IMAD), **gross domestic product** (GDP) is higher for 4.5 % as a result of continued favourable export growth, increased private consumption and strengthened investments.

After extraordinary high growth rates in 2017 (+10.7%), Slovenian **exports** are facing more moderate growth in 2018 (+7.2%). IMAD associates this with slower growth in foreign demand and the absence of one-off factors in the automotive industry, which significantly increased exports particularly in 2017, but at smaller extend also in 2018.

With growing disposal income, favourable situation on labour market and greater consumer confidence **private consumption** (+2.2 %) is becoming more and more important factor of economic growth. **State consumption** strengthened (+2.6 %) and derived mainly from further employment growth in the state sector and growing expenses for goods and services. In 2018, **investment activities** remained high (+10.6 %) not only in construction (housing and infrastructure investments), but also in investment in machinery and equipment; encouraged with rising demand, higher capacity utilisation, and good business performance.

After stagnating in 2017, state investment, mostly in construction, increased substantially (also owing to the higher absorption of EU funds).

Like in year 2017, also in year 2018 favourable trends on labour market led to strengthened employment and lowering the number of unemployed persons. At the end of 2018 the number of registered unemployed persons amounted to 78.5 thousand, being 11.4 % less than at the end of previous year. Real **unemployment rate according to ILO** amounted to 5.1 %.

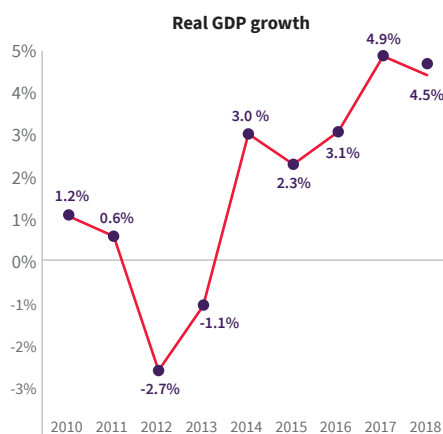
Growth of **gross wage per employee** in the year 2018 (+1.6 %) remained moderate, improvements in labour market were reflected more in employment growth than wages. Growth in public sector (+1.3 %) is linked to implementation of agreements with trade unions and the regular promotions at the end of 2017, while in private sector (+2.3%) it is related to a gradual increase in inflation, good business performance and a further decline in unemployment and limitations in employing workers with appropriate skills.

2018 **inflation** at the annual level reached 1.4%. Growth of prices was heavily affected by higher prices of oil in world markets and real estate (+4.7%), more expensive services (+3.0 %), and communications (+3.3 %). Relatively low companies' input expenses, and their high revenues, for the time being do not increase the local inflation.

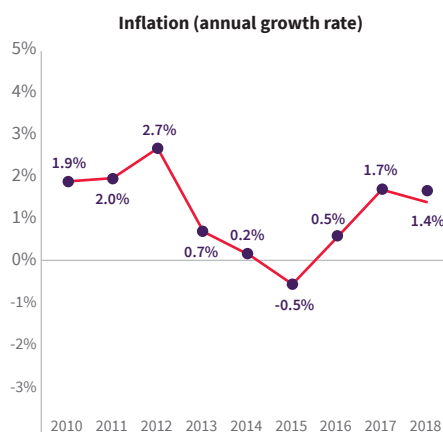
**Government surplus** in the year 2018 amounted to +303 million EUR or +0.7 % GDP and the **consolidated government debt** to 32.230 million EUR or 70.1 % GDP.

<sup>1</sup> Source: SORS, IMAD (Economic trends spring forecast 2019, March 2019)

**Export, investments and consumption are the main elements of economic growth in the year 2018**



**Lower inflation in the year 2018**



**Important macroeconomic indicators for Slovenia in the period from 2016 - 2018**

Real growth rates in %, unless otherwise indicated	2018	2017	2016
GDP	4,5	4,9	3,1
GDP per capita in EUR	22.182	20.815	19.547
Inflation (end of year)	1.4	1.7	0.5
Final consumption	2.3	1.5	3.6
Investments	10.6	10.7	(3.7)
Unemployment rate (ILO)	5.1	6.6	8.0
Export	7.2	10.7	6.4
Import	7.7	10.3	6.6
Gross wage per employee	1.6	1.3	2.0
Government deficit/surplus (% GDP)	0.7	0.0	(1.9)
Government debt (% GDP)	70.1	74.1	78.7

Source: IMAD, SORS

At the end of December 2018 the **total assets of the entire banking system in Slovenia** amounted to **38.8 billion EUR<sup>2</sup>** (84.4 % GDP), being 0.8 billion EUR higher than at the end of December 2017. On the assets side balances on accounts with central bank increased as well as lending to non-banking sector and investments in securities, while lending to the banking sector decreased. The highest growth was recorded in housing loans to individuals as well as in consumer loans. On the liabilities side, the liabilities toward the banks and debt securities decreased the most, whereas the deposits of non-banking sector increased. Loan to deposit ratio decreased from 79.5 % at the end of 2017 to 76.7 % at the end of 2018.

For the second year in a row financial results of Slovenian banks are influenced by net release of impairments and provisions. In 2018, the increase of net banking income was driven by higher income from financial instruments (includes also profit from selling non-profitable banks' portfolios) and growth of net interest income, which counts for nearly two thirds of net banking income. Operating expenses remained at the level of 2017; therefore operating profit increased due to higher net banking income. The entire banking system in Slovenia recorded **a net profit** in the amount of **492.8 million EUR<sup>2</sup>**, which is for 69.1 million EUR higher compared to previous year (of which 45.1 million EUR from net income from financial instruments).

<sup>2</sup> Unaudited financial results

## 2. FINANCIAL REVIEW OF SKB GROUP

### 2.1 ASSET AND LIABILITIES MANAGEMENT

SKB Group, composed of SKB bank, SKB Leasing and SKB Leasing Select, completed the financial year 2018 with net profit in the amount of 57.6 million EUR, by 32.7% higher than in 2017. This represents the second best result of SKB Group since it belongs to international group Société Générale. Return on equity (ROE) increased from 11.7% in 2017 to 16.6% in 2018.

The second best financial result of SKB Group since becoming part of the Société Générale Group.

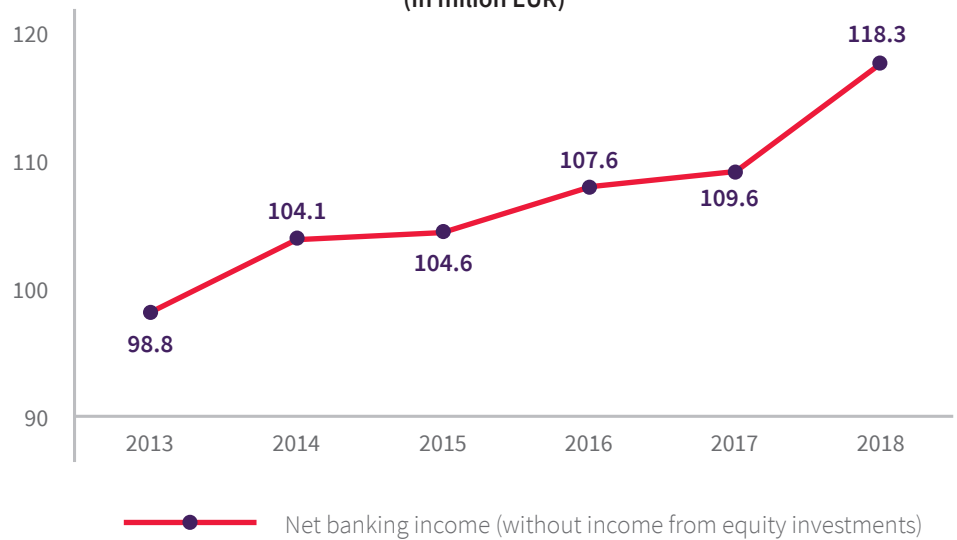
in 000 EUR	2018	2017	Difference	Change (%)
Net interest income	82,258	78,026	4,232	5.4
Net non-interest income	38,968	32,705	6,263	19.1
<b>Net banking income</b>	<b>121,226</b>	<b>110,731</b>	<b>10,495</b>	<b>9.5</b>
<b>Net banking income*</b>	<b>118,256</b>	<b>109,552</b>	<b>8,705</b>	<b>7.9</b>
Overhead expenses	-60,360	-58,223	-2,137	3.7
<b>Gross operating income</b>	<b>60,866</b>	<b>52,508</b>	<b>8,358</b>	<b>15.9</b>
<b>Gross operating income*</b>	<b>57,896</b>	<b>51,329</b>	<b>6,568</b>	<b>12.8</b>
Provisions and impairments	9,533	485	9,048	1,865.6
Other	0	60	-60	-100.0
<b>Profit before tax</b>	<b>70,399</b>	<b>53,053</b>	<b>17,346</b>	<b>32.7</b>
<b>Profit before tax*</b>	<b>67,429</b>	<b>51,874</b>	<b>15,556</b>	<b>30.0</b>
Tax	-12,830	-9,686	-3,144	32.5
<b>Net profit</b>	<b>57,569</b>	<b>43,367</b>	<b>14,202</b>	<b>32.7</b>
<b>Net profit*</b>	<b>55,118</b>	<b>42,259</b>	<b>12,859</b>	<b>30.4</b>

\* Excluded income from sale of equity investments, valuation of equity investments and dividends received.



SKB group realized 16.6% Return on Equity (ROE) in 2018.

**Evolution of net banking income (without income from equity investments)**  
(in million EUR)



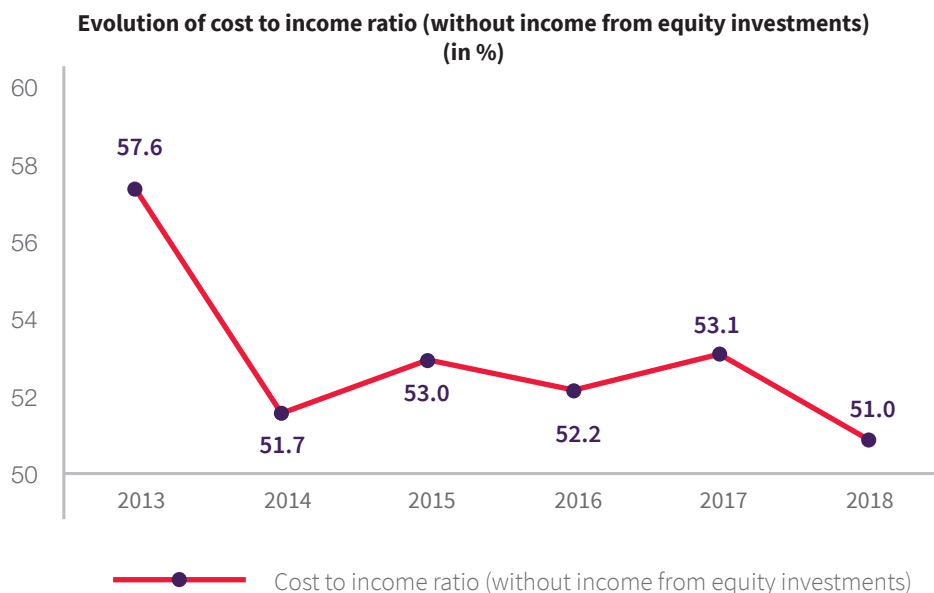
Interest margin of SKB bank remains higher than the average of Slovene banks.

In the year 2018 SKB Group generated 121.2 million EUR **net banking income**, by 9.5% higher than in the year 2017; the growth of net banking income from business related operations (excluding gains from sales of equity investments, valuation of equity investments to fair value, and dividends received) amounts to 7.9%. Interest-bearing operations, which present 68% of total net banking income, still remain the key income generator at the SKB Group level. With increased lending activities, on the side of client loans and leasing operations, and optimization of funding as well as regulation of costly excess of liquidity, the net interest income of SKB Group increased by 5.4% in 2018. The interest margin of SKB Group remained at the same level also in 2018 (2.54%), while SKB bank managed to keep higher interest margin compared to the average of the Slovene banks. Launched new products, together with improvement of contact points for customers (website), and the Group's focus on improving quality of services, resulted in increased volume of services and generation of higher fees and commissions, which represent the Group's most important source of net non-interest income. The remaining part of net non-interest income, which refers to net income from equity investments, was relatively volatile in the past few years. Compared to 1.2 million EUR of net income from equity investments generated in 2017, SKB Group realized 3.0 million EUR in 2018 (consists of gains from sale of equity investments, valuation of equity investments and dividends received). However, net non-interest income was negatively affected by higher regulatory costs (Single resolution fund - SRF and Deposit guarantee scheme – DGS), which increased by 0.5 million EUR to 3.0 million EUR in year 2018.

Precise monitoring and costs optimization in SKB Group.

For many years SKB Group has carefully monitored and managed their expenses, especially administrative costs. At the same time, the Group continues with automatization, digitalization and optimization of business processes, which in the initial phases cause additional costs. Additionally, the Group's supervision expenses (regulatory) and the expenses linked to increased volume of businesses rose. Due to increased need for additional staff, especially in risk management, IT support and business network support, the number of employees on average increased by 15 employees to 870 employees (average number) in year 2018, which resulted in higher staff expenses. Consequently, the **operating expenses** increased by 3.7% in year 2018.

Higher cost efficiency  
in SKB than in average Slovene banks.



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

**Cost efficiency** of SKB Group has improved; the ratio between costs and generated income decreased from 53.1% in 2017 to 51.0% in 2018. In comparison with the average Slovene banking system SKB bank kept lower cost efficiency also in year 2018.

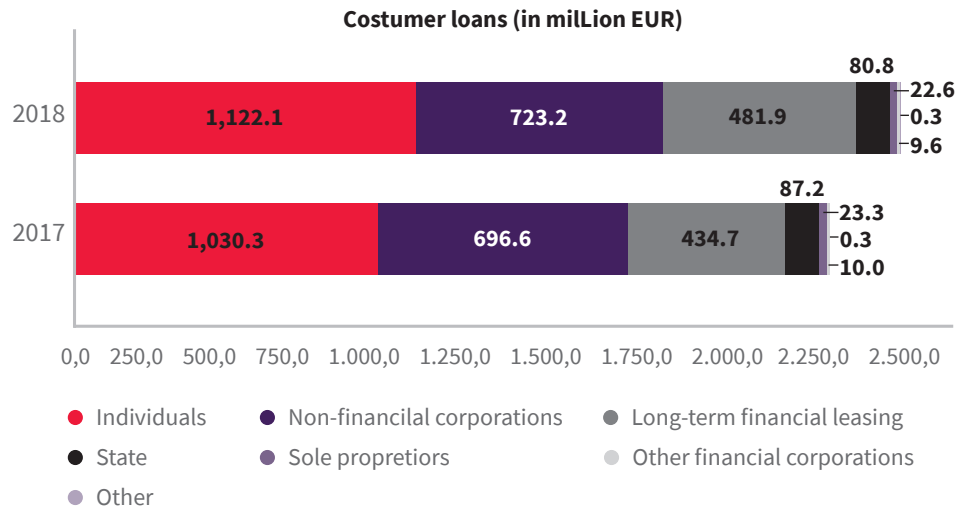
Reversals from **net cost of risk** had a positive effect on SKB Group's net profit for the third year in a row. In favourable economic conditions SKB Group generated 9.5 million EUR income from net cost of risk in 2018, mainly due to release of provisions of some bigger deals and improved quality of the loan portfolio. At the same time, the Group reduced its non-performing investments (NPL) to 3.4% at the end of 2018 from 6.8% at the end of 2017. Coverage of bad debt with provisions remains at a high level of 65% at the end of year 2018 (66.4% at the end of 2017). Operations of SKB Group continue to be based on conservative approach and rigorous risk management policy.

## 2.2 FINANCIAL RESULT

SKB Group (in million EUR)	2018	2017	Difference	Change (%)
<b>Securities</b>	<b>518.4</b>	<b>429.3</b>	<b>89.1</b>	<b>20.8</b>
<b>Loans</b>	<b>2,489.9</b>	<b>2,334.7</b>	<b>155.2</b>	<b>6.6</b>
• Loans to banks	45.3	44.3	1.0	2.2
• Loans to customers*	2,440.3	2,282.4	158.0	6.9
• Other	4.2	8.0	-3.7	-46.9
<b>Financial liabilities measured at amortised cost</b>	<b>2,914.8</b>	<b>2,759.4</b>	<b>155.4</b>	<b>5.6</b>
• Banks and central banks deposits	378.2	379.4	-1.3	-0.3
• Customer deposits	2,499.0	2,341.2	157.8	6.7
• Other	37.6	38.7	-1.1	-2.9
<b>Equity</b>	<b>356.5</b>	<b>368.2</b>	<b>-11.8</b>	<b>-3.2</b>
<b>BALANCE SHEET</b>	<b>3,313.9</b>	<b>3,174.3</b>	<b>139.7</b>	<b>4.4</b>

\*Includes loans measured at fair value and financial leasing

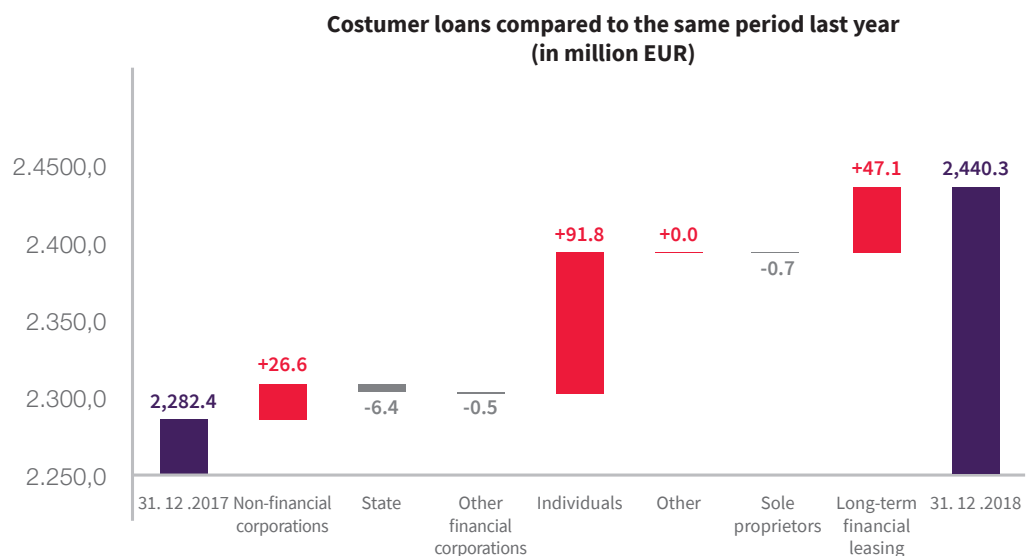
At the end of December 2018 SKB Group's **securities** amounted to 518.4 million EUR; they encompassed structured deposits (5.9 million EUR), the Republic of Slovenia bonds (375.6 million EUR) and the Republic of France bonds (136.9 million EUR), the latter with the purpose of mitigating the interest rate risk of SKB Group. In year 2018 the exposure in Slovenian bonds increased by +53.9 million EUR and by +35.3 million EUR in French bonds.



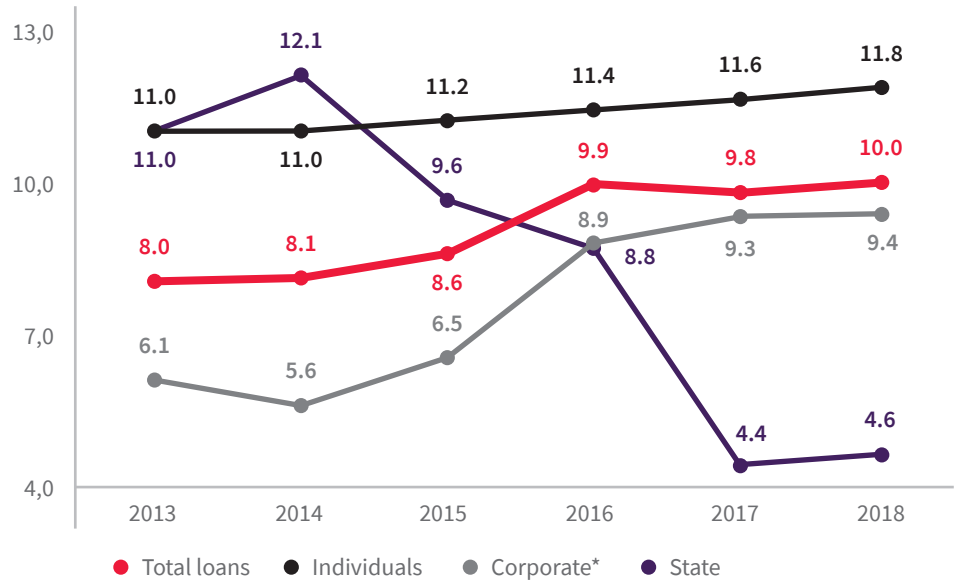
Loans and leasing financing to individuals – generator of SKB Group's good results.

In year 2018 **loans to customers** increased by +158.0 million EUR (+6.9%) and amounted to 2,440.3 million EUR at the end of December 2018. The highest growth was achieved on loans to individuals (+91.8 million EUR or 8.9%), where SKB Group in a very competitive environment increased the volume of housing loans by 9.7% (+75.8 million EUR) by offering favourable terms and quality services. Reshape of the quick loan offer and introduction of instalment facility on credit cards favourably impacted the volume of newly granted consumer loans in year 2018, while even higher impact is expected in the following years. At the end of 2018 loans to individuals amounted to 1,122.1 million EUR. Loans to non-financial corporations increased by +26.6 million EUR (+3.8%) to 723.2 million EUR at the end of 2018; SKB Group was successful in increasing the lending to small and medium-sized enterprises (SMEs). Loans to state decreased by -6.4 million EUR to 80.8 million EUR, however loans to other financial corporations, sole proprietors and other loans remained at a similar level as at the end of 2017. In the field of financial leasing, the SKB Leasing Group, being a part of the SKB Group, continues to be ranked among the leading leasing companies in Slovenia in terms of new business deals, despite increased competition in the market. Financial leasing increased by +47.1 million EUR (+10.8%) to 481.9 million EUR at the end of year 2018.

At the end of December 2018, the loans to deposits ratio (LTD) reached 97.7% compared to 97.5% at the end of the previous year.



### Customer loans market shares (in %)

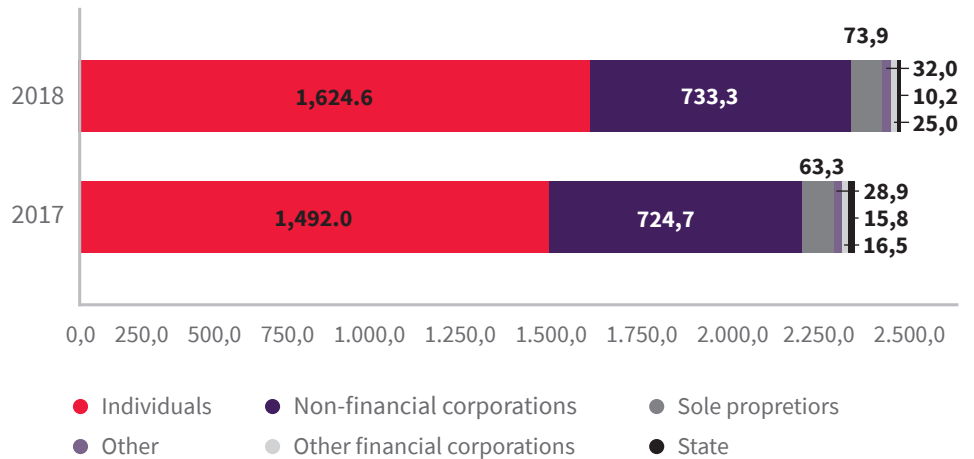


\*Corporate includes non-financial corporations and sole proprietors.

Growth of deposits from individuals – a sign of client trust.

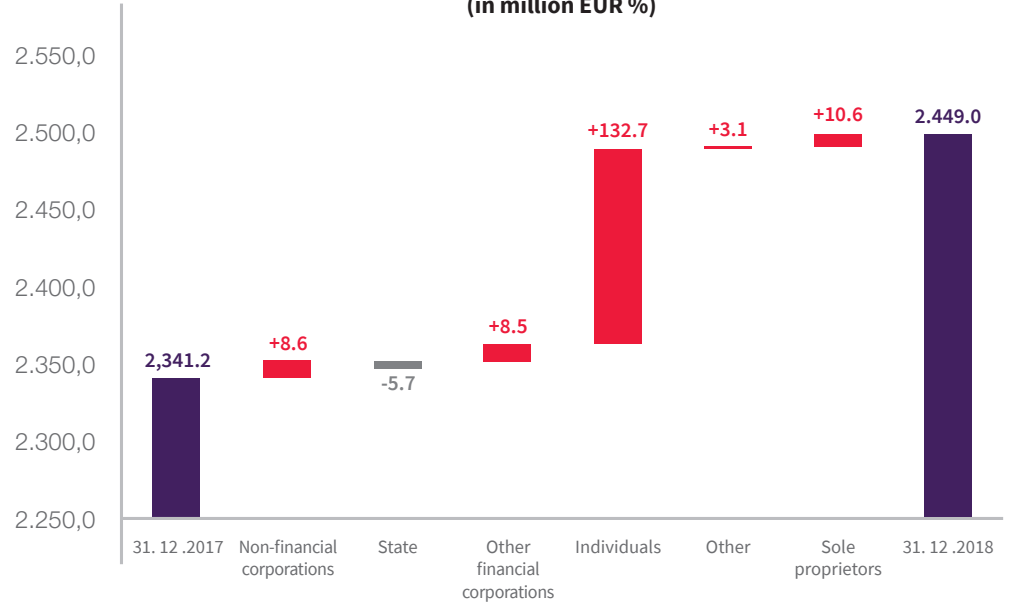
SKB bank increased its market share measured by loans to customers by +23 basis points to 10.0% at the end of 2018. SKB improved its position on the market especially on loans to individuals with +20 basis points increase of market share (11.8% at the end of 2018), as a reflection of good lending dynamics of housing loans. Market share measured by loans to corporates increased by +6 basis points to 9.4%, especially due to increased volume of loans to SMEs. Despite the decrease of volume of loans to state, SKB's market share in this segment increased by +24 basis points to 4.6%.

### Customer deposits (in million EUR)

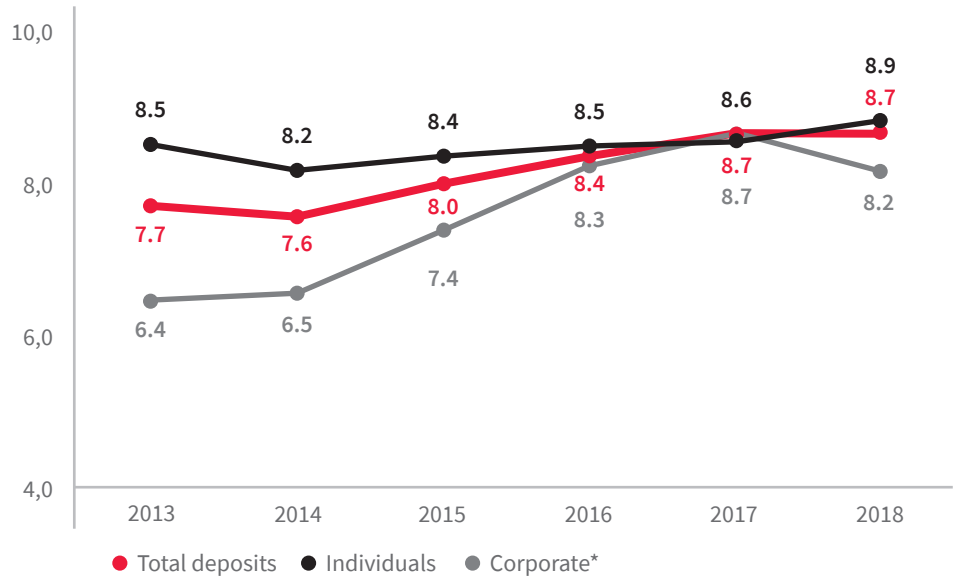


Liquidity of the banking system and the SKB Group continued to remain high in year 2018. It was significantly influenced by evolution of **customer deposits**, which became an even more important source of financing; at the end of 2018 customer deposits amounted to 2,499.0 million EUR, an increase of +157.8 million EUR (+6.7%) compared to the end of 2017. Due to the level of deposit interest rates close to zero, growth of deposits with shorter maturities, especially sight deposits, continued in 2018. Deposits increased mainly due to higher collection of deposits from individuals (+132.7 million EUR or +8.9%) as SKB Group gathered significant funds with its product savings account triple plus. The growth of deposits from non-financial corporations was low (+8.6 million EUR or +1.2%).

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



**Customer deposits market shares (in %)**



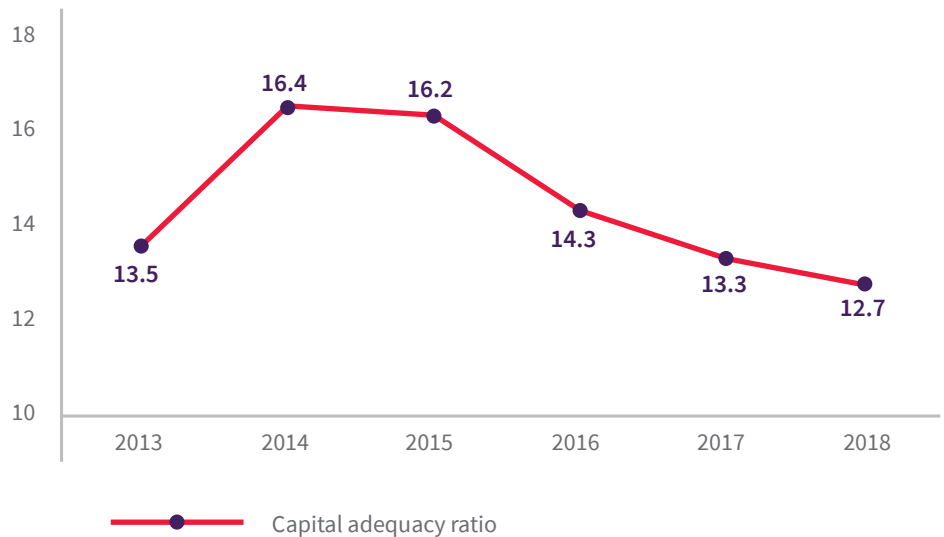
\*Corporate includes non-financial corporations, sole proprietors and state.

Business model that ensures capital strength of SKB Group.

In year 2018 SKB banka kept its market position measured by customer deposits at 8.7%; due to favourable offer of short-term deposits and increase of sight deposits SKB banka increased its market share on individuals' deposits, while the market share on corporate deposits decreased.

SKB Group's capital base consists entirely of core capital. This ensures quality foundations for its operations, which also reflects in evolution of **capital adequacy ratio** (ratio between equity and risk weighted assets). At the end of December 2018 the capital adequacy ratio amounted to 12.7% In the last 3 years the Group's capital adequacy slightly decreased due to increased loan and financial leasing portfolios. Nevertheless, it remains safely above the regulatory defined minimum.

Evolution of Capital adequacy ratio (in %)

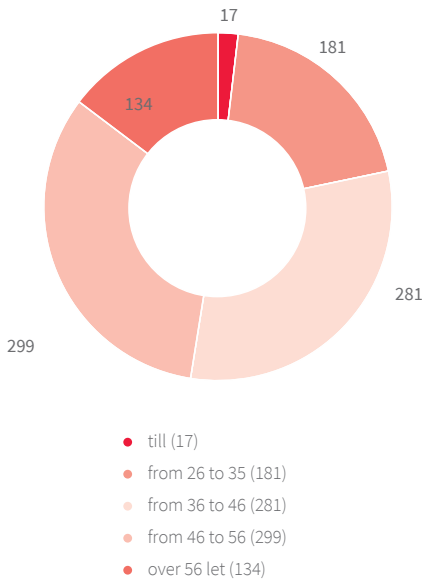


## 2.3 IMPORTANT EVENTS AFTER THE CLOSING OF A BUSINESS YEAR

There were no important events after the closing of business year registered.

### 3. HUMAN RESOURCES

Age structure SKB group



Human resources policy followed the Bank's values and business guidelines of the Société Générale, 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 professional competence and standardization of work processes.

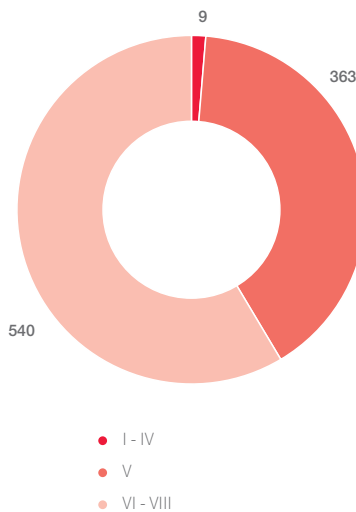
Mobility of employees within the Bank ensured that we successfully filled gaps created by new needs of the working processes and thereby enabled employees to become familiar also with the work processes in other areas of the Bank's operations and with their innovative approach contribute to a sustainable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

#### HUMAN RESOURCES STRUCTURE

At the end of 2018 the SKB Group employed 912 people, of which the Bank employed 829 employees (2017: 836), SKB Leasing and SKB Leasing Select 83 employees (2017: 76). During the year we hired 79 new employees their average age was 30,7 years, whereas 79 employees left the Group. Compared to 2017 the number of employees did not increase.

Employees SKB Group	2018	2017	2016
All (31. 12.)	912	912	892
FTE (31. 12.)	865	868	842

Educational structure in SKB group



In 2018, the average age of employees was 44,4 years, which is slightly lower than in 2017 (44,6 years). The share of employees with post-secondary or third-level education increased by 1,12%. Thus the Bank employed as many as 540 employees with post-secondary or third level education at the end of the year.

#### REMUNERATION

In 2018 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 2018.

## TRAINING

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

In 2018, 24,610 training hours were conducted, which is on average 30 hours per employee. Each employee has attended at least one training.

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

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

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

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

We also regularly conduct foreign language courses, we have 4 different level groups for the English language and one French group. If necessary, we also organize "tailor made" English language learning programs for different work areas (Key Accounts, Small & Middle Enterprises) and individual Slovenian language course for expatriates.

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

## HEALTH AND SAFETY AT WORK

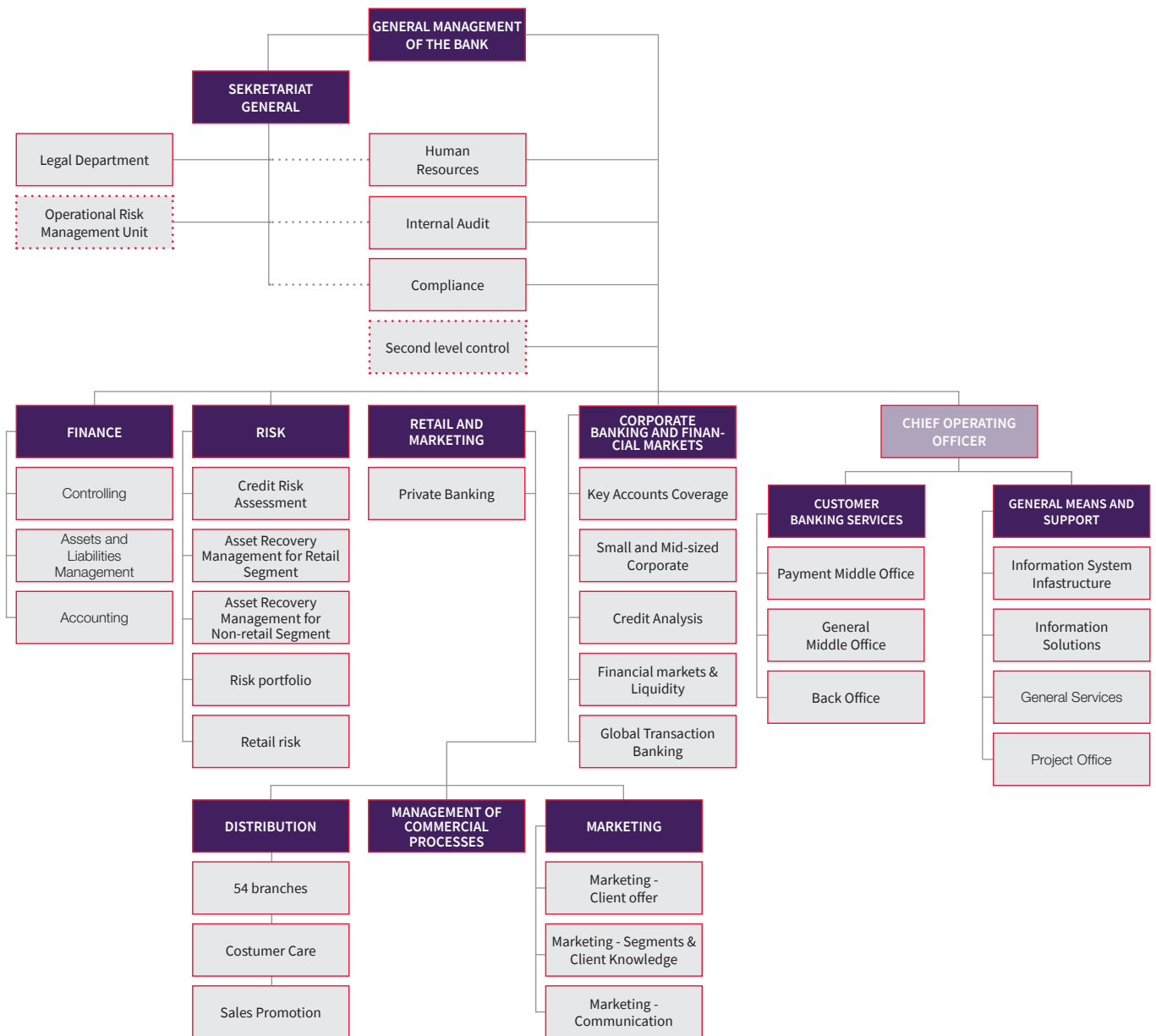
In 2018 we referred a total of 238 employees to periodical medical examinations in accordance with Health risk assessment for typical jobs in the Bank.

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 24 trainings and tests of our employees' knowledge in the field of workplace safety. We also organized 24 fire safety training courses and 22 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.





### 3.1. ORGANIZATION CHART OF THE BANK



## 4. STATEMENT ABOUT NON FINANCE OPERATIONS

### 4.1 ORGANIZATIONAL GOVERNANCE

SKB, as a part of Société Générale Group, took over the model of corporate and social responsibility management based on the five pillars.

The first pillar is clients' satisfaction and protection, providing the right service at the right moment, offering safety and protection of clients' interests and their assets.

"Ethics and governance" concerns the way in which we undertake day-to-day business, while respecting corporate values which are the base of the Group's integrity and responsibility culture and includes the manner in which we take care of environmental, social and governance risks.

During this time of profound change, we believe that staff commitment is indivisible from the company's performance and longevity. Our responsibility is to encourage staff commitment by developing an ethical culture, respectfully to the individual differences and promoting diversity that is also in the best interest of clients and staff.

Contributing to the fight against climate change is a major issue for SKB and Société Générale Group. The Group has set itself the objective of contributing €100 billion for financing the energy transition between 2016 and 2020, while also reducing its own carbon emissions by 25% per employee till 2020.

SKB as a part of the Société Générale Group also strives to keep a focus on inclusion and sustainability.

### 4.2 HUMAN RIGHTS

SKB is doing business operations in Slovenia, a member of EU, with high level of human rights respect. SKB's employees are committed to high standards of human rights respect also as a member of Société Générale 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](mailto:opozorilo.opozorilo@skb.si). Each employee has also the right to report directly to the mother bank via e-mail address: [alert.alert@socgen.com](mailto:alert.alert@socgen.com).

### 4.3 LABOUR PRACTICES

SKB is a responsible employer and Group's staff policy follows the business guidelines of Société Générale Group. Its purpose is to properly understand and anticipate challenges and upcoming changes, both in the wider business world and in the banking environment. With appropriate training and skills development, SKB Group helps employees in their day-to-day work, as well as in the implementation of changes resulting from changes in legislation or in business processes.

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

Thus, at the end of 2018 in SKB's Board of Directors, three of seven members were women, in the Bank's General Management, out of two members one was a woman; in the wider management level of the bank, out of ten members five are women; in the middle management level, the share of women was 59%; among all employees, approximately 70% are female.

## Employment and employment relationships

In cooperation with the Société Générale Group, we offered young prospective students in international volunteering (V.I.E.) to gain business experience in various fields of work. In the local environment, we also offer compulsory practice for students and students.

## Conditions of work and social protection

Measuring the Leadership Model integration into the business process of SKB Group is carried out every two years with the so-called "Employees' Barometer" survey. The purpose of the research is to measure the employees' satisfaction, to determine how deep is the internalization of SKB's and Société Générale Group's values, employees' feelings and experiences with working practices and procedures in SKB Group. The results of the survey were presented to employees and various activities were carried out, which should contribute to the greater employees' satisfaction.

SKB Group also provides assistance to the employees in need. In cases where individual employee came into difficulties for various reasons, SKB offered and provided her/him with professional and financial assistance; namely, the assistance in cases of natural disasters, workplace challenges or in difficult family situations.

## Social dialogue

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 for maintaining the employees' commitment and, consequently, the Bank's effectiveness.

SKB Group continued to follow guidelines established in the past for the remuneration of employees. The guidelines are based on employees' achievements and promote individuals' 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 2017.

Within Société Générale Group, SKB Group offered its employees access to the savings scheme according to the Global Workers' Program (GESOP), within it each and every employee can decide on the purchase of Société Générale's shares.

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

The Bank's General Management, through its proxy on a weekly basis, conducts a regular social dialogue with workers' representatives, where stakeholders get acquainted with current affairs. At least once a year, the General Management of the Bank meets with the Executive Committee of the SKB Trade Union, which is the occasion for the participants to get acquainted with the achieved results, orientations and goals for the future period.

## Health and safety at work

The safe working environment and the health of the employees at their workplaces are crucial in SKB Group, as they provide an attractive, efficient and towards sustainable development oriented working environment for employees.

In 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.

## Human development and training in the workplace

A banking environment is changing considerably; along with it there are changes in the expectations of our customers, the technology that goes towards the digitization of business and the changes in legal frameworks. All these changes affect the business 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 241 different training courses which represents 24.610 teaching hours. On average, an employees of the Bank participated in 8.3 trainings. 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. We also organized foreign language courses, namely, 4 different level groups for English and one for French language, as well as individual Slovene language course for expatriates. In recent years, we updated the way trainings are provided. A large majority of employees in SKB Bank participated in various e-learning trainings, namely, 808 employees attended this sort of training, which represents 97.5% of all employees. The remaining employees did not participate in the trainings due to personal reasons (longer absences in time of educational activities).

## 4.4 THE ENVIRONMENT

### Prevention of pollution

In SKB, we are aware of our responsibility towards environment and we are following ambitious environmental policy defined on level of Société Générale Group, which includes monitoring and improvements of direct influences to environment. SKB is participating in Planetic Reporting project led by Société Générale Group for past 12 years. Main principles of the project:

- 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,
- Monitoring of water consumption and implementation of measures for decrease consumption,
- Monitoring and decrease of CO2 emissions, which result from above mentioned activities.

Data are collected on base of invoices, measurements and estimation. Reporting is performed in line with Société Générale Group methodology. Emissions of CO2 are calculated within the Group.

### Sustainable resource use

SKB is constantly decreasing energy consumption in KWH/occupant. We decreased energy consumption in 2018 in comparison to 2017 for 0.54% (from 5.228 KWH/occupant to 5.199 KWH/occupant) and based on 2014 for 5.82 % (from 5.520 to 5.199 KWH/occupant).

In 2018 we renovated three offices in which we installed new LED lighting and new more modern air conditioners. Partnership with NKBM enabled us to optimize and reduce our ATM fleet for approx. 20% in 2018, while services for our clients were improved.

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 in a level possible also energy for heating. In next 2 years we are planning replacement of existing ATM's with new modern ones (less energy consumptive and more environmental friendly). For period 2019-2022 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

SKB is preparing its goals related to CO2 emissions in line with goals defined on group level (decrease of CO2 emissions in tCO2/occupant for 25% till 2020 on base of 2014).

In line with above mentioned goals we decreased overall CO2 emissions in 2018 in comparison to 2014 for 20.49 % (from 2,05 to 1.63 tCO2/occupant).

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

### 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 state 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.

We are introducing alternative ways of business communication (tele conferences, videoconferences, e-learning) with goal to reduce number of business trips. We are constantly decreasing number of company cars (for 8.10% in 2018) and mileages for business trips (for 2.82% in 2018). Consequently also CO2 emissions from transport are decreased every year.

## 4.5 FAIR OPERATING PRACTICES

In SKB Group we have internal rules on the prevention of corruption based on the strict anti-corruption principles of the international parent banking Group. These rules were confirmed by the General Management of SKB. The topic of prevention of corruption is included in the work of the Committee on Operational Risks and Compliance, which meets quarterly. The Bank introduced special internal education on this topic and, according to the model of Société Générale, also special e-learning, which is mandatory for all employees. In addition, the measures and rules of SKB in the field of prevention of money laundering and terrorist financing include the monitoring of possible abuses of the banking system also from the point of view of corruptive practices.

## 4.6 CONSUMER ISSUES

### **Fair marketing, factual and unbiased information and fair contractual Practices**

We pursue our corporate values and include transparent and clear explanations in our clients' documentation, we regularly update them and keep the clients informed. In communicating with them we emphasize the main advantages that are in line with our strategy, and on the client's behalf we are pursuing the principle of non-taking too much risk.

### **Protecting consumers' health and safety**

SKB Group ensures safety of the clients, the employees and the property in accordance with the Private Securities Act, the Minimum Recommendations for the Security of Banking Operations in the Field of Protection of Persons and Property, the Adopted Security Policy and the Security Standards. In order to ensure an adequate level of security, we carry out mechanical, technical, organizational and supervision measures that are in the interconnection form an efficient and reliable security system.

### **Consumer service, support, and complaint and dispute resolution**

With all due diligence and in line with the setting up the clients at the heart of our business, we also handle complaints. The main purpose is to improve the Bank's operations and to get even closer to the needs of our clients. Complaints reports are reviewed quarterly by the Customer Experience Committee, where the Bank's General Management is present, and short weekly reports are also being prepared, all in order to improve relationships with clients.

### **Consumer data protection and privacy**

SKB consistently follows data protection and privacy. With the implementation of the General Data Protection Regulation it established additional, even stronger mechanisms for ensuring compliance with the Regulation. SKB has reviewed all the personal data processing and assessed risks and risk mitigates. In addition, it has formalized the relationships with processors to maintain the same level of data protection.

The bank informs consumers on the web site about all the rights, related to personal data protection, including the information on the contact of the Data Protection Officer in the bank (dpo@skb.si). All customers' requests are being answered in due time.

### **Access to essential services**

Group SKB offers affordable access and use of personal account, access to debit card, cash withdrawals and digital banking by opening the Basic Payment Account. This is only for individuals who do not yet have an account in Slovenia, regardless of the status of their residence.

## 4.7 COMMUNITY INVOLVEMENT AND DEVELOPMENT

### Community involvement

Taking care of and being responsible for people and environment in which SKB does business operations are two of important corporate key values. SKB as a consistent part of Société Générale Group, follows the same orientation towards social responsibility and sustainable development as the parent Group. Its connection to the environment is evident in different forms of support meant for cultural, sports, educational, humanitarian and philanthropic organizations and to their projects. SKB's social responsibility is reflected in its transparent business practice based on overall human ethical values and on respect for life, work and creativity of employees, of closer community and wider social environment.

### Education and culture

SKB strives to educate employees and clients and to raise their knowledge of personal finances management and also of companies finance management.

SKB's employees do not engage only in sports projects but strive for the well-being of the entire environment. To this end, in 2018 the project SKB Urban Bee was started, with the aim of which is to preserve the Carniolan lavender, which is an indigenous species of bees in the Slovenian environment and bees as indicators of healthy environment. An exemplary case of environmental concern is also a slightly different form of teambuilding, which was launched by Risk Division's employees at the end of September. The employees linked it with socially useful work and thus contributed to a better life of children in Vzgojni zavod Planina.

### Employment creation and skills development

In 2018, SKB in cooperation with the European Investment Bank (EIB), partly financed the projects of small and medium-sized enterprises. A part of the loans for the Youth in Action was aimed at small and medium-sized enterprises employing people under the age of 30. Funds have been used to finance projects by companies offering vocational training programs, internships and / or training for young people, or have an agreement on cooperation with technical schools, other schools and universities, thus contributing to the creation of new and preserving existing jobs, and to reduce unemployment among young people.

### Technology development and access

In order to find the best banking services and solutions for clients SKB regularly carries out the user experience surveys, both for retail as well as for corporate clients, as well as survey on the use of products and services. Based on the results of these surveys, SKB prepares improvements and new products. There is also a lot of attention paid to internal initiatives and innovation, by means of which employees are motivated for the development of innovative approaches, improvements, more effective internal processes and consequently better services for clients. In SKB, we believe that the future is in the innovative solutions. Therefore we enable our clients to access to banking services through modern technologies like internet and mobile banking, which are constantly updated to the highest quality and security standards.

### Wealth and income creation

In SKB Group, we participate in projects with local suppliers, thus enabling the development and growth of Slovenian experts and companies in various fields. We also support various local initiatives, thus enabling the existence and progress of local projects or local communities.





## Health

Team spirit, commitment, innovation and responsibility are the values which are stimulated among employees besides the Olympic values. Namely, SKB has been proudly presenting itself as a main sponsor of the Olympic Committee of Slovenia (OCS) for 26 years now. In the last several years, it has also been supporting the athlete Maruša Mišmaš as her personal sponsor. This young perspective athlete took also the main role of ambassador of the movement #Inevergiveup (#Vztrajam) in 2018. This SKB Bank's project motivates people to live an active sport and healthy life, to persist, to search motivation and inspiration. The main communication channel through which the project spreads takes place primarily on social media where individuals share their moments of victory or goals achieved through photos, posts or videos. In this way they connect one with another and with their activation in real life they overcome the limits of the modern IT tools. Through this movement, SKB proves that as a bank it can be a partner to each individual also in various life situations and time periods. In 2018, an important part of the movement #Inevergiveup (#Vztrajam) were also the SKB's employees.

A good example of motivation of employees for healthy life style and keeping themselves fit is SKB Sports club, in which a half of all employees is included, among members one tenth are also the former employees of the SKB Group, i.e. pensioners. In this way they maintain active sports life and spend time with former colleagues. In addition to regular weekly trainings for five sports disciplines, one third of all employees participated at events. Last year's events were as follows: the Sports games for bankers of Slovenia, Winter Bankers Olympics, SKB Cup, Ljubljana and Istria marathon and individual participation of members at other marathons, as well as two cycling events and final autumn meeting.

## Social investment

SKB is the long-standing main sponsor of the Olympic Committee of Slovenia (OCS). In 2018 it was involved in diverse OCS projects and Olympic stories. Employees took part in the BeActive race to improve their fitness and thus work on their health and well-being and at the same time they contributed 5 EUR for each 400 m for a good cause, for the development of young athletes from socially disadvantaged backgrounds. In September, SKB joined the Children's Olympic Festival, where the youngest were able to learn sports disciplines, encouraged by their role models, top Slovenian athletes who showed them the right sporting techniques. SKB offers banking products under special conditions to young OKS scholarship holders from social weak families and also supports the activities of SKB Pensioners' Club.

Ljubljana, 29 March 2019

Vojka Ravbar  
Deputy Chief Executive Officer

Andre Gardella  
Chief Executive Officer

# 5. CORPORATE GOVERNANCE

## 5.1 SYSTEM OF INTERNAL CONTROLS

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

General Inspection of SG as special form of the third level of control conducts advisory missions and investigations related to all aspects of business and to the management of the entities of the Group Société Générale, including SKB group. Concerning internal control, it analyses the risks and their coverage, and verifies that the operations and controls procedures are carried out correctly. More precisely, General Inspection has to give opinion on the coherence and efficiency of internal control at the level of all SG subsidiaries and branches. Therefore it evaluates also the quality of the services offered by the Internal Audit of SG subsidiaries, including SKB d.d.

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

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

## 5.2 INTERNAL AUDIT REPORT

The Internal Audit Department of SKB d.d. acts in compliance with the provisions of the Slovenian Banking Act and other relevant legislation, acts in line with the International Standards for the Professional Practice of Internal Auditing, follows the Code of Ethics of Internal Auditors and the Code of Internal Auditing Principles. The Department reports directly to the bank management, Board of Directors and its Audit Committee. Such set up is defined also in the Rules on the work of the Internal Audit Department of SKB d.d., their content is checked on annual basis and updated if needed. It is also integrated to the organization of the global division of Internal Audit (IGAD) within the SG Group. The organizational independence of the Department has been effectively achieved also during the year 2018.

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 SG Group. Additionally, with issued recommendations, the Department strives for improved overall effectiveness of the bank. The Department verifies the adequacy of risk management and control system, recommends improvements and best practices, gives advice to the bank management and to other parts of the bank, as well as takes care for increasing risks awareness, fraud prevention and internal controls awareness at all organizational levels. Moreover the Department regularly reviews the remuneration policy of the bank and reports the findings to the Compensation and Benefits committee.

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 the bank daughter leasing companies (SKB Leasing d.o.o. and SKB Leasing Select d.o.o.) and one SG entity in Slovenia (ALD Automotive d.o.o).

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

During the year 2018, the Audit Plan for 2018 was successfully completed by performing 17 engagements, at the end of December 2018, 4 reports were in status "draft report issued" and were finalized by January 11th, 2019. Additionally, internal auditors from the SG Group also performed 1 transversal audit mission (IT fraud in payment systems). In addition, Internal Auditors devoted significant time to assure strict and regular follow up of open recommendations, including recommendations issued by ECB, gave advice, while constantly assuring enriched expertise within the team of 8, resulting in fulfilling also the mandatory requirements of appropriate knowledge, experiences and licenses.

On a quarterly basis, the Department prepared exhaustive reports for the Audit Committee and Board of Directors, highlighting the main findings and significant recommendations issued, with a special focus on long term pending recommendations, the number of those importantly decreased also in 2018, reaching no overdue recommendations at the end of the year. During 2018 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, relying also on best practices within SG Group. In late 2017 and in beginning of 2018, IFACI\* performed the independent external assessment of the Department's work and adherence to the International Standards for the Professional Practice of Internal Auditing, resulting in official quality certification received for a period of 3 years.

\*IFACI – Institut Français de l'Audit et du Contrôle Internes / French Institute of Internal Audit and Control

### 5.3 CORPORATE GOVERNANCE STATEMENT OF SKB D.D.

In order to achieve a high level/degree of transparency in the management, SKB d.d. issues management declaration of assurance as a part of the annual report. SKB d.d. implements internal governance arrangements in accordance with the legislation and regulations in force in Republic of Slovenia, while respecting internal acts and guidelines of Société Générale Group.

SKB d.d. takes full account of the acts referred to in the second paragraph of Article 9 of the Banking Act<sup>3</sup>.

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 defines the internal governance arrangements, in particular the provisions of Chapter 3.4 (Bank Management System), and Chapter 6 (Internal management arrangements and corresponding internal capital), in the part of the requirements applicable to a bank / savings bank or members the management body,
- 2) Regulation on Internal Governance Arrangements, the Management body and the Internal Capital Adequacy Assessment Process for banks and savings banks<sup>4</sup> and
- 3) EBA guidelines governing internal governance, assessment of the 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 the application of these guidelines<sup>5</sup>.

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 regulation of internal governance and corporate integrity to the wider professional, financial, economic and other public.

<sup>3</sup>BankBanking act (ZBan-2), Official Gazette of RS, št. 25/15, 44/16, 77/16, 41/17, 77/18;

<sup>4</sup>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;

<sup>5</sup><https://www.bsi.si/en/financial-stability/regulation>

## Description of the main features of internal controls and risk management in conjunction with 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 at 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 banks. SKB d.d. follows the published legal regulations and takes them into account. Risk assessment and management has 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 law<sup>6</sup> which entails the prevention of money laundering and terrorist financing.

The Bank ensures that its business objectives, strategies and policies are adequately aligned with the strategy and policies for identifying, measuring or assessing, managing and monitoring the risks that they are or might be exposed to in their operations. The business is organized in such a way that it regularly and systematically manages the books of accounts, business documentation and other administrative records so that it can, at any time, be verified whether it operates in accordance with the rules on risk management. The compliance of the internal control and risk management system with banking rules in the Bank is assessed annually by an external audit that reviews the Bank's annual report.

The SKB Group has established and maintains a multi-level system of internal controls, consisting of daily / operational controls and periodic controls, which include permanent and managerial control. Additionally, the Group set up monitoring and reporting of significant deviations in financial reporting on a quarterly basis. With 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 point 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 2018. The Société Générale Bank is a majority shareholder with a 97.58-percent stake in the Bank, while the Société Générale Group, as of 31 December 2018, had a 99.73-percent ownership stake.

<sup>6</sup> Prevention of Money Laundering and Terrorist Financing Act (ZPPDFT-1), Official Gazette of RS, št. 68/16

Shareholders' Equity structure	SKB Group		SKB Bank		SKB Leasing	
	2018	2017	2018	2017	2018	2017
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	17,281	32,435	17,410	32,587	(128)	(153)
Reserves from profit	29,106	29,106	29,106	29,106	2,181	2,181
Retained earnings	95,694	106,496	84,636	99,634	3,382	2,021
Income from current year	57,569	43,367	53,693	40,573	13,870	9,995
<b>Total Shareholders' Equity</b>	<b>356,495</b>	<b>368,249</b>	<b>341,690</b>	<b>358,745</b>	<b>41,373</b>	<b>36,112</b>

SKB Share – in EUR	2018	2017
Net assets per share as of 31 December on a consolidated basis	28.18	29.11
Earnings per share on a consolidated basis	4.55	3.43
Net assets per share as of 31 December – the Bank	27.01	28.36
Earnings per share – the Bank	4.24	3.21

## SHAREHOLDER'S STRUCTURE

As of 31 December 2018, there were 104 shareholders registered in the share register, consisting of:

- 8 foreign shareholders with a 99.7380% total share of the Bank's capital;
- 79 individual investors – domestic individuals with a 0.0309% total share;
- 16 domestic corporate clients with a 0.0165% total share, and
- the balance of un-exchanged priority shares represents a 0.2146% total share of the Bank's capital.

On 31 December 2018, the Bank had no treasury stock.

Ten biggest shareholders as of 31 December 2018		Number of shares	Stake in share capital
1.	Société Générale S.A., Paris	12,343,673	97.5846 %
2.	Société Générale – fiduciarni račun	271,292	2.1447 %
	<b>Skupaj Société Générale Group</b>	<b>12,614,965</b>	<b>99.7293 %</b>
3.	Kmetijski inštitut Slovenije	800	0.0063 %
4.	Gerbec Zvonko	690	0.0055 %
5.	LTH Castings d.o.o.	600	0.0047 %
6.	Clearstream Banking SA – fiduciarni račun	560	0.0044 %
7.	Paniko Zoran	486	0.0038 %
8.	Oven Jože	420	0.0033 %
9.	Gradišnik Zdravka	400	0.0032 %
10.	UniCredit Bank Austria AG – fiduciarni račun	300	0.0024 %

### **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. A quorum of the General Meeting shall be 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 shall be 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 the resignation of a member or termination of a member's membership, the term of office of a new member shall be defined for four years. Candidates for the members of the Management Board are invited to nominate by the Nomination committee.

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

Executive Directors designated by the Board of Directors among its members manage the affairs of the bank and represent it.

The General Meeting 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 which concerns alignment of its wording with valid decisions made by the General Meeting.

### **Powers of management members for the issue or purchase of treasury shares (Item 9 of the sixth paragraph of Article 70 of the Companies.**

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

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

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

The General Meeting shall decide on:

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

A shareholder participates in the share capital of the Bank depending on 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 shall have the status of a shareholder of the Bank. In relation to the Bank, any shareholder entered in the Share Register shall be deemed 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 convene at least once per calendar year. In 2018, one General Meetings of Shareholders was convened.

At the 32nd session of the General Meeting, held on 29 May 2018, the following resolutions were adopted:

I.

1. General Meeting of Shareholders of the bank adopts changes and amendments of the Statute of SKB banka d.d. Ljubljana, in the wording which is an integral part of the material for the General Meeting of Shareholders
2. General Meeting of Shareholders adopts the Rules of Procedures of the General Meeting of Shareholders of SKB banka d.d. Ljubljana.
3. General Meeting of Shareholders adopts the audited Annual Report of SKB Group for the year 2017 with the opinion of the audit company Deloitte Revizija d.o.o., the report of the Board of Directors on the Annual Report of SKB Group for the year 2017 and the report on internal audit of the Internal Audit Department for the year 2017.
4. The distributable profit for the business year 2017 amounts to 138.606.047,67 EUR and shall be used for payment of dividends to shareholders in amount of 55.529.988,00 EUR:
  - Net profit for the business year 2017 in amount of 40.573.378,41 EUR shall be fully paid in dividends to shareholders
  - A part of retained profit from previous years shall be paid in amount of 14.956.609,59 EUR.Gross dividend per share in the year 2017 amounts to 4,39 EUR.  
With the day of the General Meeting of Shareholders the net profit from the item net profit for the business year 2017 is transferred to the retained profit item and to obligation from participation in profit – dividends item.  
Dividends shall be paid out in 6 days following the General Meeting of the Shareholders to those shareholders being registered in the central securities registry as the owners of shares on the fifth working day following the date of the General Meeting of Shareholders, that will decide on the use of distributable net profit.
5. The General Meeting of Shareholders grants discharge to the members of the Board of Directors for their work in the business year 2017.
6. The General Meeting of Shareholders of the Bank nominates the audit company Deloitte Revizija d.o.o for the audit of operations of SKB Group for the year 2018, 2019 and 2020.

II.

1. The General Meeting of Shareholders concludes, according to the Article 17 of the Statute of SKB bank d.d. Ljubljana, that with the day of today's General Meeting of Shareholders the term of office expires to all members of the Board of Directors: Pierre-Yves Demoures, Karine-Maryse Destre-Bohn, Marko Košak, Vojka Ravbar, Cvetka Selšek, Giovanni Luca Soma in Andre Gardella.
2. The General Meeting of Shareholders of the bank appoints Board of Directors in the following composition: Pierre-Yves Demoures, Jean Philippe Guillaume, Maria Koytcheva Rousseva, Milorad Katnić, Clara- Elen Grigore, Vojka Ravbar, Andre Gardella.
3. The Board of Directors is composed of 7 (seven) members.
4. Mandate of members of the Board of Directors lasts 4 years following the appointment as members of the Board of Directors at the General Meeting of Shareholders.
5. General Meeting of Shareholders establishes that the newly appointed members of the Board of Directors have been appointed in compliance with the applicable Banking Act, Companies Act and resolution of the Bank of Slovenia on the management system, management body and internal capital adequacy assessment process for banks and saving banks.

III.

1. Members of the Board of Directors, who are in compliance with rules of Société Générale considered to be independent, receive 2000 EUR (gross) for each session of the Board of Directors.
2. Presidents of the Committees, who are in compliance with rules of Société Générale considered to be independent, receive 2000 EUR (gross) for chairing of each session.
3. Members of the Committees, who are in compliance with rules of Société Générale considered to be independent, receive 1000 EUR (gross) of attendance fee for each session of the Committee of which they are members.
4. Members of the Board of Directors and Committees, who are not employed in SKB Group or Société Générale Group or are in compliance with rules of Société Générale considered to be independent, are entitled to be reimbursed travel and other costs related to conducting the function.
5. SKB d. d. will not pay out the profit sharing or bonuses with options or comparable financial instruments to the members of the Board of Directors or to the members of the Committees for their work in the Board of Directors or Committees of the Board of Directors
6. Resolution on fees of members of the Board of Directors and its Committees, adopted on the 27th General Meeting of Shareholders of SKB d.d. held on 2.6.2014 is no longer in force.

### Information on the composition of the management or supervisory bodies and their commissions

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 between them and the shareholders, are defined in the adopted Internal Acts of the bank.

## BOARD OF DIRECTORS:

In the period 1.1.2018 – 29.5.2018 the Board of Directors was composed of seven (7) members, namely:

- Cvetka Selšek, President
- Giovanni Luca Soma, Deputy President
- Pierre-Yves Demoures, member
- Marko Košak, independent member
- Karine Destre-Bohn, member
- Andre Gardella, member, Chief Executive Officer
- Vojka Ravbar, member, Deputy Chief Executive Officer

As of 29.05. 2018 to 31.12.2018 the Board of Directors was composed of seven (7) members, namely:

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

In the period 1.1.2018 – 29.5.2018 the members of the Committees of the Board of Directors were:

### Audit Committee:

- Marko Košak, President
- Giovanni Luca Soma, member
- Karine Destre-Bohn, member
- Pierre-Yves Demoures, member

### Risks Committee:

- Karine Destre-Bohn, President
- Cvetka Selšek, member
- Giovanni Luca Soma, member

### Compensation and Benefits Committee:

- Giovanni Luca Soma, President
- Karine Destre-Bohn, member
- Pierre-Yves Demoures, member

### Nomination Committee:

- Giovanni Luca Soma, President
- Karine Destre-Bohn, member
- Cvetka Selšek, member

In the period 29.05.2018 – 07.11.2018 the members of the Committees of the Board of Directors were:

### Audit Committee:

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

**Risks Committee:**

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

**Compensation Committee:**

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

**Nomination Committee:**

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

As of 07.11.2018 the members of the Committees of the Board of Directors are:

**Audit Committee:**

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

**Risks Committee:**

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

**Compensation Committee:**

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

**Nomination Committee:**

- Pierre-Yves Demoures, predsednik
- Jean-Philippe Guillaume, član
- Clara Grigore, članica

Information on participation of members of the Board of Directors in the function of members of a governing body in other companies and organizations as at 31 December 2018:

- Jean-Philippe Guillaume is President of the Board of Directors of SKB d.d., President of the Supervisory Board of Ohridska Banka (OBSG, Macedonia), member of the Board of Société Générale Montenegro (SGME, Montenegro) and member of the Board of Société Générale Factoring (SGF, France), meaning that according to the provisions of Art.36 of the Banking Act he is member of only one (1) governing body.
- Pierre-Yves Demoures is member of the Board of Directors of SKB d.d. and member of the Supervisory Board of Banque du Senegal (SGBS), all within SG Group, meaning that according to the provisions of Art.36 of the Banking Act he is member of only one (1) governing body.
- Clara Grigore is member of the Board of Directors of SKB d.d. and Secretary General for EURO & RUSS (SG Paris).
- Maria Rouseva is member of the Board of Directors of SKB d.d.), CEO (President of the Executive Board) of Société Générale Bank Serbia and member of the Supervisory Board and Audit Committee of Ohridska Banka Skopje AD, Macedonia (SG Group bank), meaning that according to the provisions of Art.36 of the Banking Act he is member of only one (1) governing body.
- Milorad Katnić is member of the Board of Directors of SKB d.d. and President of the Board of Directors of Société Générale Montenegro, meaning that according to the provisions of Art.36 of the Banking Act he is member of only one (1) governing body.
- Andre Gardella is member of the Board of Directors of SKB d.d. only.
- Vojka Ravbar is member of the Board of Directors of SKB d.d. only.



## General Management:

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

## The election policy for members of the Board of Directors

The Nomination Committee which works in line with Rules of SKB banka d.d. Ljubljana on assessment of suitability of members of the Board of Directors is actively involved in the election of members of the Board of Directors (BoD). These Rules were updated at the meeting of the Board of Directors on 19 April 2018.

These rules are applied 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 Société Générale (hereinafter SG) as parent bank and/or the Nomination Committee. In SKB d.d. 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 2018 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 2018, the Board of Directors is composed of seven (7) members – three (3) women and four (4) men, of various age, various education profiles and experience, what 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 March 2019



Vojka Ravbar  
Deputy Chief Executive Officer



Andre Gardella  
Chief Executive Officer

## GOVERNANCE STATEMENT OF SKB LEASING D.O.O.

SKB Leasing d.o.o. mutatis mutandis, follows the described internal management system as applied by the SKB d.d. in accordance with the legislation and regulations in force in the Republic of Slovenia, while respecting its internal acts, the guidelines of the SKB Group and Société Générale.

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 a quarterly 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, 29.3.2019



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

# THE MANAGEMENT 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 2018 there was no disadvantage for SKB d.d., which would have to be replaced.

Ljubljana, 29 March 2019



Vojka Ravbar  
Deputy Chief Executive Officer



Andre Gardella  
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 2018 there was no disadvantage for SKB Leasing d.o.o., which would have to be replaced.

Ljubljana, 29.3.2019



Don Schöffmann  
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 2018 there was no disadvantage for SKB Leasing Select d.o.o., which would have to be replaced.

Ljubljana, 29.3.2019



Don Schöffmann  
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 31.12. 2018:**

### **Finance:**

- Nataša Mohorčič Zobec, Director of Finance Division

### **Risk:**

- Milan Žiaran, Director of Risk Division

### **Retail and Marketing:**

- Anita Stojčevska, Director of Retail and Marketing division

### **Corporate Banking and Financial Markets**

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

### **Customers Banking Services:**

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

### **General Means and Support:**

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



# VI. IMPORTANT DATA AND BUSINESS PERFORMANCE INDICATORS

## IMPORTANT DATA AND BUSINESS PERFORMANCE INDICATORS – SKB GROUP

Skupina SKB	12. 2018		12. 2017		12. 2016	
	Amount in 000 EUR / ratios in %	Index	Amount in 000 EUR / ratios in %	Index	Amount in 000 EUR / ratios in %	Index
<b>I. BALANCE SHEET</b>						
Balance sheet total	3,313,949	104	3,174,268	107	2,955,262	111
Deposits from non-bank clients	2,499,003	107	2,341,209	109	2,147,335	110
a) from legal and other persons	768,455	90	849,226	113	754,007	116
b) from citizens	1,730,548	116	1,491,984	107	1,393,328	107
Loans to non-bank clients	2,440,345	107	2,282,392	105	2,178,189	118
a) to legal and other persons	998,264	80	1,254,090	102	1,228,432	140
b) to citizens	1,442,082	140	1,028,302	108	949,757	98
Overall equity capital	356,495	97	368,249	94	391,882	108
Provisions and impairments	97,633	68	144,467	89	162,364	79
The volume of off-balance sheet business	1,510,644	121	1,246,678	127	982,360	113
<b>II. PROFIT AND LOSS ACCOUNT</b>						
Net interest	82,258	107	78,206	107	73,091	107
Net non-interest income	38,968	74	32,766	74	43,990	121
Costs of labour, materials and services	54,857	105	52,373	105	49,860	101
Depreciation / amortization	5,503	94	5,850	93	6,319	105
Net cost of risk and provisions	(9,525)	1966	(484)	3	(15,534)	(201)
Profit or loss before taxation	70,399	133	53,053	69	76,436	185
Tax on profit	(12,830)	132	(9,686)	76	(12,744)	183
Other comprehensive income before tax	(6,930)		(6,783)		1,025	
Income tax relating to components of other comprehensive income	1,315		1,283		(1,325)	
<b>III. EMPLOYEES</b>						
Number of employees	912		912		892	
<b>IV. SHARES</b>						
Number of shareholders	104		105		112	
Number of shares	12,649,200		12,649,200		12,649,200	
Belonging amount in the share capital per nominal par-value share (in EUR)	4.1729		4.1729		4.1729	
Book value per share (in EUR)	28.18		29.11		30.98	





SKB Group	12. 2018		12. 2017		12. 2016	
	Amount in 000 EUR / ratios in %	Index	Amount in 000 EUR / ratios in %	Index	Amount in 000 EUR / ratios in %	Index
<b>V. SELECTED RATIOS</b>						
<b>a) Equity capital</b>						
CET1 capital ratio	12.69		13.25		14.25	
T1 capital ratio	12.69		13.25		14.25	
Total capital ratio	12.69		13.25		14.25	
<b>b) Quality of assets</b>						
Non performing (balance and off balance sheet) exposure / all balance and off ballance sheet exposure	3.50		4.80		6.00	
Non performing (balance a sheet) exposure / all balance sheet exposure	3.90		5.40		6.50	
All impairment and provisions / non performing impairment and provisions	57.70		66.80		67.30	
Recived collaterals / non performing exposure	11.60		15.20		16.30	
<b>c) Profitability</b>						
Interest margin	2.54		2.55		2.61	
Financial margin	3.75		3.62		4.17	
Return on equity before taxation	2.18		1.73		2.72	
Return on assets	1.78		1.42		2.27	
Return on equity before taxation	20.26		14.25		20.27	
Return on equity after taxation	16.57		11.65		16.89	
<b>d) Operating costs</b>						
Operating costs / assets	1.87		1.90		2.00	

## IMPORTANT DATA AND BUSINESS PERFORMANCE INDICATORS – SKB BANK

SKB Bank	12. 2018		12. 2017		12. 2016	
	Amount in 000 EUR / ratios in %	Index	Amount in 000 EUR / ratios in %	Index	Amount in 000 EUR / ratios in %	Index
<b>I. BALANCE SHEET</b>						
Balance sheet total	3,089,094	103	2,991,227	107	2,802,966	109
Deposits from non-bank clients	2,508,203	107	2,350,526	109	2,157,808	111
a) from legal and other persons	777,655	91	858,542	112	764,480	117
b) from citizens	1,730,548	116	1,491,984	107	1,393,328	107
Loans to non-bank clients	2,230,755	106	2,108,235	104	2,032,524	117
a) to legal and other persons	1,088,656	101	1,081,123	100	1,086,527	127
b) to citizens	1,142,099	111	1,027,112	109	945,997	107
Overall equity capital	341,691	95	358,746	93	352,720	107
Provisions and impairments	86,381	66	131,530	86	153,004	76
The volume of off-balance sheet business	1,510,668	121	1,246,701	127	982,381	113
<b>II. PROFIT AND LOSS ACCOUNT</b>						
Net interest	61,289	106	57,783	103	56,026	95
Net non-interest income	45,440	120	37,904	79	47,703	121
Costs of labour, materials and services	50,124	105	47,912	105	45,480	98
Depreciation / amortization	3,678	93	3,967	94	4,205	88
Net cost of risk and provisions	(10,822)	255	(4,248)	23	(18,423)	(274)
Profit or loss before taxation	63,749	133	48,056	66	72,467	181
Tax on profit	(10,056)	134	(7,482)	68	(11,045)	187
Other comprehensive income before tax	(6,930)		(6,783)		1,025	
Income tax relating to components of other comprehensive income	1,315		1,283		(1,325)	
<b>III. EMPLOYEES</b>						
Number of employees	829		836		819	
<b>IV. SHARES</b>						
Number of shareholders	104		105		112	
Number of shares	12,649,200		12,649,200		12,649,200	
Belonging amount in the share capital per nominal par-value share (in EUR)	4.1729		4.1729		4.1729	
Book value per share (in EUR)	27.01		28.36		30.44	





SKB Bank	12. 2018		12. 2017		12. 2016	
	Amount in 000 EUR / ratios in %	Index	Amount in 000 EUR / ratios in %	Index	Amount in 000 EUR / ratios in %	Index
<b>V. SELECTED RATIOS</b>						
<b>a) Equity capital</b>						
CET1 capital ratio	12.63		13.19		14.18	
T1 capital ratio	12.63		13.19		14.18	
Total capital ratio	12.63		13.19		14.18	
<b>b) Quality of assets</b>						
Non performing (balance and off balance sheet) exposure / all balance and off ballance sheet exposure	3.40		4.60		5.90	
Non performing (balance a sheet) exposure / all balance sheet exposure	3.70		5.20		6.40	
All impairment and provisions / non performing impairment and provisions	59.40		68.30		68.40	
Recived colaterals / non performing exposure	12.90		16.50		17.30	
<b>c) Profitability</b>						
Interest margin	2.03		2.00		2.11	
Financial margin	3.53		3.32		3.91	
Return on equity before taxation	2.11		1.67		2.73	
Return on assets	1.77		1.41		2.31	
Return on equity before taxation	18.92		13.14		19.47	
Return on equity after taxation	15.93		11.10		16.50	
<b>d) Operating costs</b>						
Operating costs / assets	1.78		1.80		1.87	



# VII. FINANCIAL REPORT FOR SKB GROUP AND SKB BANKA D.D. 2018

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## STATEMENT OF GENERAL MANAGEMENT'S RESPONSIBILITIES

The General Management of the bank has approved the financial statements of SKB Group SKB and SKB Bank for the year ended 31 December 2018, 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 2018, 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. marca 2019



**Vojka Ravbar**  
Deputy Chief Executive Officer



**Andre Gardella**  
Chief Executive Officer



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

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of the SKB BANKA d.d. (hereinafter 'the Company'), which comprise the statement of financial position as at 31 December 2018, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter 'IFRS').

#### Basis for Opinion

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

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the year ended 31 December 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

In its financial statements for the year ended 31 December 2018 the Company presented loans from customers in the amount of EUR 2,290.1 million and total expected credit loss in the amount of EUR 76.6 million.

Ime Deloitte se nanaša na Deloitte Touche Tohmatsu Limited, pravno osebo, ustanovljeno v skladu z zakonodajo Združenega kraljestva Velike Britanije in Severne Irske (v izvorniku »UK private company limited by guarantee«), in mrežo njenih članic, od katerih je vsaka ločena in samostojna pravna oseba. Podroben opis pravne organiziranosti združenja Deloitte Touche Tohmatsu Limited in njenih družb članic je na voljo na <http://www.deloitte.com/si>.

V Sloveniji storitve zagotavlja Deloitte revizija d.o.o. in Deloitte svetovanje d.o.o. (pod skupnim imenom Deloitte Slovenija), ki sta članici Deloitte Central Europe Holdings Limited. Deloitte Slovenija sodi med vodilne družbe za strokovne storitve v Sloveniji, ki nudi storitve revizije, davčnega, poslovnega, finančnega in pravnega svetovanja ter svetovanja na področju tveganj, ki jih zagotavlja več kot 100 domačih in tujih strokovnjakov.

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

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# INDEPENDENT AUDITOR'S REPORT - THE COMPANY

Key audit matter	How the matter was addressed in our audit
<p>Measurement of impairment allowances for expected credit losses on loans to non-bank customers is deemed a key audit matter since high level of significant judgements is applied by Management as well as the use of complex models.</p> <p>Additionally, from 1 January 2018, the Bank has adopted IFRS 9 – Financial Instruments ('IFRS 9'), resulting in impairment allowances being recognised when losses are expected rather than when they have been incurred, as previously used under IAS 39 - Financial Instruments: Recognition and Measurement.</p> <p>Management exercise significant judgements in the following areas:</p> <ul style="list-style-type: none"> <li>• Use of historic data in the process of determining risk parameters</li> <li>• Estimation of the credit risk related to the exposure</li> <li>• Assessment of stage allocation</li> <li>• 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</li> <li>• Expected future cash flows from operations</li> <li>• Valuation of collateral and assessment of realization period on individually assessed credit-impaired exposures.</li> </ul> <p>Management has provided further information about the impairment allowance on loans from customers in notes '3.4 – Financial instruments', '4.25 - Financial assets at amortised costs', '4.15 – Impairment' and '7 - Credit risk and general information' to the financial statements.</p> <p>Information regarding the transitional effect of IFRS 9 are disclosed in note '2.2.5 Presentation of effects of transition to IFRS 9 at 1 January 2018' including the impact on shareholders' equity and retained earnings at 1 January 2018.</p>	<p>Based on our risk assessment and industry knowledge, we have examined the impairment allowances for expected credit loss for loans and evaluated the methodology applied as well as the assumptions made according to the description of the key audit matter that allowed us to obtain sufficient appropriate audit evidence for our conclusion.</p> <p>We performed following audit procedures with respect to area of loans:</p> <ul style="list-style-type: none"> <li>• Reviewing the Bank's methodology for recognizing impairment allowances for expected credit losses and comparing the reviewed methodology against the requirements of IFRS 9</li> <li>• Obtaining understanding of control environment and internal controls implemented by the Management within the process of measuring impairment allowance for expected credit losses</li> <li>• Evaluating design and inspecting implementation of identified internal controls relevant to the process of measuring impairment allowance for expected credit losses</li> <li>• Testing identified relevant controls for operating effectiveness</li> <li>• Disaggregating loans account balance based on stage allocation for the purposes of sample selection</li> <li>• 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:             <ol style="list-style-type: none"> <li>i. models applied in stage allocation</li> <li>ii. assumptions used by the Management in the expected credit loss measurement models</li> <li>iii. criteria used for determination of significant increase in credit risk</li> <li>iv. assumptions applied to calculate lifetime probability of default</li> <li>v. methods applied to calculate loss given default</li> <li>vi. methods applied to incorporate forward-looking information</li> </ol> </li> <li>• 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:</li> </ul>

# INDEPENDENT AUDITOR'S REPORT - THE COMPANY

	<ol style="list-style-type: none"><li>i. Assessment of borrower's financial position and performance following latest credit reports and available information</li><li>ii. Critical assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations taking into consideration borrower's financial status and performance</li><li>iii. Reviewing and critically assessing estimated value of collateral and estimated realisation period</li><li>iv. Critical assessment of discount rates used in the estimation of the expected cash flows from operations and/or collateral</li><li>v. Re-performing calculation of expected credit losses by applying our own independent judgment and assumptions, based on our industry experience, on to calculation and comparing derived result of the impairment losses per certain sampled loans with the ones provided by the Bank.</li></ol>
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## Other information

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

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

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

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

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

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

# INDEPENDENT AUDITOR'S REPORT - THE COMPANY

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

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

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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

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

# INDEPENDENT AUDITOR'S REPORT - THE COMPANY

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

## Report on Other Legal and Regulatory Requirements

### Appointment of the Auditor and the Period of Engagement

Deloitte revizija d.o.o. was appointed as the statutory auditor of the Company on General Shareholders' Meeting held on 29 May 2018. Our total uninterrupted engagement has lasted 4 years.

### Confirmation to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 29 March 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

### Provision of Non-audit Services

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

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

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc  
Certified auditor

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

**Deloitte.**

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

Ljubljana, 29 March 2019

**TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS**



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www.deloitte.si

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

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the consolidated financial statements of the company SKB BANKA d.d. and its subsidiaries (hereinafter 'the Group'), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter 'IFRS').

#### Basis for Opinion

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

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the year ended 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

In its financial statements for the year ended 31 December 2018 the Group presented loans to non-bank customers in the amount of EUR 2,510.9 million and total expected credit loss in the amount of EUR 87.9 million.

Ime Deloitte se nanaša na Deloitte Touche Tohmatsu Limited, pravno osebo, ustanovljeno v skladu z zakonodajo Združenega kraljestva Velike Britanije in Severne Irske (v izvirniku »UK private company limited by guarantee«), in mrežo njenih članic, od katerih je vsaka ločena in samostojna pravna oseba. Podroben opis pravne organiziranosti združenja Deloitte Touche Tohmatsu Limited in njenih družb članic je na voljo na <http://www.deloitte.com/si>.

V Sloveniji storitve zagotavlja Deloitte revizija d.o.o. in Deloitte svetovanje d.o.o. (pod skupnim imenom Deloitte Slovenija), ki sta članici Deloitte Central Europe Holdings Limited. Deloitte Slovenija sodi med vodilne družbe za strokovne storitve v Sloveniji, ki nudi storitve revizije, davčnega, poslovnega, finančnega in pravnega svetovanja ter svetovanja na področju tveganj, ki jih zagotavlja več kot 100 domačih in tujih strokovnjakov.

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

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# INDEPENDENT AUDITOR'S REPORT - THE GROUP

Key audit matter	How the matter was addressed in our audit
<p>Measurement of impairment allowances for expected credit losses on loans to non-bank customers is deemed a key audit matter since high level of significant judgements is applied by Management as well as the use of complex models.</p> <p>Additionally, from 1 January 2018, the Group has adopted IFRS 9 – Financial Instruments ('IFRS 9'), resulting in impairment allowances being recognised when losses are expected rather than when they have been incurred, as previously used under IAS 39 - Financial Instruments: Recognition and Measurement.</p> <p>Management exercise significant judgements in the following areas:</p> <ul style="list-style-type: none"> <li>• Use of historic data in the process of determining risk parameters</li> <li>• Estimation of the credit risk related to the exposure</li> <li>• Assessment of stage allocation</li> <li>• 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</li> <li>• Expected future cash flows from operations</li> <li>• Valuation of collateral and assessment of realization period on individually assessed credit-impaired exposures.</li> </ul> <p>Management has provided further information about the impairment allowance on loans from customers in notes '3.4 – Financial instruments', '4.25 - Financial assets at amortised costs', '4.15 – Impairment' and '7 - Credit risk and general information' to the financial statements.</p> <p>Information regarding the transitional effect of IFRS 9 are disclosed in note '2.2.5 Presentation of effects of transition to IFRS 9 at 1 January 2018' including the impact on shareholders' equity and retained earnings at 1 January 2018.</p>	<p>Based on our risk assessment and industry knowledge, we have examined the impairment allowances for expected credit loss for loans and evaluated the methodology applied as well as the assumptions made according to the description of the key audit matter that allowed us to obtain sufficient appropriate audit evidence for our conclusion.</p> <p>We performed following audit procedures with respect to area of loans:</p> <ul style="list-style-type: none"> <li>• Reviewing the Group's methodology for recognizing impairment allowances for expected credit losses and comparing the reviewed methodology against the requirements of IFRS 9</li> <li>• Obtaining understanding of control environment and internal controls implemented by the Management within the process of measuring impairment allowance for expected credit losses</li> <li>• Evaluating design and inspecting implementation of identified internal controls relevant to the process of measuring impairment allowance for expected credit losses</li> <li>• Testing identified relevant controls for operating effectiveness</li> <li>• Disaggregating loans account balance based on stage allocation for the purposes of sample selection</li> <li>• 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:             <ol style="list-style-type: none"> <li>i. models applied in stage allocation</li> <li>ii. assumptions used by the Management in the expected credit loss measurement models</li> <li>iii. criteria used for determination of significant increase in credit risk</li> <li>iv. assumptions applied to calculate lifetime probability of default</li> <li>v. methods applied to calculate loss given default</li> <li>vi. methods applied to incorporate forward-looking information</li> </ol> </li> <li>• 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:</li> </ul>



# INDEPENDENT AUDITOR'S REPORT - THE GROUP

	<ol style="list-style-type: none"><li>i. Assessment of borrower's financial position and performance following latest credit reports and available information</li><li>ii. Critical assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations taking into consideration borrower's financial status and performance</li><li>iii. Reviewing and critically assessing estimated value of collateral and estimated realisation period</li><li>iv. Critical assessment of discount rates used in the estimation of the expected cash flows from operations and/or collateral</li><li>v. Re-performing calculation of expected credit losses by applying our own independent judgment and assumptions, based on our industry experience, on to calculation and comparing derived result of the impairment losses per certain sampled loans with the ones provided by the Group.</li></ol>
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## Other information

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

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

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

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

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

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

# INDEPENDENT AUDITOR'S REPORT - THE GROUP

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

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

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

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

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

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

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

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

# INDEPENDENT AUDITOR'S REPORT - THE GROUP

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

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

## Report on Other Legal and Regulatory Requirements

### Appointment of the Auditor and the Period of Engagement

Deloitte revizija d.o.o. was appointed as the statutory auditor of the Company on General Shareholders' Meeting held on 29 May 2018. Our total uninterrupted engagement has lasted 4 years.

### Confirmation to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 29 March 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

### Provision of Non-audit Services

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

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

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc  
Certified auditor

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

**Deloitte.**  
DELOITTE REVIZIJA D.O.O.  
Ljubljana, Slovenija <sup>3</sup>

Ljubljana, 29 March 2019

**TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS**

# CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

	EUR 000	Pojasnilo	2018	2017
Interest income			85,769	82,260
Interest expenses			(3,511)	(4,234)
<b>Net interest income</b>		<b>4.1.</b>	<b>82,258</b>	<b>78,026</b>
Dividend income		4.2.	251	822
Fee and commission income			40,145	37,495
Fee and commission expenses			(10,027)	(14,421)
<b>Net fee and commission income</b>		<b>4.3.</b>	<b>30,118</b>	<b>23,074</b>
Gains and losses on financial assets and liabilities not measured at fair value through profit or loss		4.4.	742	784
Gains and losses on financial assets and liabilities held for trading		4.5.	1,352	1,668
Gains and losses on non-trading financial assets mandatorily at fair value through profit or loss		4.6.	5,140	-
Gains and losses on financial assets and liabilities designated at fair value through profit or loss		4.7.	-	-
Gains and losses from hedge accounting		4.8.	(1)	-
Exchange differences		4.9.	75	(58)
Gains and losses on derecognition of non-financial assets		4.10.	424	80
Other operating income		4.11.	867	6,335
<b>Financial and operating income and expenses</b>			<b>121,226</b>	<b>110,731</b>
Administrative expenses		4.12.	(54,857)	(52,373)
• staff expenses			(35,828)	(33,960)
• other administrative expenses			(19,029)	(18,413)
Depreciation		4.13.	(5,503)	(5,850)
Modification gains or losses				
Provisions		4.14.	216	(750)
Impairment		4.15.	9,317	1,235
Profit or loss from non-current assets and disposal groups classified as held for sale		4.16.	-	60
<b>TOTAL PROFIT BEFORE TAX FROM CONTINUING OPERATIONS</b>			<b>70,399</b>	<b>53,053</b>
Tax expense or income related to profit or loss from continuing operations		<b>4.17</b>	<b>(12,830)</b>	<b>(9,686)</b>
<b>TOTAL PROFIT AFTER TAX FROM CONTINUING OPERATIONS</b>			<b>57,569</b>	<b>43,367</b>
Net profit for the financial year			57,569	43,367
Profit or loss attributable to owners of the parent			57,569	43,367
Profit or loss attributable to non-controlling interests			-	-
Basic and diluted earnings per share (expressed in EUR per share)		4.18.	4.55	3.43

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

# CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	EUR 000	2018	2017
<b>NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAX</b>		<b>57,569</b>	<b>43,367</b>
<b>OTHER COMPREHENSIVE INCOME AFTER TAX</b>		<b>(5,591)</b>	<b>(5,652)</b>
<b>ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS</b>		<b>12</b>	<b>(112)</b>
Actuarial gains or losses on defined benefit pension plans		13	(124)
Fair value changes of equity instruments measured at fair value through other comprehensive income		-	-
Income tax relating to items that will not be reclassified to profit or loss		(1)	12
<b>ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS</b>		<b>(5,603)</b>	<b>(5,540)</b>
Debt instruments at fair value through other comprehensive income		(6,917)	-
Valuation gains or losses taken to equity		(6,917)	-
Transferred to profit or loss		-	-
Other reclassifications		-	-
Available-for-sale financial assets		-	(6,823)
Valuation gains or losses taken to equity		-	(6,490)
Transferred to profit or loss		-	(333)
Income tax relating to items that may be reclassified to profit or loss		1,314	1,283
<b>TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX</b>		<b>51,978</b>	<b>37,715</b>
Attributable to owners of the parent		51,978	37,715
Attributable to non-controlling interests		-	-

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## AT 31 DECEMBER 2018

	EUR 000	Notes	31 Dec. 2018	31 Dec. 2017
<b>ASSETS</b>				
Cash, cash balances at central banks and other demand deposits at banks		4.19.	190,195	303,649
Financial assets held for trading		4.20.	7,054	5,236
Non-trading financial assets mandatorily at fair value through profit or loss		4.21.	35,170	-
Financial assets designated at fair value through profit or loss		4.22.a)	5,947	-
Financial assets recognised at fair value through profit or loss		4.22.b)	-	5,983
Financial assets at fair value through other comprehensive income		4.23.	258,682	-
Financial assets at amortised cost		4.25.	2,726,438	-
• debt securities			253,797	-
• loans to banks			45,316	-
• loans to non-bank customers			2,423,089	-
• other financial assets			4,236	-
Available-for-sale financial assets		4.24.	-	436,642
Loans and receivables		4.26.	-	2,334,687
• loans to banks			-	44,319
• loans to non-bank customers			-	2,282,392
• other financial assets			-	7,976
Derivatives - hedge accounting		4.27.	607	-
Tangible assets			39,983	41,383
• property, plant and equipment		4.29.a)	37,818	39,155
• investment property		4.29.b)	2,165	2,228
Intangible assets		4.30.	11,534	10,355
Tax assets		4.17.	3,108	9,718
• current tax assets			25	6,489
• deferred tax assets			3,083	3,229
Other assets		4.31.	34,770	26,254
Non-current assets and disposal groups classified as held for sale		4.32.	461	361
<b>Total assets</b>			<b>3,313,949</b>	<b>3,174,268</b>
<b>LIABILITIES</b>				
Financial liabilities held for trading		4.20.	7,719	5,827
Financial liabilities designated at fair value through profit or loss		4.22.a)	5,947	-
Financial liabilities recognised at fair value through profit or loss		4.22.b)	-	5,983
Financial liabilities measured at amortised cost		4.33.	2,914,774	2,759,357
• deposits from banks and central banks			1,678	1,468
• deposits from non-bank customers			2,499,004	2,341,208
• loans from banks and central banks			376,502	377,969
• other financial liabilities			37,590	38,712
Fair value changes of the hedged items in portfolio hedge of interest rate risk		4.27.	602	-
Provisions		4.34.	11,873	14,479
Tax liabilities		4.17.	6,813	10,719
• current tax liabilities			2,578	2,925
• deferred tax liabilities			4,235	7,794
Other liabilities		4.35.	9,726	9,654
<b>Total liabilities</b>			<b>2,957,454</b>	<b>2,806,019</b>

	EUR 000	Notes	31 Dec 2018	31 Dec 2017
<b>SHAREHOLDERS' EQUITY</b>				
Capital		4.36.	52,784	52,784
Share premium		4.36.	104,061	104,061
Accumulated other comprehensive income		4.36.	17,281	32,435
Reserves from profit		4.36.	29,106	29,106
Retained earnings		4.36.	95,694	106,496
Income from current year		4.36.	57,569	43,367
<b>Total shareholders' equity</b>			<b>356,495</b>	<b>368,249</b>
<b>Total equity and liabilities</b>			<b>3,313,949</b>	<b>3,174,268</b>

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

### Attributable to equity holders of the parent

EUR 000	Capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including income from current year)	Total equity
<b>Balance at 31 December 2017</b>	<b>52,784</b>	<b>104,061</b>	<b>32,435</b>	<b>29,106</b>	<b>149,863</b>	<b>368,249</b>
Transition effects to IFRS 9	-	-	(9,563)	-	1,161	(8,402)
<b>Balance at 1 January 2018 after transition to IFRS 9</b>	<b>52,784</b>	<b>104,061</b>	<b>22,872</b>	<b>29,106</b>	<b>151,024</b>	<b>359,847</b>
<b>Comprehensive income for the financial year after tax</b>	-	-	<b>(5,591)</b>	-	<b>57,569</b>	<b>51,978</b>
Appropriation of (accounting for) dividends	-	-	-	-	(55,530)	(55,530)
Other	-	-	-	-	200	200
<b>Balance at 31 December 2018</b>	<b>52,784</b>	<b>104,061</b>	<b>17,281</b>	<b>29,106</b>	<b>153,263</b>	<b>356,495</b>
<b>Balance at 31 December 2016</b>	<b>52,784</b>	<b>104,061</b>	<b>38,087</b>	<b>29,106</b>	<b>167,843</b>	<b>391,881</b>
<b>Comprehensive income for the financial year after tax</b>	-	-	<b>(5,652)</b>	-	<b>43,367</b>	<b>37,715</b>
Appropriation of (accounting for) dividends	-	-	-	-	(61,347)	(61,347)
Other	-	-	-	-	-	-
<b>Balance at 31 December 2017</b>	<b>52,784</b>	<b>104,061</b>	<b>32,435</b>	<b>29,106</b>	<b>149,863</b>	<b>368,249</b>

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

# CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

	EUR 000	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Total profit or loss before tax		70,399	53,054
Depreciation		5,504	5,851
Impairments / (reversal of impairments) of investments in debt financial instruments at fair value through other comprehensive income		(6)	-
Impairments / (reversal of impairments) of loans and other financial assets at amortised costs		(9,303)	(1,235)
Impairments of tangible assets (impairments of investment property included), intangible assets and other assets		(8)	-
Net (gains) / losses from exchange differences		(75)	58
Net (gains) / losses from sale of tangible assets		(344)	(81)
Other (gains) / (losses) from investing activities		(81)	-
Net unrealised (gains) / losses from non-current assets held for sale and discontinuing operations and liabilities associated therewith		-	(858)
Other adjustments to total profit or loss before tax		(217)	750
<b>Cash flow from operating activities before changes in operating assets and liabilities</b>		<b>65,869</b>	<b>57,539</b>
<b>(Increases) / decreases in operating assets</b>		<b>(266,483)</b>	<b>(107,292)</b>
Net (increase) / decrease in financial assets held for trading		(1,818)	550
Net (increase) / decrease in non-trading financial assets mandatorily at fair value through profit or loss		(3,534)	-
Net (increase) / decrease in financial assets designated at fair value through profit or loss		36	-
Net (increase) / decrease in financial assets recognised at fair value through profit or loss		-	1,558
Net (increase) / decrease in financial assets at fair value through other comprehensive income		(53,567)	-
Net (increase) / decrease in loans and other financial assets at amortised cost		(199,082)	-
Net (increase) / decrease in financial assets available for sale		-	1,498
Net (increase) / decrease in loans and receivables		-	(105,029)
Net (increase) / decrease in other assets		(8,518)	(5,869)
<b>Increases / (decreases) in operating liabilities</b>		<b>155,591</b>	<b>258,147</b>
Net increase / (decrease) in financial liabilities held for trading		1,892	(572)
Net increase / (decrease) in financial liabilities designated at fair value through profit or loss		(36)	(1,559)
Net increase / (decrease) in deposits, loans and other financial liabilities measured at amortised cost		153,592	260,072
Net increase / (decrease) in other liabilities		143	206
<b>Cash flow from operating activities</b>		<b>(45,023)</b>	<b>208,394</b>
<b>Income taxes (paid) / refunded</b>		<b>(11,261)</b>	<b>(14,703)</b>
<b>Net cash flow from operating activities</b>		<b>(56,284)</b>	<b>193,691</b>



	EUR 000	Notes	2018	2017
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
<b>Receipts from investing activities</b>			<b>7,264</b>	<b>8,275</b>
Receipts from the sale of tangible assets			7,131	6,651
Receipts from the sale of intangible assets			61	281
Receipts from non-current assets held for sale and liabilities associated therewith			-	1,344
Receipts from the sale of financial assets held to maturity			-	(1)
Other receipts from investing activities			72	-
<b>Cash payments on investing activities</b>			<b>(12,044)</b>	<b>(10,975)</b>
(Cash payments to acquire tangible assets)			(9,287)	(8,667)
(Cash payments to acquire intangible assets)			(2,757)	(2,299)
(Cash payments to acquire non-current assets held for sale and liabilities associated therewith)			-	(9)
<b>Net cash flow from investing activities</b>			<b>(4,780)</b>	<b>(2,700)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
<b>Cash receipts from financing activities</b>			-	-
<b>Cash payments on financing activities</b>			<b>(55,530)</b>	<b>(61,349)</b>
(Dividends paid)			(55,530)	(61,349)
<b>Net cash flow from financing activities</b>			<b>(55,530)</b>	<b>(61,349)</b>
Effects of change in exchange rates on cash and cash equivalents			928	(3,700)
<b>Net increase / (decrease) in cash and cash equivalents</b>			<b>(116,594)</b>	<b>129,642</b>
<b>Opening balance of cash and cash equivalents</b>	<b>4.36.</b>		<b>334,479</b>	<b>208,537</b>
<b>Closing balance of cash and cash equivalents</b>	<b>4.36.</b>		<b>218,813</b>	<b>334,479</b>

Other adjustments to profit and loss include expense from provisions in the amount of EUR 217 thousand (2017: expense from provisions in the amount of EUR 750 thousand).

	EUR 000	2018	2017
<b>Cash flows from interest and dividends</b>			
Interest paid		(2,833)	(4,126)
Interest received		86,476	83,599
Dividend paid		(55,530)	(61,349)
Dividend received		251	822

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

# BANK INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

	EUR 000	Notes	2018	2017
Interest income			64,563	61,725
Interest expenses			(3,274)	(3,942)
<b>Net interest income</b>		<b>4.1.</b>	<b>61,289</b>	<b>57,783</b>
Dividend income		4.2.	8,436	6,376
Fee and commission income			39,458	37,845
Fee and commission expenses			(9,284)	(8,615)
<b>Net fee and commission income</b>		<b>4.3.</b>	<b>30,174</b>	<b>29,230</b>
Gains and losses on financial assets and liabilities not measured at fair value through profit or loss		4.4.	701	752
Gains and losses on financial assets and liabilities held for trading		4.5.	1,352	1,668
Gains and losses on non-trading financial assets mandatorily at fair value through profit or loss		4.6.	5,140	-
Gains and losses on financial assets and liabilities designated at fair value through profit or loss		4.7.	-	-
Gains and losses from hedge accounting		4.8.	(1)	
Exchange differences		4.9.	72	(59)
Gains and losses on derecognition of non-financial assets		4.10.	323	(16)
Other operating income		4.11.	(757)	(108)
<b>Financial and operating income and expenses</b>			<b>106,729</b>	<b>95,626</b>
Administrative expenses		4.12.	(50,124)	(47,912)
• staff expenses			(32,807)	(31,113)
• other administrative expenses			(17,317)	(16,799)
Depreciation		4.13.	(3,678)	(3,967)
Provisions		4.14.	118	(470)
Impairment		4.15.	10,704	4,718
Profit or loss from non-current assets and disposal groups classified as held for sale		4.16.	-	60
<b>TOTAL PROFIT BEFORE TAX FROM CONTINUING OPERATIONS</b>			<b>63,749</b>	<b>48,055</b>
Tax expense or income related to profit or loss from continuing operations		4.17.	(10,056)	(7,482)
<b>TOTAL PROFIT AFTER TAX FROM CONTINUING OPERATIONS</b>			<b>53,693</b>	<b>40,573</b>
<b>Net profit for the financial year</b>			<b>53,693</b>	<b>40,573</b>
Basic and diluted earnings per share (expressed in EUR per share)		4.18.	4.24	3.21

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

## BANK STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	EUR 000	2018	2017
<b>NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAX</b>		<b>53,693</b>	<b>40,573</b>
OTHER COMPREHENSIVE INCOME AFTER TAX		(5,614)	(5,500)
<b>ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS</b>		<b>(12)</b>	<b>40</b>
Actuarial gains or losses on defined benefit pensions plans		(13)	40
Income tax relating to items that will not be reclassified to profit and loss		1	-
<b>ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS</b>		<b>(5,602)</b>	<b>(5,540)</b>
Debt instruments at fair value through other comprehensive income		(6,916)	-
• Valuation gains or losses taken to equity		(6,916)	-
Available-for-sale financial assets		-	(6,823)
• Valuation gains or losses taken to equity		-	(6,490)
• Transferred to profit or loss		-	(333)
Income tax relating to items that may be reclassified to profit or loss		1,314	1,283
<b>TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX</b>		<b>48,079</b>	<b>35,073</b>

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

# BANK STATEMENT OF FINANCIAL POSITION

## AT 31 DECEMBER 2018

	EUR 000	Pojasnilo	2018	2017
<b>ASSETS</b>				
Cash, cash balances at central banks and other demand deposits at banks		4.19.	190,195	303,649
Financial assets held for trading		4.20.	7,054	5,236
Non-trading financial assets mandatorily at fair value through profit or loss		4.21.	35,170	-
Financial assets designated at fair value through profit or loss		4.22.a)	5,947	-
Financial assets recognised at fair value through profit or loss		4.22.b)	-	5,983
Financial assets at fair value through other comprehensive income		4.23.	258,682	-
Financial assets at amortised cost		4.25.	2,516,404	-
• debt securities			253,797	-
• loans to banks			45,316	-
• loans to non-bank customers			2,213,499	-
• other financial assets			3,792	-
Available-for-sale financial assets		4.24.	-	436,641
Loans and receivables		4.26.	-	2,160,085
• loans to banks			-	44,319
• loans to non-bank customers			-	2,108,235
• other financial assets			-	7,531
Derivatives - hedge accounting		4.27.	607	-
Investments in subsidiaries, associates and joint ventures		4.28.	20,454	20,454
Tangible assets			32,403	33,295
• property, plant and equipment		4.29.a)	29,479	30,278
• investment property		4.29.b)	2,924	3,017
Intangible assets		4.30.	9,801	8,718
Tax assets		4.17.	830	4,902
• current tax assets			-	4,038
• deferred tax assets			830	864
Other assets		4.31.	11,085	11,902
Non-current assets and disposal groups classified as held for sale		4.32.	461	361
<b>Total assets</b>			<b>3,089,093</b>	<b>2,991,226</b>
<b>LIABILITIES</b>				
Financial liabilities held for trading		4.20.	7,719	5,827
Financial liabilities designated at fair value through profit or loss		4.22.a)	5,947	-
Financial liabilities recognised at fair value through profit or loss		4.22.b)	-	5,983
Financial liabilities measured at amortised cost		4.33.	2,713,164	2,597,677
• deposits from banks and central banks			1,678	1,468
• deposits from non-bank customers			2,508,203	2,350,525
• loans from banks and central banks			178,502	211,857
• other financial liabilities			24,781	33,827
Fair value changes of the hedged items in portfolio hedge of interest rate risk		4.27.	602	-
Provisions		4.34.	11,628	13,636
Tax liabilities		4.17.	6,730	7,794
• current tax liabilities			2,495	-
• deferred tax liabilities			4,235	7,794
Other liabilities		4.35.	1,613	1,564
<b>Total liabilities</b>			<b>2,747,403</b>	<b>2,632,481</b>

	EUR 000	Notes	31 Dec 2018	31 Dec 2017
<b>SHAREHOLDERS' EQUITY</b>				
Capital		4.36.	52,784	52,784
Share premium		4.36.	104,061	104,061
Accumulated other comprehensive income		4.36.	17,410	32,587
Reserves from profit		4.36.	29,106	29,106
Retained earnings		4.36.	84,636	99,634
Income from current year		4.36.	53,693	40,573
<b>Total shareholders' equity</b>			<b>341,690</b>	<b>358,745</b>
<b>Total equity and liabilities</b>			<b>3,089,093</b>	<b>2,991,226</b>

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

## BANK STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

EUR 000	Capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including income from current year)	Total equity
<b>Balance at 31 December 2017</b>	<b>52,784</b>	<b>104,061</b>	<b>32,587</b>	<b>29,106</b>	<b>140,207</b>	<b>358,745</b>
Transition effects to IFRS 9	-	-	(9,563)	-	(241)	(9,804)
<b>Balance at 1 January 2018 after transition to IFRS 9</b>	<b>52,784</b>	<b>104,061</b>	<b>23,024</b>	<b>29,106</b>	<b>139,966</b>	<b>348,941</b>
<b>Comprehensive income for the financial year after tax</b>	<b>-</b>	<b>-</b>	<b>(5,614)</b>	<b>-</b>	<b>53,693</b>	<b>48,079</b>
Appropriation of (accounting for) dividends	-	-	-	-	(55,530)	(55,530)
Other	-	-	-	-	200	200
<b>Balance at 31 December 2018</b>	<b>52,784</b>	<b>104,061</b>	<b>17,410</b>	<b>29,106</b>	<b>138,329</b>	<b>341,690</b>
<b>Balance at 31 December 2016</b>	<b>52,784</b>	<b>104,061</b>	<b>38,087</b>	<b>29,106</b>	<b>160,983</b>	<b>385,021</b>
<b>Comprehensive income for the financial year after tax</b>	<b>-</b>	<b>-</b>	<b>(5,500)</b>	<b>-</b>	<b>40,573</b>	<b>35,073</b>
Appropriation of (accounting for) dividends	-	-	-	-	(61,349)	(61,349)
Other	-	-	-	-	-	0
<b>Balance at 31 December 2017</b>	<b>52,784</b>	<b>104,061</b>	<b>32,587</b>	<b>29,106</b>	<b>140,207</b>	<b>358,745</b>

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

# BANK CASH FLOW STATEMENT

## FOR THE YEAR ENDED 31 DECEMBER 2018

	EUR 000	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Total profit or loss before tax		63,749	48,056
Depreciation		3,678	3,967
Impairments / (reversal of impairments) of investments in debt financial instruments at fair value through other comprehensive income		(6)	-
Impairments / (reversal of impairments) of loans and other financial assets at amortised cost		(10,690)	(4,718)
Impairments of tangible assets (impairments of investment property included), intangible assets and other assets		(8)	-
Net (gains) / losses from exchange differences		(72)	59
Net (gains) / losses from sale of tangible assets		(242)	16
Other (gains) / losses from investing activities		(81)	-
Net unrealised (gains) / losses from non-current assets held for sale and discontinuing operations and liabilities associated therewith		-	(858)
Other adjustments to total profit or loss before tax		(118)	470
<b>Cash flow from operating activities before changes in operating assets and liabilities</b>		<b>56,210</b>	<b>46,992</b>
<b>(Increases) / decreases in operating assets</b>		<b>(220,333)</b>	<b>(73,981)</b>
Net (increase) / decrease in financial assets held for trading		(1,818)	550
Net (increase) / decrease in non-trading financial assets mandatorily at fair value through profit or loss		(3,534)	-
Net (increase) / decrease in financial assets designated at fair value through profit or loss		36	-
Net (increase) / decrease in financial assets recognised at fair value through profit or loss		-	1,558
Net (increase) / decrease in financial assets at fair value through other comprehensive income		(53,567)	-
Net (increase) / decrease in loans and other financial assets at amortised costs		(162,266)	-
Net (increase) / decrease in financial assets available for sale		-	1,498
Net (increase) / decrease in loans and receivables		-	(73,190)
Net (increase) / decrease in other assets		816	(4,397)
<b>(Increases) / decreases in operating liabilities</b>		<b>114,821</b>	<b>231,220</b>
Net increase / (decrease) in financial liabilities held for trading		1,892	(572)
Net increase / (decrease) in financial liabilities designated at fair value through profit or loss		(36)	(1,559)
Net increase / (decrease) in deposits, loans and other financial liabilities measured at amortised cost		112,845	233,165
Net increase / (decrease) in other liabilities		120	186
<b>Cash flow from operating activities</b>		<b>(49,302)</b>	<b>204,231</b>
<b>Income taxes (paid) / refunded</b>		<b>(8,184)</b>	<b>(11,507)</b>
<b>Net cash flow from operating activities</b>		<b>(57,486)</b>	<b>192,724</b>

	EUR 000	Notes	2018	2017
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
<b>Receipts from investing activities</b>			<b>540</b>	<b>1,592</b>
Receipts from the sale of tangible assets			459	133
Receipts from the sale of intangible assets			-	115
Receipts from non-current assets held for sale and liabilities associated therewith			-	1,344
Other receipts from investing activities			81	-
<b>Cash payments on investing activities</b>			<b>(4,118)</b>	<b>(3,325)</b>
(Cash payments to acquire tangible assets)			(1,561)	(1,246)
(Cash payments to acquire intangible assets)			(2,557)	(2,070)
(Cash payments to acquire non-current assets held for sale and liabilities associated therewith)			-	(9)
<b>Net cash flow from investing activities</b>			<b>(3,578)</b>	<b>(1,733)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
<b>Cash receipts from financing activities</b>				
<b>Cash payments on financing activities</b>			<b>(55,530)</b>	<b>(61,349)</b>
(Dividends paid)			(55,530)	(61,349)
<b>Net cash flow from financing activities</b>			<b>(55,530)</b>	<b>(61,349)</b>
Effects of change in exchange rates on cash and cash equivalents			928	(3,700)
<b>Net increase / (decrease) in cash and cash equivalents</b>			<b>(116,594)</b>	<b>129,642</b>
<b>Opening balance of cash and cash equivalents</b>		<b>4.36.</b>	<b>334,479</b>	<b>208,537</b>
<b>Closing balance of cash and cash equivalents</b>		<b>4.36.</b>	<b>218,813</b>	<b>334,479</b>

Other adjustments to profit and loss before taxes include expense from provisions in the amount of EUR 118 thousand (2017: expense from provisions in the amount EUR 470 thousand).

	EUR 000	2018	2017
<b>Cash flows from interest and dividends</b>			
Interest paid		(2,607)	(3,859)
Interest received		66,052	63,245
Dividend paid		(55,530)	(61,349)
Dividend received		8,436	6,376

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

# NOTES TO THE CONSOLIDATED AND THE BANK'S FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

### OFFICIAL SEAT, LEGAL FORM, ACTIVITIES

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

Important information from District court of Ljubljana register on 31 December 2018:

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

Abbreviated name of the company: SKB d.d.

Official seat of the company: Ljubljana

Business address: Ajdovščina 4, 1000 Ljubljana

Organization: Joint stock company

Amount of capital stock: 52,784,176.26 EUR

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

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

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

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



SKB Bank provides additional financial services, in particular:

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

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

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

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

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

The following subsidiary is consolidated:

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

In year 2016 SKB Leasing has acquired BPF Financiranje d. o. o., becoming its 100 % owner. The company was later renamed SKB Leasing Select d. o. o.

Purchase price for business share was EUR 7,445 thousand. SKB Leasing has acquired its share from company PSA Financial Holding B.V. (private limited company with headquarters address Hoofdweg 256, 3067GJ Rotterdam, Netherland), which owned 50 % of business share on the day of the conclusion of the contract and from company SG Consumer Finance (with headquarters address 57 - 59 Avenue de Chatou, 92500 Rueil Malmaison, France), which owned 50 % of business share on the day of the conclusion of the contract.

SKB Leasing Select is part of SKB Group since 1 March 2016.

As at 31 December 2018 SKB Leasing and its subsidiary SKB Leasing Select have total assets in the amount of EUR 570.790 thousand (2017: EUR 511,782 thousand), equity in the amount of EUR 41.373 thousand (2017: EUR 36,112 thousand) and a profit for the year 2018 in the amount of EUR 13.870 thousand (2017: EUR 9,995 thousand).

The Société Générale Group holds 99.73 percent of the shares in SKB. The remaining shares are owned by other enterprises and individuals. The ultimate parent is Société Générale S.A., 29 Boulevard Haussmann, Paris. Consolidated Annual Report of Société Générale Group is located at the web address <http://www.societegenerale.com/en/measuring-our-performance/information-and-publications/financial-results>.

At the end of 2018, a total of 829 staff were employed by SKB Bank (2017: 836) at the head office in Ljubljana at Ajdovščina 4, and in the 54 outlets (2017: 55) spread across Slovenia, and 83 staff were employed by SKB Leasing and SKB Leasing Select (2017: 76). The average number of employees in year 2018 was in SKB Bank 834,9 (2017: 830.9) and in SKB Group 914,6 (2017: 904.9).

## 2. BASIS OF PREPARATION

### 2.1. BASIS OF PREPARATION

The consolidated financial statements and the separate financial statements at 31 December 2018, and for the year then ended, were authorized for issue by the General Management of SKB Bank on 29 March 2019.

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

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

SKB Group's and SKB Bank's functional currency in 2018 is the Euro ("EUR"). The consolidated financial statements and separate financial statements are prepared in EUR and all values are rounded to the nearest thousand (EUR 000) except when otherwise indicated.

### 2.2. CHANGES IN ACCOUNTING POLICIES

#### 2.2.1. INITIAL APPLICATION OF NEW AMENDMENTS TO THE EXISTING STANDARDS EFFECTIVE FOR THE CURRENT REPORTING PERIOD

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

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2018), effects of transition to IFRS 9 are explained in chapter 2.2.5,
- **IFRS 15 "Revenue from Contracts with Customers"** and further amendments (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in the SKB Bank's and SKB Group's financial statements. The effects of transition to IFRS 9 are described in chapter 2.2.5.

## 2.2.2. STANDARDS AND AMENDMENTS TO THE EXISTING STANDARDS ISSUED BY IASB AND ADOPTED BY THE EU BUT NOT YET EFFECTIVE

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

- **IFRS 16 “Leases”** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 9 “Financial Instruments” - Prepayment Features with Negative Compensation** – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 “Uncertainty over Income Tax Treatments”** – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

SKB Group and SKB Bank has elected not to adopt new standard, amendments to existing standard and interpretation in advance of their effective dates.

SKB Group and SKB Bank have implemented IFRS 16 on 1 January 2019. They have chosen prospective method of transition, so the transition effects have not been recognised in equity. SKB Group has recognised assets in use and lease liability in the amount of EUR 5,211 thousand and SKB Bank in the amount of EUR 5,186 thousand.

## 2.2.3. NEW STANDARDS AND AMENDMENTS TO THE EXISTING STANDARDS ISSUED BY IASB BUT NOT YET ADOPTED BY THE EU

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

- **IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016)** - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 “Insurance Contracts”** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 3 “Business Combinations”** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period).
- **Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded)
- **Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”** - Definition of Material (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IAS 19 “Employee Benefits”** - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 “Investments in Associates and Joint Ventures”** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards due to “Improvements to IFRSs (cycle 2015 -2017)”** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

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 principles have not been adopted by the EU remains unregulated. According to 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.

#### **2.2.4. MORE DETAILS ABOUT INDIVIDUAL STANDARDS, AMENDMENTS TO EXISTING STANDARDS AND INTERPRETATIONS:**

- **IFRS 9 "Financial Instruments"** issued on 24 July 2014 is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.  
The effects of transition to IFRS 9 are explained in chapter 2.2.5.
- **IFRS 14 "Regulatory Deferral Accounts"** issued by IASB on 30 January 2014. This standard is intended to allow entities that are first-time adopters of IFRS, and that currently recognise regulatory deferral accounts in accordance with their previous GAAP, to continue to do so upon transition to IFRS.
- **IFRS 15 "Revenue from Contracts with Customers"** issued by IASB on 28 May 2014 (on 11 September 2015 IASB deferred effective date of IFRS 15 to 1 January 2018 and on 12 April 2016 IASB made clarifications to this standard). IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. The core principle of the new standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.  
SKB Group and SKB Bank have examined the standard and established that it will have no effect on their financial statements at transition.
- **IFRS 16 "Leases"** issued by IASB on 13 January 2016. Under IFRS 16 a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. As with IFRS 16's predecessor, IAS 17, lessors classify leases as operating or finance in nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. For finance leases a lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.
- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions issued by IASB on 20 June 2016. The amendments provide requirements on the accounting for: (a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (b) share-based payment transactions with a net settlement feature for withholding tax obligations; and (c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.
- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation issued by IASB on 12 October 2017. The amendments modifies the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. Under the amendments, the sign of the prepayment amount is not relevant, i. e. depending on the interest rate prevailing at the time of termination, a payment may also be made in favour of the contracting party effecting the early repayment. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain.

- **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 issued by IASB on 11 September 2014. The amendments address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business.
- **Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”** - Definition of Material issued by IASB on 31 October 2018. The amendments clarify the definition of material and how it should be applied by including in the definition guidance.
- **Amendments to IAS 19 “Employee Benefits”** - Plan Amendment, Curtailment or Settlement issued by IASB on 7 February 2018. The amendments require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.
- **Amendments to IAS 28 “Investments in Associates and Joint Ventures”** - Long-term Interests in Associates and Joint Ventures issued by IASB on 12 October 2017. Amendments were introduced to clarify that an entity applies IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. Amendments also delete paragraph 41 because the Board felt that it merely reiterated requirements in IFRS 9 and had created confusion about the accounting for long-term interests.
- **Amendments to IAS 40 “Investment Property”** - Transfers of Investment Property issued by IASB on 8 December 2016. The amendments state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management’s intentions for the use of a property by itself does not constitute evidence of a change in use. Amendments also state that the list of evidence in paragraph 57 was designated as non-exhaustive list of examples instead of the previous exhaustive list.
- **Amendments to IFRS 1 and IAS 28 due to “Improvements to IFRSs (cycle 2014 - 2016)”** issued by IASB on 8 December 2016. Amendments to various standards resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording. Changes include: (i) deletion of the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose, (ii) clarification of the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
- **Amendments to IFRS 3 “Business Combinations”** - Definition of a Business issued by IASB on 22 October 2018. Amendments were introduced to improve the definition of a business. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. In addition to amending the wording of the definition, the Board has provided supplementary guidance.
- **Amendments to various standards due to “Improvements to IFRSs (cycle 2015 -2017)”** issued by IASB on 12 December 2017. Amendments to various standards resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording. The amendments clarify that: a company remeasures its previously held interest in a joint operation when it obtains control of the business (IFRS 3); a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business (IFRS 11); a company accounts for all income tax consequences of dividend payments in the same way (IAS 12); and a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale (IAS 23).
- **Amendments to References to the Conceptual Framework in IFRS Standards** issued by IASB on 29 March 2018. Due to the fact that Conceptual Framework was revised, the IASB updated references to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. This was done to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction.
- **IFRIC 22 “Foreign Currency Transactions and Advance Consideration”** issued by IASB on 8 December 2016. Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

- **IFRIC 23 “Uncertainty over Income Tax Treatments”** issued by IASB on 7 June 2017. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company’s tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes.

## 2.2.5. PRESENTATION OF EFFECTS OF TRANSITION TO IFRS 9 AT 1 JANUARY 2018

At 24 July 2014 IFRS 9 Financial instruments has been issued and replaced IAS 39 Financial instruments: Recognition and Measurement. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting and is effective for annual periods beginning on or after 1 January 2018. Classification and measurement of financial instruments and expected loss model is described in chapter 3 Summary of significant accounting policies (3.4. Financial instruments).

According to requirements regarding the transition to IFRS 9 SKB Group and SKB Bank decided not to recalculate the comparative data.

**Hedge accounting** - IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities.

**Own credit risk** - IFRS 9 removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity’s own credit risk on such liabilities are no longer recognised in profit or loss.

At 1 January 2018 the effects of IFRS 9 implementation have been recognised in retained earnings and accumulated other comprehensive income.

	EUR 000	Group	Bank
<b>Retained earnings</b>		<b>1,161</b>	<b>(241)</b>
• impairment		1,430	(291)
• other impacts		(269)	50
<b>Accumulated other comprehensive income</b>		<b>(9,563)</b>	<b>(9,563)</b>
• valuation of bonds		(11,861)	(11,861)
• impairment of bonds		49	49
• deferred taxes		2,243	2,243
• other impacts		6	6
		<b>(8,402)</b>	<b>(9,804)</b>

Impact of adopting IFRS 9 in SKB Group is lower equity in the amount of EUR 8,402 thousand and in SKB Bank lower equity in the amount of EUR 9,804 thousand.

### Impact of adopting IFRS 9 on equity and solvency ratio on 1 January 2018:

Group	01/01/2018	31/12/2017
<b>OWN FUNDS</b>	<b>280,700</b>	<b>277,962</b>
<b>Solvency ratio (%)</b>	<b>13.38</b>	<b>13.25</b>

Bank	01/01/2018	31/12/2017
<b>OWN FUNDS</b>	<b>274,195</b>	<b>272,859</b>
<b>Solvency ratio (%)</b>	<b>13.26</b>	<b>13.19</b>

SKB Group and SKB Bank will not use transitional arrangements for mitigation of the impact of introduction of IFRS 9 on the equity. Impact of adopting IFRS 9 on equity of SKB Group is its increase in the amount of EUR 2,738 thousand (EUR 1.577 thousand from classification and positive impact in the amount of EUR 1.161 thousand from impairment) and on equity of SKB Bank its increase in the amount of 1,336 (EUR 1.577 thousand from classification and negative impact in the amount of EUR 241 thousand from impairment).

### Učinek uvedbe MSRP 9 na kapital in kapitalsko ustreznost na dan 1. januarja 2018:

	EUR 000	Group	Bank
Impairment of loans and receivables		124	(1,597)
Impairment of bonds		(79)	(79)
Provisions for off-balance sheet commitments		1,385	1,385
		<b>1,430</b>	<b>(291)</b>

Impact of adopting IFRS 9 shows the release of impairment in the amount of EUR 1,430 thousand in SKB Group and additional impairment in the amount of EUR 291 thousand in SKB Bank.

### Comparison of impairment according to IAS 39 and provisions according to IAS 37 at 31 December 2017 and impairment and provisions according to IFRS 9 at 1 January 2018

Group	EUR 000	31/12/2017			01/01/2018
		Accounting value (IAS 39 / IAS 37)	Reclassification	Re-measurement	Accounting value (IFRS 9)
<b>Loans and receivables according to IAS 39 / Financial assets at amortised cost according to IFRS 9</b>		<b>(129,046)</b>	<b>0</b>	<b>94</b>	<b>(128,952)</b>
Cash, cash balances at central banks and other demand deposits		-	-	(72)	(72)
Loans to banks		-	-	(4)	(4)
Loans to non-bank customers		(128,610)	-	205	(128,405)
Other financial assets		(436)	-	(5)	(441)
Debt securities		-	-	(30)	(30)
<b>Available-for-sale financial assets according to IAS 39 / Financial assets at fair value through other comprehensive income according to IFRS 9</b>		<b>0</b>	<b>0</b>	<b>(49)</b>	<b>(49)</b>
Debt securities		-	-	(49)	(49)
<b>Provisions for off-balance sheet commitments according to IAS 37 / Provisions for off-balance sheet commitments according to IFRS 9</b>		<b>(8,348)</b>	<b>-</b>	<b>1,385</b>	<b>(6,963)</b>

Bank	31/12/2017			01/01/2018	
EUR 000	Knjigovodska vrednost (MRS 39 / MRS 37)	Prerazvrstitev	Ponovno merjenje	Knjigovodska vrednost (MSRP 9)	
<b>Loans and receivables according to IAS 39 / Financial assets at amortised cost according to IFRS 9</b>	<b>(116,953)</b>	<b>0</b>	<b>(1,627)</b>	<b>(118,580)</b>	
Cash, cash balances at central banks and other demand deposits	-	-	(72)	(72)	
Loans to banks	-	-	(4)	(4)	
Loans to non-bank customers	(116,531)	-	(1,516)	(118,047)	
Other financial assets	(422)	-	(5)	(427)	
Debt securities	-	-	(30)	(30)	
<b>Available-for-sale financial assets according to IAS 39 / Financial assets at fair value through other comprehensive income according to IFRS 9</b>	<b>0</b>	<b>0</b>	<b>(49)</b>	<b>(49)</b>	
Debt securities	-	-	(49)	(49)	
<b>Provisions for off-balance sheet commitments according to IAS 37 / Provisions for off-balance sheet commitments according to IFRS 9</b>	<b>(8,348)</b>	<b>-</b>	<b>1,385</b>	<b>(6,963)</b>	

Comparison of financial asset categories according to IAS 39 and financial asset categories according to IFRS 9 at 1 January 2018

EUR 000	Group				Bank	
	Classification according to IAS 39	New classification according to IFRS 9	Original accounting value (IAS 39)	New accounting value (IFRS 9)	Original accounting value (IAS 39)	New accounting value (IFRS 9)
Cash, cash balances at central banks and other demand deposits	Loans and receivables	Amortised cost	303,649	303,577	303,649	303,577
Financial assets held for trading	FVTPL	FVTPL	5,236	5,236	5,236	5,236
Financial assets designated at fair value through profit or loss	Designated at FVTPL	Mandatorily at FVTPL	5,983	5,983	5,983	5,983
Available-for-sale financial assets - equity instruments	Available-for-sale	Mandatorily at FVTPL	13,312	13,312	13,312	13,312
Available-for-sale financial assets - debt instruments	Available-for-sale	FVOCI	212,032	212,032	212,032	212,032
Available-for-sale financial assets - debt instruments	Available-for-sale	Amortised cost	211,297	199,406	211,297	199,406
Loans to banks	Loans and receivables	Amortised cost	44,319	44,315	44,319	44,315
Loans to non-bank customers	Loans and receivables	FVTPL	18,324	18,324	18,324	18,324
Loans to non-bank customers	Loans and receivables	Amortised cost	2,264,069	2,264,273	2,089,911	2,088,395
Other financial assets	Loans and receivables	Amortised cost	7,976	7,971	7,531	7,526



**Comparison of accounting values of financial assets according to IAS 39 and accounting values of financial assets according to IFRS 9 at 1 January 2018**

Group	31/12/2017					01/01/2018
EUR 000	Note	Accounting value (39)	Reclassification	Re-measurement - reclassification	Re-measurement - impairment	Accounting value (IFRS 9)
<b>Financial assets at amortised cost</b>		<b>2,638,336</b>	<b>192,973</b>	<b>(11,861)</b>	<b>94</b>	<b>2,819,542</b>
Cash, cash balances at central banks and other demand deposits		303,649	-	-	(72)	303,577
Loans to banks		44,319	-	-	(4)	44,315
Loans to non-bank customers	1	2,282,392	(18,324)	0	205	2,264,273
• corporates		863,284	(18,324)	-	494	845,454
• government		87,328	-	-	(188)	87,140
• financial organisations		3,699	-	-	(8)	3,691
• households		1,328,081	-	-	(93)	1,327,988
Other financial assets		7,976	-	-	(5)	7,971
Debt securities	2	-	211,297	(11,861)	(30)	199,406
<b>Financial assets at fair value through other comprehensive income</b>		<b>436,642</b>	<b>(224,610)</b>	<b>0</b>	<b>0</b>	<b>212,032</b>
Available-for-sale financial instruments - debt instruments	2	211,298	(211,298)	-	-	0
Available-for-sale financial instruments - debt instruments	3	212,032	(212,032)	-	-	0
Financial assets at fair value through other comprehensive income - debt instruments	3	-	212,032	-	-	212,032
Available-for-sale financial instruments - equity instruments	4	13,312	(13,312)	-	-	0
<b>Financial assets at fair value through profit or loss</b>		<b>11,219</b>	<b>31,636</b>	<b>0</b>	<b>0</b>	<b>42,855</b>
Financial assets held for trading		5,236	-	-	-	5,236
Financial assets designated at fair value through profit or loss	5	5,983	(5,983)	-	-	0
Non-trading financial assets mandatorily at fair value through profit or loss	5	-	5,983	-	-	5,983
Non-trading financial assets mandatorily at fair value through profit or loss - equity instruments	4	-	13,312	-	-	13,312
Non-trading financial assets mandatorily at fair value through profit or loss - loans to non-bank customers	1	-	18,324	-	-	18,324
		<b>3,086,197</b>				<b>3,074,429</b>

Bank		31/12/2017					01/01/2018
EUR 000	Note	Accounting value ( 39)	Reclassification	Re-measurement - reclassification	Re-measurement - impairment	Accounting value (IFRS 9)	
<b>Financial assets at amortised cost</b>		<b>2,463,734</b>	<b>192,973</b>	<b>(11,861)</b>	<b>(1,627)</b>	<b>2,643,219</b>	
Cash, cash balances at central banks and other demand deposits		303,649	-	-	(72)	303,577	
Loans to banks		44,319	-	-	(4)	44,315	
Loans to non-bank customers	1	2,108,235	(18,324)	-	(1,516)	2,088,395	
• corporates		674,444	(18,324)	-	(636)	655,484	
• government		87,179	-	-	(188)	86,991	
• financial organisations		295,981	-	-	(51)	295,930	
• households		1,050,631	-	-	(641)	1,049,990	
Other financial assets		7,531	-	-	(5)	7,526	
Debt securities	2	-	211,297	(11,861)	(30)	199,406	
<b>Financial assets at fair value through other comprehensive income</b>		<b>436,641</b>	<b>(224,609)</b>	<b>0</b>	<b>0</b>	<b>212,032</b>	
Available-for-sale financial instruments - debt instruments	2	211,297	(211,297)	-	-	0	
Available-for-sale financial instruments - debt instruments	3	212,032	(212,032)	-	-	0	
Financial assets at fair value through other comprehensive income - debt instruments	3	-	212,032	-	-	212,032	
Available-for-sale financial instruments - equity instruments	4	13,312	(13,312)	-	-	0	
<b>Financial assets at fair value through profit or loss</b>		<b>11,219</b>	<b>31,636</b>	<b>0</b>	<b>0</b>	<b>42,855</b>	
Financial assets held for trading		5,236	-	-	-	5,236	
Financial assets designated at fair value through profit or loss	5	5,983	(5,983)	-	-	0	
Non-trading financial assets mandatorily at fair value through profit or loss	5	-	5,983	-	-	5,983	
Non-trading financial assets mandatorily at fair value through profit or loss - equity instruments	4	-	13,312	-	-	13,312	
Non-trading financial assets mandatorily at fair value through profit or loss - loans to non-bank customers	1	-	18,324	-	-	18,324	
		<b>2,911,594</b>				<b>2,898,106</b>	

1 Some loans to non-bank customers that were according to IAS 39 classified as “Loans and receivables” and were measured at amortised cost, have been according to IFRS 9 reclassified as “Non-trading financial assets mandatorily at fair value through profit or loss”, because the contractual cash flows of these loans are not solely payments of principal and interests on the principal outstanding.

2 Some debt securities that were according to IAS 39 classified as “Available-for-sale financial assets” have been according to IFRS 9 reclassified as “Financial assets at amortised cost”, because they are held within a business model whose objective is to collect the contractual cash flows. Debt securities have been reclassified according to business model of SKB Group and SKB Bank.

3 Some debt securities that were according to IAS 39 classified as “Available-for-sale” have been according to IFRS 9 reclassified as “Financial assets at fair value through other comprehensive income”, because they are held within a business model whose objective is to collect the contractual cash flows and to sell financial asset. Debt securities have been reclassified according to business model of SKB Group and SKB Bank.

4 Equity instruments that were according to IAS 39 classified as “Available-for-sale financial assets” have been according to IFRS 9 reclassified as “Non-trading financial assets mandatorily at fair value through profit or loss”.

5 EMTN bonds were according to IAS 39 classified as “Financial assets at fair value through profit or loss”. According to IFRS 9 SKB Group and SKB Bank have reclassified those bonds as “Financial assets designated at fair value through profit or loss”.

SKB Group and SKB Bank have reclassified a part of debt securities that were according to IAS 39 in category “Available-for-sale financial assets” in category “Financial assets at amortised cost”. At 31 December 2018 the fair value of these debt securities amounts to EUR 248,192 thousand. If these debt securities have not been reclassified into the category at amortised cost at the time of transition to IFRS 9, the loss from valuation to fair value in the amount of EUR 5,605 thousand would have been recognised in other comprehensive income.

## 2.3. COMPARATIVE DATA

Due to adjustments at transition of IFRS 9 the schemes of Income statement and Statement of financial position have changed compared to year 2017. At transition to IFRS 9 SKB Group and SKB Bank have not recalculate the compared data for 31 December 2017. Therefore the financial statements are a combination of classification and measurement categories according to IAS 39 and classification and measurement categories according to IFRS 9.

In year 2018 the Bank of Slovenia changed the scheme of Income statement in part related to effects from investments in subsidiaries, associates and joint ventures. SKB Group and SKB Bank adjusted the comparative data to these changes. In the Income statement for year ended 31 December 2017 the item Share of the profit or loss of subsidiaries, associates and joint ventures includes dividends and effects of the sale of investments. In the income statement for year ended 31 December 2018 the dividends from investments in subsidiaries, associates and joint ventures are included in item Dividend income.

## 2.4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

### Judgments

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

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

### Estimates and assumptions

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

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

## Fair value of financial instruments

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

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

## Impairment of loans to non-bank customers

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

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

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

SKB Group and SKB Bank calculate either 12-month or lifetime expected credit loss on the sound portfolio by using future cash flows and application of particular risk parameters such as probability of default and loss given default that were assessed by statistical models.

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

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

## Impairment losses of tangible and intangible assets

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

## Impairment of Goodwill

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

## Useful lives of tangible and intangible assets

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

SKB Group still has in use intangible assets at a purchase value of EUR 6,792 thousand, which are 100 % depreciated.  
SKB Bank still has in use intangible assets at a purchase value of EUR 6,640 thousand, which are 100 % depreciated.

## Tax contingencies

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

## Provisions for off-balance sheet risks

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

## Provisions for liabilities to employees

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

## Provisions for legal claims

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

# 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

## 3.1. CONSOLIDATION

Subsidiary undertakings, which are those companies which SKB Bank controls according to IFRS requirements, have been fully consolidated. The effects of all material inter-company balances and transactions are eliminated. When necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by SKB Bank.

## 3.2. RELATED PARTIES

Related parties of SKB Bank in the reporting period are:

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

## 3.3. FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities denominated in foreign currencies are translated at the ECB reference rates for the EUR as of 31 December 2018 and 31 December 2017, respectively. The ECB reference rate for the USD as of 31 December is as follows:

Currency	2018	2017
1 EUR	1,1450 USD	1,1993 USD

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

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

## 3.4. FINANCIAL INSTRUMENTS

At 24 July 2014 IFRS 9 Financial instruments has been issued and replaced IAS 39 Financial instruments: Recognition and Measurement. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting and is effective for annual periods beginning on or after 1 January 2018. IAS 39 requirements regarding recognition and measurement, impairment, derecognition and general hedge accounting which have been in force in year 2017 are described in Annual report for year 2017 in chapter 3.

### 3.4.1. INITIAL RECOGNITION AND DERECOGNITION OF FINANCIAL INSTRUMENTS

#### 3.4.1.1. INITIAL RECOGNITION

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

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

When SKB Group and SKB Bank first recognise a financial instrument, they shall classify it in accordance with the business model and the business model for managing the financial instrument and the contractual cash flow characteristics of the financial instrument. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable incremental costs.

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

#### 3.4.1.2. DERECOGNITION

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

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

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

### 3.4.2. CLASSIFICATION AND MEASUREMENT

IFRS 9 introduces a new model for classification of financial instruments. This model requires SKB Group and SKB Bank to classify financial instruments on the basis of:

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

### 3.4.2.1. BUSINESS MODELS OF SKB GROUP AND SKB BANK

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

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

#### **Business model “Financial assets held for sale”**

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

#### **Business model “Collecting contractual cash flows”**

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

#### **Business model “Collecting contractual cash flows and sale”**

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

#### **Business model “Financial assets at fair value through profit or loss”**

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

### 3.4.2.2. CASH FLOW CHARACTERISTICS

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

Contractual cash flows are SPPI if:

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

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

Financial assets classified in business models “Collecting contractual cash flows” and “Collecting contractual cash flows and sale” have been reviewed by SKB Group and SKB Bank to find out if cash flows are consistent with SPPI test. 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).

At IFRS 9 implementation SKB Group and SKB Bank have found only few loans that did not pass SPPI test. These loans have been classified as financial instruments at fair value through profit or loss.

### 3.4.2.3. CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

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

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

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

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

### 3.4.2.4. MEASUREMENT OF FINANCIAL INSTRUMENTS

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

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

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

### 3.4.3. RECLASSIFICATION OF FINANCIAL INSTRUMENTS

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

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

### 3.4.4. MODIFICATION OF FINANCIAL INSTRUMENTS

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

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

The newly recognised loan must then undergo fresh SPPI testing.

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

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



### 3.4.5. RECOGNITION OF GAINS AND LOSSES

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

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

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

### 3.4.6. IMPAIRMENT OF FINANCIAL INSTRUMENTS

IFRS 9, implemented as of 1 January 2018, has introduced a new, expected-loss impairment model. Specifically, the new standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a timelier basis.

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

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

#### Stage 1

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

#### Stage 2

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

#### Stage 3

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

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

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

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

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

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

### **Calculation of expected credit loss**

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

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

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

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

### **Forward looking information**

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

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

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

## **3.5. CASH AND CASH BALANCES WITH CENTRAL BANKS**

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

### **Cash and cash equivalents**

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

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

## 3.6. FINANCIAL ASSETS HELD FOR TRADING

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

### 3.6.1. DERIVATIVES

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

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

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

### 3.6.2. DEBT INSTRUMENTS

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

## 3.7. NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

## 3.8. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS

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

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

### 3.9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

If there is objective evidence for impairment loss, the amount of impairment loss is recognised in other comprehensive income.

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

### 3.10. FINANCIAL ASSETS AT AMORTISED COST

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

If there is objective evidence for impairment loss, the amount of impairment loss is recognised in income statement.

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

Forbearance – restructuring and refinancing of loans

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

## 3.11. DERIVATIVES – HEDGE ACCOUNTING

### 3.11.1. PORTFOLIO HEDGE OF INTEREST RATE RISK

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

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

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

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

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

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

## 3.12. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

If there is objective evidence that an impairment loss has been incurred, the amount of the impairment loss is recognised.

## 3.13. TANGIBLE ASSETS

### 3.13.1. PROPERTY, PLANT AND EQUIPMENT

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

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

	v %	2018	2017
Buildings and their significant parts		1.8 – 10.0	1.8 – 10.0
Furniture and fittings		10.0 – 12.5	10.0 – 12.5
Computers		20.0 – 25.0	20.0 – 25.0
Equipment and other		6.7 – 20.0	6.7 – 20.0

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

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

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

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

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

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

### 3.13.2. INVESTMENT PROPERTY

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

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

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

## 3.14. INTANGIBLE ASSETS

Intangible assets include computer software and goodwill.

### 3.14.1. COMPUTER SOFTWARE

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

	in %	2018	2017
Computer software		14.3	14.3

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

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

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

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

### **3.13.2. GOODWILL**

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

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

## **3.15. TAX ASSETS AND LIABILITIES**

### **3.15.1. CURRENT TAX ASSETS AND LIABILITIES**

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

### **3.15.2. 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 and not in the income statement.

## **3.16. NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE**

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

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

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

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

## **3.17. LEASING**

### **3.17.1. FINANCIAL LEASES – SKB GROUP AND SKB BANK AS LESSOR**

When assets are subject to a finance lease, the present value of the lease payments is recognised as a receivable and included in “Financial assets at amortised cost”. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return and is included in interest income.

### **3.17.2. FINANCE LEASES – SKB GROUP AND SKB BANK AS LEASEHOLDER**

A finance lease is a lease which transfers substantially all the risks and rewards of ownership to the lessee. Property, plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of minimum lease payments at the inception of the lease, less accumulated depreciation and any impairment losses. Property, plant and equipment acquired under finance leases are depreciated over the useful life of the asset. If there is no assurance that the lessee shall take over the ownership of the leased asset until the end of the lease term, the leased asset is depreciated entirely during the shorter of the term of the lease or its useful life. SKB Group and SKB Bank do not have assets acquired by finance lease.

### **3.17.3. OPERATIONAL LEASES – SKB GROUP AND SKB BANK AS LESSOR**

Leases, where SKB Group and SKB Bank do not transfer substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Rents are recognised as revenue in the period in which they are earned.

### **3.18. FINANCIAL LIABILITIES HELD FOR TRADING**

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

### **3.19. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS**

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

### **3.20. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST**

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

### **3.21. PROVISIONS**

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

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

### **3.22. FINANCIAL GUARANTEES**

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

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



### **3.23. INTEREST INCOME AND EXPENSES**

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

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

### **3.24. DIVIDEND INCOME**

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

### **3.25. FEE AND COMMISSION INCOME**

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

### **3.26. GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS**

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

### **3.27. GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING**

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

### **3.28. GAINS AND LOSSES ON NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT AND LOSS**

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

### **3.29. GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS**

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

### 3.30. GAINS OR LOSSES FROM HEDGE ACCOUNTING

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

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

### 3.31. EXCHANGE DIFFERENCES

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

#### 3.32. Gains and losses on derecognition of non-financial assets

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

### 3.33. STAFF EXPENSES

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

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

#### **Retirement Severance Pay:**

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

#### **Seniority awards:**

Seniority awards are required by local regulations in following amounts:

10 years of employment: 460 EUR

20 years of employment: 689 EUR

30 years of employment: 919 EUR

40 years of employment: 919 EUR

**Termination benefits:**

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

**Management bonus scheme:**

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

**Equity-settled transactions:**

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

### **3.34. PROFIT OR LOSS FROM NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE**

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

### **3.35. FIDUCIARY ASSETS**

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

### **3.36. OFFSETTING**

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

## 4. NOTES TO THE FINANCIAL STATEMENTS OF SKB GROUP AND SKB BANK

### 4.1. NET INTEREST INCOME

EUR 000	Group		Bank	
	2018	2017	2018	2017
<b>Interest income</b>				
Non-trading financial assets mandatorily at fair value through profit or loss	826	-	826	-
Financial assets designated at fair value through profit of loss	-	-	-	-
Financial assets at fair value through other comprehensive income	6,817	-	6,817	-
Financial assets at amortised cost	75,870	-	55,238	-
Derivatives - hedge accounting	164	-	164	-
Financial assets recognised at fair value through profit or loss	-	33	-	33
Available-for-sale financial assets	-	10,727	-	10,727
Loans and receivables (financial leasing included)	-	68,143	-	48,146
Interest income on impaired financial assets accrued - loans and receivables to customers	1,718	2,742	1,475	2,579
Other assets	-	615	-	240
Financial liabilities arising from negative interest rate	374	-	43	-
	<b>85,769</b>	<b>82,260</b>	<b>64,563</b>	<b>61,725</b>
<b>Interest expense</b>				
Financial liabilities designated at fair value through profit or loss	-	-	-	-
Financial liabilities recognised at fair value through profit or loss	-	(33)	-	(33)
Financial liabilities measured at amortised cost	(2,759)	(3,568)	(2,522)	(3,276)
Other liabilities	(76)	(633)	(76)	(633)
Financial assets arising from negative interest rate	(676)	-	(676)	-
	<b>(3,511)</b>	<b>(4,234)</b>	<b>(3,274)</b>	<b>(3,942)</b>
<b>Net interest income</b>	<b>82,258</b>	<b>78,026</b>	<b>61,289</b>	<b>57,783</b>

EUR 000	Group		Bank	
	2018	2017	2018	2017
<b>Interest income from financial assets at amortised cost</b>				
• corporates	13,488	-	13,488	-
• government	4,695	-	4,695	-
• financial organisations	550	-	3,329	-
• individuals and sole proprietors	35,202	-	35,201	-
• long term financial leases	23,653	-	-	-
	<b>77,588</b>	-	<b>56,713</b>	-
<b>Interest income from loans and receivables (financial leasing included)</b>				
• corporates	-	13,745	-	13,745
• government	-	1,372	-	1,372
• financial organisations	-	747	-	3,731
• individuals and sole proprietors	-	31,877	-	31,877
• long term financial leases	-	23,144	-	-
	-	<b>70,885</b>	-	<b>50,725</b>
<b>Interest expense from financial liabilities measured at amortised cost</b>				
• corporates	(126)	(149)	(126)	(111)
• government	(13)	(16)	(13)	(16)
• financial organisations	(412)	(452)	(175)	(198)
• individuals	(2,208)	(2,951)	(2,208)	(2,951)
	<b>(2,759)</b>	<b>(3,568)</b>	<b>(2,522)</b>	<b>(3,276)</b>

In interest income from financial assets at amortised cost, interest income from debt securities that have been according to IFRS 9 classified in category "Financial assets at amortised cost" in the amount of 3,881 EUR is included in year 2018.

## 4.2. DIVIDEND INCOME

EUR 000	Group		Bank	
	2018	2017	2018	2017
Dividend income from non-trading financial assets mandatorily at fair value through profit or loss	251	-	251	-
Dividend income from available-for-sale financial assets	-	822	-	822
Dividend income from investments in subsidiaries, associates and joint ventures (accounted for using the cost method)	-	-	8,185	5,554
	<b>251</b>	<b>822</b>	<b>8,436</b>	<b>6,376</b>

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

In 2018 the Income statement has been changed by the Bank of Slovenia. Dividend income from investments in subsidiaries, associates and joint ventures accounted for using the cost method previously included in profit or loss of investments in subsidiaries, associates and joint ventures are now included in dividend income. SKB Bank has modified the compared data for year 2017 and included dividends in the amount of EUR 5,554 thousand received from subsidiary SKB Leasing in item "Dividend income".

## 4.3. NET FEE AND COMMISSION INCOME

EUR 000	Group		Bank	
	2018	2017	2018	2017
<b>Fee and commission income</b>				
Fees (commissions) from operations for KDD, stock exchange, brokerage commission and commission from operations for third parties	623	821	623	821
Fees (commissions) from payment operations	16,015	15,695	16,187	15,851
Fees (commissions) from other payment operations	7,995	7,210	8,006	7,220
Fees (commissions) from lending operations	2,518	2,122	2,518	2,122
Fees (commissions) from collateral given	2,478	2,535	2,478	2,535
Fees (commissions) on safekeeping of effects and valuables	205	193	205	193
Fees (commissions) from agency services and commission operations	1,533	430	663	611
Fees (commissions) from insurance operations	1,771	1,745	1,771	1,745
Fees (commissions) on current accounts management	7,007	6,744	7,007	6,747
	<b>40,145</b>	<b>37,495</b>	<b>39,458</b>	<b>37,845</b>
<b>Fee and commission expenses</b>				
Fees (commissions) from operations for KDD, stock exchange, brokerage commission and commission from operations for third parties	(1,022)	(6,102)	(280)	(298)
Fees (commissions) from payment operations	(7,331)	(6,706)	(7,330)	(6,704)
Fees (commissions) from collateral received	(875)	(823)	(875)	(823)
Fees (commissions) for other services	(799)	(790)	(799)	(790)
	<b>(10,027)</b>	<b>(14,421)</b>	<b>(9,284)</b>	<b>(8,615)</b>
<b>Net fee and commission income</b>	<b>30,118</b>	<b>23,074</b>	<b>30,174</b>	<b>29,230</b>

Tax on financial services decreases revenues from fees in the amount of EUR 3,907 thousand (2017: EUR 3,756 thousand).

#### 4.4. GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS

	EUR 000	Group		Bank	
		2018	2017	2018	2017
<b>Gains</b>					
Financial assets at amortised cost		1,098	-	837	-
Available-for-sale financial assets		-	358	-	358
Loans (financial leasing included)		-	620	-	303
Financial liabilities measured at amortized cost		2	134	2	134
		<b>1,100</b>	<b>1,112</b>	<b>839</b>	<b>795</b>
<b>Losses</b>					
Financial assets at amortised cost		(358)	-	(138)	-
Loans (financial leasing included)		-	(328)	-	(43)
		<b>(358)</b>	<b>(328)</b>	<b>(138)</b>	<b>(43)</b>
		<b>742</b>	<b>784</b>	<b>701</b>	<b>752</b>

#### 4.5. GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	EUR 000	Group		Bank	
		2018	2017	2018	2017
Net gains or losses from derivatives		(395)	768	(395)	768
Net gains or losses from trading in debt securities		-	1	-	1
Net gains or losses from dealing in loans and other financial assets		1,747	899	1,747	899
		<b>1,352</b>	<b>1,668</b>	<b>1,352</b>	<b>1,668</b>

#### 4.6. GAINS AND LOSSES ON NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT AND LOSS

	EUR 000	Group		Bank	
		2018	2017	2018	2017
Gains		12,015	-	12,015	-
Losses		(6,875)	-	(6,875)	-
		<b>5,140</b>	<b>-</b>	<b>5,140</b>	<b>-</b>

Gains and losses from investments in equity instruments in the amount of EUR 4,649 thousand and from loans in the amount of EUR 491 thousand are included in this item.

## 4.7. GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS

	EUR 000	Group		Bank	
		2018	2017	2018	2017
Gains		392	446	392	446
Losses		(392)	(446)	(392)	(446)
		-	-	-	-

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

## 4.8. GAINS AND LOSSES FROM HEDGE ACCOUNTING

	EUR 000	Group		Bank	
		2018	2017	2018	2017
Net gains or losses from derivatives - fair value hedge		601	-	601	-
Net gains or losses from hedged items related to hedged risk - fair value hedge		(602)	-	(602)	-
Net gains or losses from ineffective cash flow hedge		-	-	-	-
		<b>(1)</b>	-	<b>(1)</b>	-

## 4.9. EXCHANGE DIFFERENCES

	EUR 000	Group		Bank	
		2018	2017	2018	2017
Exchange differences		75	(58)	72	(59)
		<b>75</b>	<b>(58)</b>	<b>72</b>	<b>(59)</b>

## 4.10. GAINS AND LOSSES ON DERECOGNITION OF NON-FINANCIAL ASSETS

	EUR 000	Group		Bank	
		2018	2017	2018	2017
Gains		481	159	334	4
Losses		(57)	(79)	(11)	(20)
		<b>424</b>	<b>80</b>	<b>323</b>	<b>(16)</b>

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



## 4.11. OTHER OPERATING INCOME

EUR 000	Group		Bank	
	2018	2017	2018	2017
Income				
Rental income - investment property	170	187	297	314
Rental income - POS terminals	300	254	300	254
Rental income - other property, plant and equipment	84	93	149	146
Sale of services - operational leases	1,505	1,679	-	-
Sale of services - other	358	5,148	-	-
Other operating income	1,934	2,139	1,929	2,284
	<b>4,351</b>	<b>9,500</b>	<b>2,675</b>	<b>2,998</b>
<b>Expenses</b>				
Taxes	(60)	(66)	(13)	(19)
Contributions	(3,266)	(2,756)	(3,262)	(2,756)
Memberships	(103)	(97)	(103)	(97)
Other operating expenses	(55)	(246)	(54)	(234)
	<b>(3,484)</b>	<b>(3,165)</b>	<b>(3,432)</b>	<b>(3,106)</b>
	<b>867</b>	<b>6,335</b>	<b>(757)</b>	<b>(108)</b>

From year 2018 SKB Group and SKB Bank recognise part of other operational income in interest income due to more appropriate content disclosure (fees due to financial leasing and similar income).

Operational leases - future minimum income	EUR 000	Group		Bank	
		2018	2017	2018	2017
<b>Future minimum income from operational leases - cars and other equipment</b>					
• up to 1 year		-	1,406	-	-
• over 1 year to 5 years		-	1,423	-	-
• over 5 years		-	-	-	-
		-	<b>2,829</b>	-	-
<b>Future minimum income from operational leases - real estate</b>					
• up to 1 year		126	199	313	380
• over 1 year to 5 years		253	384	942	1,072
• over 5 years		-	-	-	-
		<b>379</b>	<b>583</b>	<b>1,255</b>	<b>1,452</b>

## 4.12. ADMINISTRATION COSTS

EUR 000	Group		Bank	
	2018	2017	2018	2017
<b>Payroll and other staff costs</b>				
Salaries Gross	(26,551)	(25,123)	(24,501)	(23,202)
Social security costs	(4,656)	(4,173)	(4,285)	(3,819)
Other employee costs	(4,621)	(4,664)	(4,021)	(4,091)
	<b>(35,828)</b>	<b>(33,960)</b>	<b>(32,807)</b>	<b>(31,112)</b>
<b>Administration costs</b>				
Material costs	(1,297)	(1,454)	(1,228)	(1,356)
Advertising and marketing	(1,351)	(1,153)	(1,126)	(932)
Professional services	(3,852)	(3,356)	(3,501)	(3,096)
IT costs	(2,404)	(2,361)	(2,059)	(1,997)
Operating lease rentals	(1,842)	(1,876)	(1,739)	(1,747)
Business trips	(155)	(148)	(128)	(121)
Maintenance and protection of premises	(1,365)	(1,400)	(1,317)	(1,355)
Education, training and scholarships	(263)	(288)	(258)	(283)
Insurance	(367)	(260)	(360)	(253)
Postal and telephone charges	(2,303)	(2,203)	(2,021)	(1,957)
Supervision	(546)	(275)	(546)	(275)
Other costs	(3,284)	(3,639)	(3,034)	(3,428)
	<b>(19,029)</b>	<b>(18,413)</b>	<b>(17,317)</b>	<b>(16,800)</b>
	<b>(54,857)</b>	<b>(52,373)</b>	<b>(50,124)</b>	<b>(47,912)</b>

Other costs of Group SKB include costs of maintenance of equipment in the amount of EUR 490 thousand (2017: EUR 464 thousand), costs of card and electronic operations and maintenance of ATM network in the amount of EUR 872 thousand (2017: EUR 780 thousand), printing costs in the amount of EUR 298 thousand (2017: EUR 327 thousand) and costs of other services.

Other costs of Bank SKB include costs of maintenance of equipment in the amount of EUR 490 thousand (2017: EUR 464 thousand), costs of card and electronic operations and maintenance of ATM network in the amount of EUR 872 thousand (2017: EUR 780 thousand), printing costs in the amount of EUR 285 thousand (2017: EUR 311 thousand) and costs of other services.

### Auditor's fee:

EUR 000	Group		Bank	
	2018	2017	2018	2017
Audit of annual report by contract	(231)	(222)	(208)	(199)
Other services for assurances	(3)	(4)	-	-
	<b>(234)</b>	<b>(226)</b>	<b>(208)</b>	<b>(199)</b>

## 4.13. DEPRECIATION / AMORTIZATION

EUR 000	Group		Bank	
	2018	2017	2018	2017
Tangible fixed assets	(3,787)	(4,051)	(2,100)	(2,271)
Intangible fixed assets	(1,640)	(1,719)	(1,475)	(1,589)
Investment property	(76)	(80)	(103)	(107)
	<b>(5,503)</b>	<b>(5,850)</b>	<b>(3,678)</b>	<b>(3,967)</b>

## 4.14. PROVISIONS

EUR 000	Group		Bank	
	2018	2017	2018	2017
Pending legal issues	1,351	(260)	1,240	(16)
Pensions and similar liabilities	(279)	(285)	(266)	(249)
Commitments and contingencies	(656)	(205)	(656)	(205)
Other	(200)	-	(200)	-
	<b>216</b>	<b>(750)</b>	<b>118</b>	<b>(470)</b>

Details of movement in provisions are presented in Note 4.34.

## 4.15. IMPAIRMENT

EUR 000	Group		Bank	
	2018	2017	2018	2017
<b>Financial assets not measured at fair value through profit or loss</b>				
Financial assets at fair value through other comprehensive income	6	-	6	-
Financial assets at amortised cost	9,303	-	10,690	-
Loans (and financial leasing) measured at amortised cost	-	1,235	-	4,718
	<b>9,309</b>	<b>1,235</b>	<b>10,696</b>	<b>4,718</b>
<b>Other non-financial assets</b>				
Other assets	8	-	8	-
	<b>8</b>	<b>-</b>	<b>8</b>	<b>-</b>
	<b>9,317</b>	<b>1,235</b>	<b>10,704</b>	<b>4,718</b>

Details of movement in provisions for impairment of loans are presented in Note 4.26.

## 4.16. PROFIT OR LOSS FROM NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

EUR 000	Group		Bank	
	2018	2017	2018	2017
Profit or loss from non-current assets held for sale	-	60	-	60
	-	<b>60</b>	-	<b>60</b>

## 4.17. TAX

EUR 000	Group		Bank	
	2018	2017	2018	2017
Corporate tax payable in the year	(12,990)	(10,394)	(10,007)	(7,469)
Net deferred tax (charge) / credit	160	708	(49)	(13)
<b>Tax expense</b>	<b>(12,830)</b>	<b>(9,686)</b>	<b>(10,056)</b>	<b>(7,482)</b>
Profit / (loss) after tax as disclosed	67,563	50,568	53,693	40,573
Profit before tax	80,393	60,254	63,749	48,055
Corporate income tax rate	19%	19%	19%	19%
Tax calculated at income tax rate	15,275	11,448	12,112	9,130
<b>Adjusted for</b>				
Non deductible expenses	21,594	8,901	1,192	1,007
Non taxable income	(29,515)	(12,682)	(10,221)	(8,163)
Utilization of tax incentives	(2,424)	(1,786)	(2,050)	(1,607)
Provisions for retirement indemnities - actuarial losses through other comprehensive income	(7)	20	(7)	20
Transition to IFRS 9	(1,894)	-	(218)	-
Tax base	68,147	54,707	52,445	39,312
Income tax	(12,948)	(10,394)	(9,965)	(7,469)
Withholding tax	-	-	-	-
<b>Corporate tax payable in the year</b>	<b>(12,948)</b>	<b>(10,394)</b>	<b>(9,965)</b>	<b>(7,469)</b>
<b>Effective tax rate</b>	<b>16%</b>	<b>16%</b>	<b>16%</b>	<b>16%</b>

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

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

<b>Tax assets and tax liabilities</b>		<b>Group</b>		<b>Bank</b>	
	<b>EUR 000</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Tax assets</b>					
Current tax assets		25	6,489	-	4,038
Deferred tax assets		3,083	3,229	830	864
		<b>3,108</b>	<b>9,718</b>	<b>830</b>	<b>4,902</b>
<b>Tax liabilities</b>					
Current tax liabilities		2,578	2,925	2,495	-
Deferred tax liabilities		4,235	7,794	4,235	7,794
		<b>6,813</b>	<b>10,719</b>	<b>6,730</b>	<b>7,794</b>

<b>Net deferred tax assets</b>		<b>Group</b>		<b>Bank</b>	
	<b>EUR 000</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Deferred tax liabilities</b>					
Mark to market valuation of securities at fair value through other comprehensive income - bonds		4,235	-	4,235	-
Mark to market valuation of securities available-for-sale - bonds		-	7,794	-	7,794
		<b>4,235</b>	<b>7,794</b>	<b>4,235</b>	<b>7,794</b>
<b>Deferred tax assets</b>					
Long term provisions		2,148	2,269	11	12
Provisions for retirement indemnities and seniority awards		276	269	276	269
Provisions for retirement indemnities - actuarial losses through other comprehensive income		57	56	57	56
Mark to market valuation of securities at fair value through other comprehensive income - bonds		14	-	14	-
Valuation of equity investments		-	1	-	1
Depreciation over the rates prescribed by tax legislation		588	634	472	526
		<b>3,083</b>	<b>3,229</b>	<b>830</b>	<b>864</b>
<b>Net deferred tax assets</b>		<b>(1,152)</b>	<b>(4,565)</b>	<b>(3,405)</b>	<b>(6,930)</b>

The deferred tax charge in the income statement comprises the following temporary differences:

EUR 000	Group		Bank	
	2018	2017	2018	2017
Long term provisions	193	776	(1)	-
Provisions for retirement indemnities and seniority awards	7	17	7	17
Securities, measured at fair value through other comprehensive income - bonds	(1)	-	(1)	-
Depreciation over maximum tax-allowable rates	(39)	(85)	(54)	(30)
<b>Net income / (loss) from deferred tax</b>	<b>160</b>	<b>708</b>	<b>(49)</b>	<b>(13)</b>

The deferred tax charge in equity comprises the following temporary differences:

EUR 000	Group		Bank	
	2018	2017	2018	2017
<b>Deferred tax liabilities</b>				
Mark to market valuation of securities at fair value through other comprehensive income - bonds	4,235	-	4,235	-
Mark to market valuation of securities available-for-sale - bonds	-	7,794	-	7,794
	4,235	7,794	4,235	7,794
<b>Deferred tax assets</b>				
Mark to market valuation of securities available-for-sale - shares	-	1	-	1
Provisions for retirement indemnities - actuarial losses through other comprehensive income	67	69	57	56
	67	70	57	57
<b>Net deferred tax assets/(liabilities)</b>	<b>(4,168)</b>	<b>(7,724)</b>	<b>(4,178)</b>	<b>(7,737)</b>

#### Tax payable and matured unpaid taxes

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

## 4.18. BASIC EARNINGS / (LOSS) PER SHARE

EUR 000	Group		Bank	
	2018	2017	2018	2017
Net profit attributable to shareholders	57,569	43,367	53,693	40,573
Weighted average number of ordinary shares in issue	12,649,200	12,649,200	12,649,200	12,649,200
<b>Basic earnings / (loss) per share (in EUR per share)</b>	<b>4.55</b>	<b>3.43</b>	<b>4.24</b>	<b>3.21</b>

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

## 4.19. CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS AT BANKS

Group and bank				
	2018		2017	
EUR 000	Gross exposure	Allowances	Net exposure	Net exposure
Cash in hand	26,813	-	26,813	25,084
Balances with central banks and other demand deposits at banks	163,419	(37)	163,382	278,565
	<b>190,232</b>	<b>(37)</b>	<b>190,195</b>	<b>303,649</b>

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 2018 the banks are obliged to calculate mandatory reserve at 1 % from all deposits with maturity up to 2 years.

## 4.20. FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

Group and bank						
	2018			2017		
EUR 000	Nominal value	Fair value assets	Fair value liabilities	Nominal value	Fair value assets	Fair value liabilities
<b>Derivative financial instruments</b>						
Currency forwards	149,627	892	1,731	140,353	897	780
Currency swaps	25,598	875	2	28,303	6	96
Interest rate swaps	554,559	4,873	5,569	452,266	3,864	4,480
Interest rate options (call option)	24,213	95	319	25,000	468	-
Interest rate options (put option)	24,213	319	95	25,000	-	468
Currency options	-	-	-	480	1	1
	<b>778,210</b>	<b>7,054</b>	<b>7,716</b>	<b>671,402</b>	<b>5,236</b>	<b>5,825</b>
<b>Net fair value</b>		<b>(662)</b>			<b>(589)</b>	

SKB Group and SKB Bank trade with derivatives only on behalf and for the account of third parties; currency swaps use for regulation of liquidity in particular currency.

## 4.21. NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

	EUR 000	Group		Bank	
		2018	2017	2018	2017
Equity instruments		17,913	-	17,913	-
Loans and other financial assets		17,257	-	17,257	-
		<b>35,170</b>	-	<b>35,170</b>	-

## 4.22.a) FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets designated at fair value through profit or loss		Group		Bank	
	EUR 000	2018	2017	2018	2017
<b>Debt securities</b>					
Debt securities - listed		5,947	-	5,947	-
		<b>5,947</b>	-	<b>5,947</b>	-

Financial liabilities designated at fair value through profit or loss		Group		Bank	
	EUR 000	2018	2017	2018	2017
Structured deposit		5,947	-	5,947	-
		<b>5,947</b>	-	<b>5,947</b>	-

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).

In June 2017 investment deposits issued in May 2011 have matured.

## 4.22.b) FINANCIAL ASSETS AND LIABILITIES RECOGNISED AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets recognised at fair value through profit or loss		Group		Bank	
	EUR 000	2018	2017	2018	2017
<b>Debt securities</b>					
Debt securities - listed		-	5,983	-	5,983
		-	<b>5,983</b>	-	<b>5,983</b>



Financial liabilities recognised at fair value through profit or loss	Group		Bank		
	EUR 000	2018	2017	2018	2017
Structured deposit		-	5,983	-	5,983
		-	<b>5,983</b>	-	<b>5,983</b>

#### 4.23. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Group		Bank		
	EUR 000	2018	2017	2018	2017
<b>Financial assets - listed</b>					
Government bonds		258,682	-	258,682	-
		<b>258,682</b>	-	<b>258,682</b>	-

Government securities consist of Slovenian government bonds in the amount of EUR 238,604 thousand and French bonds in the amount of EUR 20,078 thousand.

#### 4.24. AVAILABLE FOR SALE FINANCIAL ASSETS

	Group		Bank		
	EUR 000	2018	2017	2018	2017
<b>Listed</b>					
Government bonds		-	423,329	-	423,329
		-	<b>423,329</b>	-	<b>423,329</b>
<b>Unlisted</b>					
Equities		-	13,313	-	13,312
		-	<b>13,313</b>	-	<b>13,312</b>
		-	<b>436,642</b>	-	<b>436,641</b>

Government securities consist of Slovenian government bonds in the amount of EUR 321,687 thousand and French bonds in the amount of EUR 101,642 thousand.

Unlisted available for sale financial assets include payment in Rescue Fund in the amount of EUR 12,930 thousand. SKB Bank has 6.77 % share in the fund.

## 4.25. FINANCIAL ASSETS AT AMORTISED COST

EUR 000	Group		Bank	
	2018	2017	2018	2017
<b>Debt securities</b>				
Debt securities - listed	253,829	-	253,829	-
<b>Gross exposure</b>	<b>253,829</b>	-	<b>253,829</b>	-
Provision for impairment	(32)	-	(32)	-
	<b>253,797</b>	-	<b>253,797</b>	-
<b>Loans to banks</b>				
Deposits	45,318	-	45,318	-
<b>Gross exposure</b>	<b>45,318</b>	-	<b>45,318</b>	-
Provision for impairment	(2)	-	(2)	-
	<b>45,316</b>	-	<b>45,316</b>	-
<b>Loans to non-bank customers</b>				
• corporates	753,084	-	716,890	-
• government	81,198	-	81,198	-
• financial organisations	9,601	-	319,423	-
• individuals	1,151,470	-	1,148,556	-
• other	279	-	279	-
• sole proprietors	23,803	-	23,771	-
Long term financial leases	491,506	-	-	-
<b>Gross exposure</b>	<b>2,510,941</b>	-	<b>2,290,117</b>	-
Provision for impairment	(87,852)	-	(76,618)	-
	<b>2,423,089</b>	-	<b>2,213,499</b>	-
<b>Other financial assets</b>				
<b>Gross exposure</b>	<b>4,364</b>	-	<b>3,902</b>	-
Provision for impairment	(128)	-	(110)	-
	<b>4,236</b>	-	<b>3,792</b>	-
	<b>2,726,438</b>	-	<b>2,516,404</b>	-

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 1,515,496 thousand, state securities and guarantees at a fair value of EUR 85,162 thousand and cash deposits at a fair value of EUR 7,021 thousand.

SKB Bank received as collateral for loans and advances to customers the real estate at an estimated fair value of EUR 1,515,496 thousand, state securities and guarantees at a fair value of EUR 85,162 thousand and cash deposits at a fair value of EUR 7,021 thousand.

SKB Group and SKB Bank consider as large loans the amount of financial assets measured at amortised cost of ten biggest debtors.

As at 31 December 2018, SKB Group had large loans of EUR 294,249 thousand or 11.45 % of the gross loan portfolio. Provision in the amount of EUR 5,076 thousand was made against these loans in 2018.

As at 31 December 2018, SKB Bank had large loans of EUR 572,782 thousand or 24.48 % of the gross loan portfolio. Provision in the amount of EUR 174 thousand was made against these loans in 2018.

SKB Group and SKB Bank consider client as defaulter, when experiences serious financial and business deterioration that have an impact on the worsening of their creditworthiness, when there is a high probability of loss of part of financial asset or payment of commitment and individually impaired or claims that are due and not paid over 90 days and are material.

As at 31 December 2018, SKB Group had non-performing loans in the amount of EUR 107,190 thousand.

As at 31 December 2018, SKB Bank had non-performing loans in the amount of EUR 93,384 thousand.

## 4.26. LOANS AND OTHER FINANCIAL ASSETS

	EUR 000	Group		Bank	
		2018	2017	2018	2017
<b>Loans to banks</b>					
Deposits		-	44,319	-	44,319
<b>Gross exposure</b>		-	<b>44,319</b>	-	<b>44,319</b>
Less specific provision for impairment		-	-	-	-
		-	<b>44,319</b>	-	<b>44,319</b>
<b>Loans to non-bank customers</b>					
• corporates		-	765,803	-	735,511
• government		-	87,490	-	87,490
• financial organisations		-	10,067	-	302,403
• individuals		-	1,077,726	-	1,074,414
• other		-	293	-	293
• sole proprietors		-	24,687	-	24,655
Long term financial leases		-	444,938	-	-
<b>Gross exposure</b>		-	<b>2,411,002</b>	-	<b>2,224,766</b>
Less specific provisions for impairment		-	(114,536)	-	(107,004)
Less provisions for collective impairment		-	(14,074)	-	(9,527)
		-	<b>2,282,392</b>	-	<b>2,108,235</b>
<b>Other financial assets</b>					
<b>Gross exposure</b>		-	<b>8,413</b>	-	<b>7,953</b>
Less specific provision for impairment		-	(436)	-	(422)
		-	<b>7,977</b>	-	<b>7,531</b>
		-	<b>2,334,687</b>	-	<b>2,160,085</b>

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 1,404,017 thousand, state securities and guarantees at a fair value of EUR 98,405 thousand and cash deposits at a fair value of EUR 5,955 thousand.

SKB Bank received as collateral for loans and advances to customers the real estate at an estimated fair value of EUR 1,404,017 thousand, state securities and guarantees at a fair value of EUR 92,527 thousand and cash deposits at a fair value of EUR 5,955 thousand.

SKB Group and SKB Bank consider as large loans the amount of financial assets measured at amortized cost of ten biggest debtors.

As at 31 December 2017, SKB Group had large loans of EUR 293,777 thousand or 11.92 % of the gross loan portfolio. Provision in the amount of EUR 16,470 thousand was made against these loans in 2017.

As at 31 December 2017, SKB Bank had large loans of EUR 559,725 thousand or 24.58 % of the gross loan portfolio. Provision in the amount of EUR 15,059 thousand was made against these loans in 2017.

SKB Group and SKB Bank consider client as defaulter, when experiences serious financial and business deterioration that have an impact on the worsening of their creditworthiness, when there is a high probability of loss of part of financial asset or payment of commitment and individually impaired or claims that are due and not paid over 90 days and are material.

As at 31 December 2017, SKB Group had non-performing loans in the amount of EUR 155,183 thousand.

As at 31 December 2017, SKB Bank had non-performing loans in the amount of EUR 140,182 thousand.

Provisions for impairment of loans	EUR 000	Group		Bank	
		2018	2017	2018	2017
<b>Debt securities</b>					
• government		(32)	-	(32)	-
		<b>(32)</b>	-	<b>(32)</b>	-
<b>Banks</b>		<b>(2)</b>	-	<b>(2)</b>	-
<b>Non-bank customers</b>					
• corporates		(47,176)	(69,240)	(45,639)	(67,524)
• government		(385)	(241)	(385)	(241)
• financial organisations		(43)	(35)	(84)	(35)
• individuals		(29,381)	(47,455)	(29,276)	(47,302)
• other		(5)	(31)	(5)	(31)
• sole proprietors		(1,237)	(1,407)	(1,229)	(1,398)
Long term financial leases		(9,625)	(10,201)	-	-
		<b>(87,852)</b>	<b>(128,610)</b>	<b>(76,618)</b>	<b>(116,531)</b>
<b>Other financial assets</b>		<b>(128)</b>	<b>(436)</b>	<b>(110)</b>	<b>(422)</b>
		<b>(88,014)</b>	<b>(129,046)</b>	<b>(76,762)</b>	<b>(116,953)</b>

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
<b>Balance at 1 January 2018</b>	<b>(30)</b>	<b>(3)</b>	<b>(8,256)</b>	<b>(5,682)</b>	<b>(107,143)</b>	<b>(4)</b>	<b>(1)</b>	<b>(436)</b>
Increase due to origination and acquisition	-	(2)	(3,137)	(9,054)	(46,112)	-	(2)	(19)
Decreases due to derecognition	-	16	3,226	4,988	69,687	3	1	316
Changes in credit risk (net)	(2)	(13)	2,153	687	(13,400)	(3)	(1)	(29)
Decreases due to write-offs	-	-	-	-	25,807	-	-	47
Other adjustments	-	-	31	(5)	(1,642)	-	-	-
Transition S1-S2	-	-	580	(580)	-	-	-	-
Transition S1-S3	-	-	76	-	(76)	-	-	-
Transition S2-S1	-	-	(1,576)	1,576	-	-	-	-
Transition S2-S3	-	-	-	223	(223)	-	-	-
Transition S3-S1	-	-	(960)	-	960	-	-	-
Transition S3-S2	-	-	-	(25)	25	-	-	-
<b>Balance at 31 December 2018</b>	<b>(32)</b>	<b>(2)</b>	<b>(7,863)</b>	<b>(7,872)</b>	<b>(72,117)</b>	<b>(4)</b>	<b>(3)</b>	<b>(121)</b>

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	
<b>Balance at 1 January 2018</b>	<b>(30)</b>	<b>(3)</b>	<b>(6,237)</b>	<b>(4,830)</b>	<b>(99,655)</b>	<b>(4)</b>	<b>(1)</b>	<b>(422)</b>	
Increase due to origination and acquisition	-	(2)	(2,957)	(5,809)	(30,793)	-	(1)	(19)	
Decreases due to derecognition	-	16	2,502	3,798	54,594	1	2	316	
Changes in credit risk (net)	(2)	(13)	2,528	(64)	(13,418)	(1)	(1)	(29)	
Decreases due to write-offs	-	-	-	-	25,224	-	-	49	
Other adjustments	-	-	(12)	(6)	(1,483)	-	-	-	
Transition S1-S2	-	-	360	(360)	-	-	-	-	
Transition S1-S3	-	-	58	-	(58)	-	-	-	
Transition S2-S1	-	-	(1,272)	1,272	-	-	-	-	
Transition S2-S3	-	-	-	192	(192)	-	-	-	
Transition S3-S1	-	-	(769)	-	769	-	-	-	
Transition S3-S2	-	-	-	(25)	25	-	-	-	
<b>Balance at 31 December 2018</b>	<b>(32)</b>	<b>(2)</b>	<b>(5,799)</b>	<b>(5,832)</b>	<b>(64,987)</b>	<b>(4)</b>	<b>(1)</b>	<b>(105)</b>	

In income statement SKB Group has income from paid claims written off in the amount of EUR 1,098 thousand and expenses from claims written off and not covered by allowances in the amount of EUR 328 thousand.

In income statement SKB Bank has income from paid claims written off in the amount of EUR 837 thousand and expenses from claims written off and not covered by allowances in the amount of EUR 138 thousand.

In year 2018 Bank and SKB Group made a write-off of the financial assets, that are still in process of enforcement in amount of EUR 4,364 thousand EUR (2017: EUR 10,627 thousand EUR).

<b>Movement in provisions for impairment of loans - Group</b>		<b>Individual impairment</b>	<b>Collective impairment</b>	<b>Other financial assets</b>	<b>Total</b>	
	<b>EUR 000</b>	<b>Bank loans</b>	<b>Customer loans</b>	<b>Customer loans</b>		
<b>Balance at 1 January 2017</b>		-	<b>135,573</b>	<b>11,627</b>	<b>441</b>	<b>147,641</b>
Current year allowances for losses		-	58,741	17,515	97	76,353
Reversals		-	(62,406)	(15,060)	(121)	(77,587)
Amounts written off during the year		-	(17,724)	-	-	(17,724)
Other		-	352	(8)	19	363
<b>Balance at 31 December 2017</b>		-	<b>114,536</b>	<b>14,074</b>	<b>436</b>	<b>129,046</b>

<b>Movement in provisions for impairment of loans - Bank</b>		<b>Individual impairment</b>	<b>Collective impairment</b>	<b>Other financial assets</b>	<b>Total</b>	
	<b>EUR 000</b>	<b>Bank loans</b>	<b>Customer loans</b>	<b>Customer loans</b>		
<b>Balance at 1 January 2017</b>		-	<b>129,237</b>	<b>9,043</b>	<b>400</b>	<b>138,680</b>
Current year allowances for losses		-	48,261	11,562	81	59,904
Reversals		-	(53,477)	(11,069)	(76)	(64,622)
Amounts written off during the year		-	(17,724)	-	-	(17,724)
Other		-	707	(9)	17	715
<b>Balance at 31 December 2017</b>		-	<b>107,004</b>	<b>9,527</b>	<b>422</b>	<b>116,953</b>

In income statement SKB Group has income from paid claims written off in the amount of EUR 475 thousand and expenses from claims written off and not covered by allowances in the amount of EUR 180 thousand.

In income statement SKB Bank has income from paid claims written off in the amount of EUR 303 thousand and expenses from claims written off and not covered by allowances in the amount of EUR 43 thousand.

Financial leases	Group		Bank		
	EUR 000	2018	2017	2018	2017
<b>Gross exposure from financial leases</b>					
• - up to 1 year		12,289	9,696	-	-
• - over 1 year to 5 years		187,506	180,035	-	-
• - over 5 years		291,711	255,207	-	-
		<b>491,506</b>	<b>444,938</b>	-	-
<b>Provisions</b>					
• - up to 1 year		(708)	(824)	-	-
• - over 1 year to 5 years		(4,217)	(4,935)	-	-
• - over 5 years		(4,700)	(4,442)	-	-
		<b>(9,625)</b>	<b>(10,201)</b>	-	-
<b>Net exposure</b>		<b>481,881</b>	<b>434,737</b>	-	-
<b>Unrecognized future income from financial leases</b>		<b>50,985</b>	<b>46,886</b>	-	-

#### 4.27. DERIVATIVES - HEDGE ACCOUNTING AND FAIR VALUE CHANGES OF THE HEDGED ITEMS IN PORTFOLIO HEDGE OF INTEREST RATE RISK

Group and Bank			
	EUR 000	2018	2017
Derivatives - fair value hedge - macro hedging		607	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk		602	-



## 4.28. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

	EUR 000	Group		Bank	
		2018	2017	2018	2017
Companies		-	-	-	-
Other financial institutions		-	-	20,454	20,454
		-	-	20,454	20,454

Bank's investments in subsidiaries	EUR 000	Bank		% of share in capital	
		2018	2017	2018	2017
SKB Leasing		20,454	20,454	100,0	100,0
<b>Investments in financial institutions</b>		<b>20,454</b>	<b>20,454</b>		

### Consolidated subsidiary:

Name of the company: **SKB Leasing d.o.o.**

Address: Ajdovščina 4, 1000 Ljubljana

Director: Don Schoeffmann

Business activity: Financial and operating leasing

Basic equity capital: 16,809 EUR thousand

Shareholder's equity: 30,227 EUR thousand

% of share in capital: 100 %

Equity investment as of 31 December 2017: 20,454 EUR thousand

Profit for the year ended 31 December 2017: 10,531 EUR thousand

## 4.29.a) PROPERTY, PLANT AND EQUIPMENT

Group									
EUR 000	Land	Buildings	Computer equipment	Furniture & fittings	Other equipment	Assets in course of construction	Leasehold improvements	Assets leased through operating leases	Total
<b>Cost</b>									
<b>At 1 January 2018</b>	<b>2,288</b>	<b>47,546</b>	<b>10,427</b>	<b>12,959</b>	<b>147</b>	<b>3</b>	<b>6,608</b>	<b>10,524</b>	<b>90,502</b>
Additions	-	-	28	39	-	1,561	-	7,693	9,321
Disposals	-	(256)	(332)	(406)	-	(3)	-	(8,619)	(9,616)
Transfers from Assets in course of construction	-	96	1,032	135	-	(1,324)	50	-	(11)
Transfer to Non-current assets held for sale	(9)	(178)	-	(5)	-	-	-	-	(192)
<b>At 31 December 2018</b>	<b>2,279</b>	<b>47,208</b>	<b>11,155</b>	<b>12,722</b>	<b>147</b>	<b>237</b>	<b>6,658</b>	<b>9,598</b>	<b>90,004</b>
<b>Depreciation</b>									
<b>At 1 January 2018</b>	-	<b>22,027</b>	<b>9,148</b>	<b>11,730</b>	<b>77</b>	-	<b>5,663</b>	<b>2,702</b>	<b>51,347</b>
Depreciation charge for the year	-	982	657	306	30	-	223	1,589	3,787
Eliminations and disposals	-	(113)	(332)	(360)	-	-	-	(2,048)	(2,853)
Transfer to Non-current assets held for sale	-	(90)	-	(5)	-	-	-	-	(95)
<b>At 31 December 2018</b>	-	<b>22,806</b>	<b>9,473</b>	<b>11,671</b>	<b>107</b>	-	<b>5,886</b>	<b>2,243</b>	<b>52,186</b>
<b>Net Book Value</b>	<b>2,279</b>	<b>24,402</b>	<b>1,682</b>	<b>1,051</b>	<b>40</b>	<b>237</b>	<b>772</b>	<b>7,355</b>	<b>37,818</b>
<b>Cost</b>									
<b>At 1 January 2017</b>	<b>2,288</b>	<b>47,027</b>	<b>10,508</b>	<b>13,265</b>	<b>147</b>	<b>167</b>	<b>6,472</b>	<b>11,600</b>	<b>91,474</b>
Additions	-	-	10	13	-	1,109	-	7,462	8,594
Disposals	-	-	(553)	(438)	-	-	(37)	(8,538)	(9,566)
Transfers from Assets in course of construction	-	519	462	119	-	(1,273)	173	-	-
<b>At 31 December 2017</b>	<b>2,288</b>	<b>47,546</b>	<b>10,427</b>	<b>12,959</b>	<b>147</b>	<b>3</b>	<b>6,608</b>	<b>10,524</b>	<b>90,502</b>
<b>Depreciation</b>									
<b>At 1 January 2017</b>	-	<b>21,046</b>	<b>9,003</b>	<b>11,744</b>	<b>48</b>	-	<b>5,446</b>	<b>3,091</b>	<b>50,378</b>
Depreciation charge for the year	-	981	696	423	29	-	254	1,668	4,051
Eliminations and disposals	-	-	(551)	(437)	-	-	(37)	(2,057)	(3,082)
<b>At 31 December 2017</b>	-	<b>22,027</b>	<b>9,148</b>	<b>11,730</b>	<b>77</b>	-	<b>5,663</b>	<b>2,702</b>	<b>51,347</b>
<b>Net Book Value</b>	<b>2,288</b>	<b>25,519</b>	<b>1,279</b>	<b>1,229</b>	<b>70</b>	<b>3</b>	<b>945</b>	<b>7,822</b>	<b>39,155</b>

SKB Group has no pledged assets among Property, plant and equipment.

SKB Group checked indicators for impairment of Property plant and equipment, taking into account both external and internal sources of information and determined that there is no need for impairment, because recoverable values are not significantly different from carrying amounts.

**Bank**

EUR 000	Land	Buildings	Computer equipment	Furniture & fittings	Other equipment	Assets in course of construction	Leasehold improvements	Total
<b>Cost</b>								
<b>At 1 January 2018</b>	<b>2,197</b>	<b>46,057</b>	<b>10,282</b>	<b>12,705</b>	-	-	<b>6,310</b>	<b>77,551</b>
Additions	-	-	-	-	-	1,561	-	1,561
Disposals	-	(257)	(333)	(406)	-	-	-	(996)
Transfers from Assets in course of construction	-	96	1,032	135	-	(1,324)	50	(11)
Transfer to Non-current assets held for sale	(9)	(178)	-	(5)	-	-	-	(192)
<b>At 31 December 2018</b>	<b>2,188</b>	<b>45,718</b>	<b>10,981</b>	<b>12,429</b>	-	<b>237</b>	<b>6,360</b>	<b>77,913</b>
<b>Depreciation</b>								
<b>At 1 January 2018</b>	-	<b>21,259</b>	<b>9,036</b>	<b>11,566</b>	-	-	<b>5,412</b>	<b>47,273</b>
Depreciation charge for the year	-	954	637	294	-	-	215	2,100
Eliminations and disposals	-	(115)	(332)	(397)	-	-	-	(844)
Transfer to Non-current assets held for sale	-	(90)	-	(5)	-	-	-	(95)
<b>At 31 December 2018</b>	-	<b>22,008</b>	<b>9,341</b>	<b>11,458</b>	-	-	<b>5,627</b>	<b>48,434</b>
<b>Net Book Value</b>	<b>2,188</b>	<b>23,710</b>	<b>1,640</b>	<b>971</b>	-	<b>237</b>	<b>733</b>	<b>29,479</b>
<b>Cost</b>								
<b>At 1 January 2017</b>	<b>2,197</b>	<b>45,537</b>	<b>10,350</b>	<b>13,015</b>	-	<b>167</b>	<b>6,150</b>	<b>77,416</b>
Additions	-	-	-	-	-	1,106	-	1,106
Disposals	-	-	(530)	(429)	-	-	(12)	(971)
Transfers from Assets in course of construction	-	520	462	119	-	(1,273)	172	-
<b>At 31 December 2017</b>	<b>2,197</b>	<b>46,057</b>	<b>10,282</b>	<b>12,705</b>	-	-	<b>6,310</b>	<b>77,551</b>
<b>Depreciation</b>								
<b>At 1 January 2017</b>	-	<b>20,304</b>	<b>8,887</b>	<b>11,591</b>	-	-	<b>5,190</b>	<b>45,972</b>
Depreciation charge for the year	-	955	679	403	-	-	234	2,271
Eliminations and disposals	-	-	(530)	(428)	-	-	(12)	(970)
<b>At 31 December 2017</b>	-	<b>21,259</b>	<b>9,036</b>	<b>11,566</b>	-	-	<b>5,412</b>	<b>47,273</b>
<b>Net Book Value</b>	<b>2,197</b>	<b>24,798</b>	<b>1,246</b>	<b>1,139</b>	-	-	<b>898</b>	<b>30,278</b>

SKB Bank has no pledged assets among Property, plant and equipment.

SKB Bank checked indicators for impairment of Property plant and equipment, taking into account both external and internal sources of information and determined that there is no need for impairment, because recoverable values are not significantly different from carrying amounts.

## 4.29.B) INVESTMENT PROPERTY

<b>Group</b>				
	<b>EUR 000</b>	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
<b>Cost</b>				
<b>At 1 January 2018</b>		<b>209</b>	<b>4,359</b>	<b>4,568</b>
Additions		-	11	11
<b>At 31 December 2018</b>		<b>209</b>	<b>4,370</b>	<b>4,579</b>
<b>Depreciation</b>				
<b>At 1 January 2018</b>		-	<b>2,223</b>	<b>2,223</b>
Depreciation charge for year		-	74	74
<b>At 31 December 2018</b>		-	<b>2,297</b>	<b>2,297</b>
<b>Impairment</b>				
<b>At 1 January 2018</b>		-	<b>117</b>	<b>117</b>
<b>At 31 December 2018</b>		-	<b>117</b>	<b>117</b>
<b>Net Book Value</b>		<b>209</b>	<b>1,956</b>	<b>2,165</b>
<b>Cost</b>				
<b>At 1 January 2017</b>		<b>209</b>	<b>4,359</b>	<b>4,568</b>
<b>At 31 December 2017</b>		<b>209</b>	<b>4,359</b>	<b>4,568</b>
<b>Depreciation</b>				
<b>At 1 January 2017</b>		-	<b>2,143</b>	<b>2,143</b>
Depreciation charge for year		-	80	80
<b>At 31 December 2017</b>		-	<b>2,223</b>	<b>2,223</b>
<b>Impairment</b>				
<b>At 1 January 2017</b>		-	<b>117</b>	<b>117</b>
<b>At 31 December 2017</b>		-	<b>117</b>	<b>117</b>
<b>Net Book Value</b>		<b>209</b>	<b>2,019</b>	<b>2,228</b>

\*In consolidated financial statements bank's business premises, which are rented by the bank's subsidiary, are transferred from Investment property to Property, plant and equipment.

SKB Group has no pledged assets among investment property.

SKB Group recognised income from operating leases of investment property in the income statement in the amount of EUR 271 thousand (2017: EUR 187 thousand).

SKB Group checked indicators for impairment of Investment property, taking into account both external and internal sources of information and determined that there is no need for impairment, because fair values are not significantly different from carrying amounts.

**Bank**

	EUR 000	Land	Buildings	Total
<b>Cost</b>				
<b>At 1 January 2018</b>		<b>276</b>	<b>5,849</b>	<b>6,125</b>
Additions		-	11	11
<b>At 31 December 2018</b>		<b>276</b>	<b>5,860</b>	<b>6,136</b>
<b>Depreciation</b>				
<b>At 1 January 2018</b>		-	<b>2,991</b>	<b>2,991</b>
Depreciation charge for year		-	104	104
<b>At 31 December 2018</b>		-	<b>3,095</b>	<b>3,095</b>
<b>Impairment</b>				
<b>At 1 January 2018</b>		-	<b>117</b>	<b>117</b>
<b>At 31 December 2018</b>		-	<b>117</b>	<b>117</b>
<b>Net Book Value</b>		<b>276</b>	<b>2,648</b>	<b>2,924</b>
<b>Cost</b>				
<b>At 1 January 2017</b>		<b>276</b>	<b>5,849</b>	<b>6,125</b>
<b>At 31 December 2017</b>		<b>276</b>	<b>5,849</b>	<b>6,125</b>
<b>Depreciation</b>				
<b>At 1 January 2017</b>		-	<b>2,885</b>	<b>2,885</b>
Depreciation charge for year		-	106	106
<b>At 31 December 2017</b>		-	<b>2,991</b>	<b>2,991</b>
<b>Impairment</b>				
<b>At 1 January 2017</b>		-	<b>117</b>	<b>117</b>
<b>At 31 December 2017</b>		-	<b>117</b>	<b>117</b>
<b>Net Book Value</b>		<b>276</b>	<b>2,741</b>	<b>3,017</b>

SKB Bank has no pledged assets among investment property.

SKB Bank recognised income from operating leases of investment property in the income statement in the amount of EUR 297 thousand (2017: EUR 314 thousand).

SKB Bank checked indicators for impairment of Investment property, taking into account both external and internal sources of information and determined that there is no need for impairment, because fair values are not significantly different from carrying amounts.

## 4.30. INTANGIBLE ASSETS

Group					
EUR 000	Goodwill	Software	Assets in course of construction	Other intangible assets	Total
<b>Cost</b>					
<b>At 1 January 2018</b>	<b>4,743</b>	<b>15,037</b>	<b>1,634</b>	<b>5</b>	<b>21,419</b>
Additions	-	2,295	534	-	2,829
Disposals	-	(10)	-	-	(10)
<b>At 31 December 2018</b>	<b>4,743</b>	<b>17,322</b>	<b>2,168</b>	<b>5</b>	<b>24,238</b>
<b>Depreciation</b>					
<b>At 1 January 2018</b>	-	<b>10,559</b>	-	<b>5</b>	<b>10,564</b>
Charge for the year	-	1,640	-	-	1,640
Eliminations and disposals	-	-	-	-	0
<b>At 31 December 2018</b>	-	<b>12,199</b>	-	<b>5</b>	<b>12,204</b>
<b>Impairment</b>					
<b>At 1 January 2018</b>	<b>(500)</b>	-	-	-	<b>(500)</b>
<b>At 31 December 2018</b>	<b>(500)</b>	-	-	-	<b>(500)</b>
<b>Net Book Value</b>	<b>4,243</b>	<b>5,123</b>	<b>2,168</b>	-	<b>11,534</b>
<b>Cost</b>					
<b>At 1 January 2017</b>	<b>4,743</b>	<b>31,237</b>	<b>556</b>	<b>5</b>	<b>36,541</b>
Additions	-	954	1,748	-	2,702
Disposals	-	(17,154)	(670)	-	(17,824)
<b>At 31 December 2017</b>	<b>4,743</b>	<b>15,037</b>	<b>1,634</b>	<b>5</b>	<b>21,419</b>
<b>Depreciation</b>					
<b>At 1 January 2017</b>	-	<b>25,982</b>	-	<b>5</b>	<b>25,987</b>
Charge for the year	-	1,719	-	-	1,719
Eliminations and disposals	-	(17,142)	-	-	(17,142)
<b>At 31 December 2017</b>	-	<b>10,559</b>	-	<b>5</b>	<b>10,564</b>
<b>Impairment</b>					
<b>At 1 January 2017</b>	<b>(500)</b>	-	-	-	<b>(500)</b>
<b>At 31 December 2017</b>	<b>(500)</b>	-	-	-	<b>(500)</b>
<b>Net Book Value</b>	<b>4,243</b>	<b>4,478</b>	<b>1,634</b>	-	<b>10,355</b>

Positive goodwill arises from the merger with Banka Société Générale Ljubljana ("BSGL") on 1 October 2001 and from the acquisition of the additional 50 % of SKB Leasing d.o.o. on 1 January 2003 when SKB Bank became its sole owner. Goodwill is revised annually for impairment.

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

The impairment test of goodwill has been performed at 31 December 2018. An impairment loss is recorded in the income statement if the carrying value of Cash Generated Unit, including goodwill, exceeds its recoverable value. The recoverable amount is calculated using the discounted cash flow method. The cash flows used in this calculation are income available for distribution, taking into account the targeted equity. These cash flows are determined on the basis of the business plan, which is derived from the prospective six year budgets approved by Management (2018 – 2022), extrapolated over a period of sustainable growth (2023 – 2025), which is consistent with the economic cycle of the banking industry, then extended to infinity using a long-term growth rate. The test shows that there is no need for impairment of goodwill.

## Bank

	EUR 000	Goodwill	Software	Assets in course of construction	Other intangible assets	Total
<b>Cost</b>						
<b>At 1 January 2018</b>		<b>3,453</b>	<b>13,918</b>	<b>1,613</b>	-	<b>18,984</b>
Additions		-	2,095	473	-	2,568
Disposals		-	(10)	-	-	(10)
<b>At 31 December 2018</b>		<b>3,453</b>	<b>16,003</b>	<b>2,086</b>	-	<b>21,542</b>
<b>Depreciation</b>						
<b>At 1 January 2018</b>		-	<b>9,766</b>	-	-	<b>9,766</b>
Charge for the year		-	1,475	-	-	1,475
Eliminations and disposals		-	-	-	-	-
<b>At 31 December 2018</b>		-	<b>11,241</b>	-	-	<b>11,241</b>
<b>Impairment</b>						
<b>At 1 January 2018</b>		<b>(500)</b>	-	-	-	<b>(500)</b>
<b>At 31 December 2018</b>		<b>(500)</b>	-	-	-	<b>(500)</b>
<b>Net Book Value</b>		<b>2,953</b>	<b>4,762</b>	<b>2,086</b>	-	<b>9,801</b>
<b>Cost</b>						
<b>At 1 January 2017</b>		<b>3,453</b>	<b>29,626</b>	<b>435</b>	-	<b>33,514</b>
Additions		-	779	1,693	-	2,472
Disposals		-	(16,487)	(515)	-	(17,002)
<b>At 31 December 2017</b>		<b>3,453</b>	<b>13,918</b>	<b>1,613</b>	-	<b>18,984</b>
<b>Depreciation</b>						
<b>At 1 January 2017</b>		-	<b>24,663</b>	-	-	<b>24,663</b>
Charge for the year		-	1,589	-	-	1,589
Eliminations and disposals		-	(16,486)	-	-	(16,486)
<b>At 31 December 2017</b>		-	<b>9,766</b>	-	-	<b>9,766</b>
<b>Impairment</b>						
<b>At 1 January 2017</b>		<b>(500)</b>	-	-	-	<b>(500)</b>
<b>At 31 December 2017</b>		<b>(500)</b>	-	-	-	<b>(500)</b>
<b>Net Book Value</b>		<b>2,953</b>	<b>4,152</b>	<b>1,613</b>	-	<b>8,718</b>

Positive goodwill arises from the merger with Banka Société Générale Ljubljana ("BSGL") on 1 October 2001. Goodwill is revised annually for impairment.

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

The impairment test of goodwill has been performed at 31 December 2018. An impairment loss is recorded in the income statement if the carrying value of Cash Generated Unit, including goodwill, exceeds its recoverable value. The recoverable amount is calculated using the discounted cash flow method. The cash flows used in this calculation are income available for distribution, taking into account the targeted equity. These cash flows are determined on the basis of the business plan, which is derived from the prospective six year budgets approved by Management (2018 – 2022), extrapolated over a period of sustainable growth (2023 – 2025), which is consistent with the economic cycle of the banking industry, then extended to infinity using a long-term growth rate. The test shows that there is no need for impairment of goodwill.

## 4.31. OTHER ASSETS

EUR 000	Group		Bank	
	2018	2017	2018	2017
Receivables for taxes and contributions paid	404	434	16	13
Costs and expenses deferred and paid in advance, except insurance premium	13,746	12,537	2,202	2,442
Insurance premium paid in advance	152	-	152	-
Other inventories	204	151	-	13
Advances paid	20,264	13,132	8,715	9,434
	<b>34,770</b>	<b>26,254</b>	<b>11,085</b>	<b>11,902</b>

## 4.32. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

EUR 000	Group		Bank	
	2018	2017	2018	2017
Buildings held for sale	461	361	461	361
	<b>461</b>	<b>361</b>	<b>461</b>	<b>361</b>

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

In year 2018 SKB Group and SKB Bank reclassified premises from Property, plant and equipment to Non-current assets classified as held for sale. Land in the amount of EUR 9 thousand and premises in the amount of EUR 88 thousand have been reclassified.



### 4.33. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

EUR 000	Group		Bank	
	2018	2017	2018	2017
<b>Demand deposits</b>				
Banks	1,678	1,468	1,678	1,468
Corporates	556,792	518,770	556,792	518,770
Government	2,713	3,277	2,713	3,277
Financial organisations	17,260	7,005	26,459	16,321
Individuals	739,794	610,464	739,795	610,464
Other	24,352	20,926	24,352	20,926
Sole proprietors	<b>72,034</b>	<b>61,325</b>	<b>72,034</b>	<b>61,325</b>
	<b>1,414,623</b>	<b>1,223,235</b>	<b>1,423,823</b>	<b>1,232,551</b>
<b>Time deposits</b>				
Corporates	175,405	205,906	175,405	205,906
Government	7,445	12,549	7,445	12,549
Financial organisations	8,842	9,534	8,842	9,534
Individuals	884,841	881,519	884,841	881,519
Other	7,693	7,983	7,693	7,984
Sole proprietors	1,833	1,950	1,833	1,950
	<b>1,086,059</b>	<b>1,119,441</b>	<b>1,086,059</b>	<b>1,119,442</b>
Long term loans from banks and corporates	376,502	377,969	178,502	211,857
Other financial liabilities	37,590	38,712	24,781	33,827
	<b>2,914,774</b>	<b>2,759,357</b>	<b>2,713,164</b>	<b>2,597,677</b>

Deposits due to customers include deposits of EUR 535 thousand held as collateral for irrevocable commitments under import letters of credit (2017: EUR 155 thousand).

Demand deposits include restricted deposits in the amount of EUR 2,842 thousand (2017: EUR 3,550 thousand).

### 4.34. PROVISIONS

EUR 000	Group		Bank	
	2018	2017	2018	2017
Pensions and other post retirement benefit obligations	3,234	3,101	3,044	2,900
Other long-term employee benefits	515	553	475	512
Pending legal issues	26	1,852	11	1,251
Off-balance sheet commitments	7,626	8,348	7,626	8,348
Other	472	625	472	625
	<b>11,873</b>	<b>14,479</b>	<b>11,628</b>	<b>13,636</b>

## Movement in provisions - Group

EUR 000	Pensions and other post retirement benefit obligations	Other long-term employee benefit	Pending legal issues		Off-balance sheet commitments		Other	Total
				S1	S3	S3		
<b>Balance at 1 January 2018</b>	<b>3,101</b>	<b>553</b>	<b>1,852</b>	<b>1,599</b>	<b>477</b>	<b>4,887</b>	<b>625</b>	<b>13,094</b>
Provisions created during the year	234	51	-	1,637	779	27,149	216	30,066
Reversed	-	(5)	(1,351)	(1,972)	(871)	(26,066)	(17)	(30,282)
Utilised (paid)	(87)	(84)	(475)	-	-	-	(352)	(998)
Exchange gains and losses on foreign denominated items	-	-	-	-	8	(1)	-	7
Actuarial profits, recognized in other comprehensive income	(14)	-	-	-	-	-	-	(14)
<b>Balance at 31 December 2018</b>	<b>3,234</b>	<b>515</b>	<b>26</b>	<b>1,264</b>	<b>393</b>	<b>5,969</b>	<b>472</b>	<b>11,873</b>

## 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
				S1	S3	S3		
<b>Balance at 1 January 2018</b>	<b>2,900</b>	<b>512</b>	<b>1,251</b>	<b>1,599</b>	<b>477</b>	<b>4,887</b>	<b>625</b>	<b>12,251</b>
Provisions created during the year	219	48	-	1,637	779	27,149	216	30,048
Reversed	-	-	(1,240)	(1,972)	(871)	(26,066)	(17)	(30,166)
Utilised (paid)	(87)	(85)	-	-	-	-	(352)	(524)
Exchange gains and losses on foreign denominated items	-	-	-	-	8	(1)	-	7
Actuarial profits, recognized in other comprehensive income	12	-	-	-	-	-	-	12
<b>Balance at 31 December 2018</b>	<b>3,044</b>	<b>475</b>	<b>11</b>	<b>1,264</b>	<b>393</b>	<b>5,969</b>	<b>472</b>	<b>11,628</b>

## Movement in provisions - Group

EUR 000	Pending legal issues	Pensions & other post retirement benefit obligations	Provisions for off-balance sheet commitments	Other	Total
<b>Balance at 1 January 2017</b>	<b>1,619</b>	<b>3,246</b>	<b>8,227</b>	<b>690</b>	<b>13,782</b>
Provisions created during the year	263	402	31,551	-	32,216
Reversed	(3)	(118)	(31,346)	-	(31,467)
Utilised (paid)	(27)	-	-	(65)	(92)
Exchange gains and losses on foreign denominated items	-	-	(84)	-	(84)
Actuarial profits, recognized in other comprehensive income	-	124	-	-	124
<b>Balance at 31 December 2017</b>	<b>1,852</b>	<b>3,654</b>	<b>8,348</b>	<b>625</b>	<b>14,479</b>

## Movement in provisions - Bank

EUR 000	Pending legal issues	Pensions & other post retirement benefit obligations	Provisions for off-balance sheet commitments	Other	Total
<b>Balance at 1 January 2017</b>	<b>1,263</b>	<b>3,203</b>	<b>8,227</b>	<b>690</b>	<b>13,383</b>
Provisions created during the year	18	365	31,551	-	31,934
Reversed	(3)	(116)	(31,346)	-	(31,465)
Utilised (paid)	(27)	-	-	(65)	(92)
Exchange gains and losses on foreign denominated items	-	-	(84)	-	(84)
Actuarial profits, recognized in other comprehensive income	-	(40)	-	-	(40)
<b>Balance at 31 December 2017</b>	<b>1,251</b>	<b>3,412</b>	<b>8,348</b>	<b>625</b>	<b>13,636</b>

SKB Group and SKB Bank book provisions gross, each increase in provisions is booked on expense and each decrease on income.

## Litigation

As at 31 December, 2018, SKB Group and SKB Bank participated in several litigation cases as defendant. General Management of SKB Group and SKB Bank believe that the provisions are adequate and that the losses from litigation will not exceed the provisions made for these purposes.

In 2018 SKB Group didn't made provisions (2017: EUR 263 thousand), utilized provisions of EUR 475 thousand (2017: EUR 27 thousand) and reversed unused provisions of EUR 1,351 thousand (2017: EUR 3 thousand), so as at 31 December 2018, SKB Group has provisions for litigation of EUR 26 thousand (2017: EUR 1,852 thousand).

In 2018 SKB Bank didn't made provisions (2017: EUR 18 thousand), didn't utilized provisions (2017: EUR 27 thousand) and reversed unused provisions of EUR 1,240 thousand (2017: EUR 3 thousand), so as at 31 December 2018, SKB Bank has provisions for litigation of EUR 11 thousand (2017: EUR 1,251 thousand).

## Pensions and other postretirement benefit obligations

Provisions for retirement severance pay and seniority awards are calculated by independent actuary. By calculation of provisions for retirement severance pay and seniority awards in SKB Bank and SKB Group the following assumptions have been taken into account:

- discount factor from 1.4 % to 1.93 %,
- increase of salaries from 1.0 % to 2.7 %,
- number of employees,
- fluctuation of employees.

## 4.35. OTHER LIABILITIES

EUR 000	Group		Bank	
	2018	2017	2018	2017
Liabilities for taxes and contributions	499	712	499	437
Advances received	4,368	4,388	87	57
Income deferred and paid in advance	4,859	4,554	1,027	1,070
	<b>9,726</b>	<b>9,654</b>	<b>1,613</b>	<b>1,564</b>

## 4.36. EQUITY

EUR 000	Group		Bank	
	2018	2017	2018	2017
<b>Capital</b>				
• - called capital paid	52,784	52,784	52,784	52,784
	<b>52,784</b>	<b>52,784</b>	<b>52,784</b>	<b>52,784</b>
<b>Share premium</b>	<b>104,061</b>	<b>104,061</b>	<b>104,061</b>	<b>104,061</b>
<b>Accumulated other comprehensive income</b>				
• - financial assets at fair value through other comprehensive income	18,056	-	18,057	-
• - available for sale financial assets	-	33,222	-	33,222
• - actuarial profits / (losses)	(775)	(787)	(647)	(635)
	<b>17,281</b>	<b>32,435</b>	<b>17,410</b>	<b>32,587</b>
Reserves from profit (including retained earnings)				
• reserves from profit	29,106	29,106	29,106	29,106
• retained earnings	<b>95,694</b>	<b>106,496</b>	<b>84,636</b>	<b>99,634</b>
	<b>124,800</b>	<b>135,602</b>	<b>113,742</b>	<b>128,740</b>
<b>Profit / (loss) for the year</b>	<b>57,569</b>	<b>43,367</b>	<b>53,693</b>	<b>40,573</b>
	<b>356,495</b>	<b>368,249</b>	<b>341,690</b>	<b>358,745</b>

Reserves from profit includes statutory reserves in the amount of EUR 4,387 thousand (2017: EUR 4,387 thousand) and other reserves from profits in the amount of EUR 24,719 thousand (2017: EUR 24,719 thousand) and according to statute of Bank they cannot be distributed.

	Group			Bank		
	EUR 000	Retained earnings / (loss)	Income from the current year	Total	Retained earnings / (loss)	Income from the current year
<b>Balance at 31 December 2017</b>	<b>106,496</b>	<b>43,367</b>	<b>149,863</b>	<b>99,634</b>	<b>40,573</b>	<b>140,207</b>
Transition effects to IFRS 9	1,161	-	<b>1,161</b>	-	(241)	<b>(241)</b>
<b>Balance at 1 January 2018</b>	<b>107,657</b>	<b>43,367</b>	<b>151,024</b>	<b>99,634</b>	<b>40,332</b>	<b>139,966</b>
Transfer of profit to retained earnings	43,367	(43,367)	-	40,332	(40,332)	-
Appropriation of (accounting for) dividends	(55,530)	-	<b>(55,530)</b>	(55,530)	-	<b>(55,530)</b>
Net profit / (loss) for the financial year	-	57,569	<b>57,569</b>	-	53,693	<b>53,693</b>
Other*	200	-	<b>200</b>	200	-	<b>200</b>
<b>Balance at 31 December 2018</b>	<b>95,694</b>	<b>57,569</b>	<b>153,263</b>	<b>84,636</b>	<b>53,693</b>	<b>138,329</b>
Balance at 1 January 2017	104,151	63,692	<b>167,843</b>	99,561	61,422	<b>160,983</b>
Transfer of profit to retained earnings	63,692	(63,692)	-	61,422	(61,422)	-
Appropriation of (accounting for) dividends	(61,347)	-	<b>(61,347)</b>	(61,349)	-	<b>(61,349)</b>
Net profit / (loss) for the financial year	-	43,367	<b>43,367</b>	-	40,573	<b>40,573</b>
<b>Balance at 31 December 2017</b>	<b>106,496</b>	<b>43,367</b>	<b>149,863</b>	<b>99,634</b>	<b>40,573</b>	<b>140,207</b>

\*SKB Group and SKB Bank can reward employees with so called Long term incentives. Shares of Société Générale are eligible to rewarded employees three to four years after the day of granting. It is special scheme under which employees are rewarded with shares and become their owners under certain conditions (employment in Société Générale and good performance of Société Générale).

An employee is rewarded with an amount that is then converted into number of shares at certain date.

#### The Bank's distributable profit

	EUR 000	2018	2017
Net profit for the financial year		53,693	40,573
Retained earnings		84,636	99,634
Long-term deferred development costs		(2,078)	(1,601)
<b>Distributable profit</b>		<b>136,251</b>	<b>138,606</b>
Distribution of dividends		53,633	55,530
Transfer to following year		82,618	83,076

General management proposed the distribution of current year result in the amount of EUR 53,633 thousand. Decision on the distribution will be made on General Meeting of Shareholders in May 2019.

## 4.37. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

In the normal course of business, SKB Group and SKB Bank are parties to financial instruments with off-balance sheet risk to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest and currency rates. These financial instruments include credit lines, financial guarantees, commercial letters of credit and forward foreign exchange contracts.

Credit risk associated with off-balance sheet financial instruments is defined as the possibility of sustaining a loss due to any other party to a financial instrument failing to perform in accordance with the terms of the contract. SKB Group and SKB Bank use the same credit policies in making commitments and conditional obligations as for the balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

Market risk represents the possibility that the value of financial instruments will change, either positively or negatively, with changes in market prices, such as interest or foreign currency rates.

SKB Group and SKB Bank require collateral to support off-balance sheet financial instruments when it is deemed necessary. Collateral held varies, but may include deposits held in financial institutions, government securities, other marketable securities, and mortgages.

Credit lines are commitments to extend credit, which generally have fixed expiry dates or other termination requirements. Substantially all bank's commitments to extend credit are revocable as they are contingent upon the customers maintaining specific credit standards at the time of loan disbursement. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Financial guarantees are conditional commitments issued by SKB Group and SKB Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing guarantees is essentially the same as that involved in extending facilities to other customers. SKB Group and SKB Bank apply similar principles as those applied in assessing the required allowance for losses under other credit facilities when assessing the likelihood of loss under the guarantee.

A commercial letter of credit represents an extension of credit by SKB Group and SKB Bank to its customer where the customer is usually the buyer/importer of goods and the beneficiary is usually the seller/exporter. As letters of credit are collateralized by the underlying shipments of goods to which they relate, they carry significantly lower risk.

SKB Group's and SKB Bank's exposure regarding commitments to extend credit, guarantees, and commercial letters of credit by original maturity is as follows:

EUR 000	Group		Bank	
	2018	2017	2018	2017
<b>Guarantees</b>	<b>208,862</b>	<b>211,348</b>	<b>208,862</b>	<b>211,348</b>
• Service related	107,512	96,105	107,512	96,105
- up to 1 year	11,685	12,689	11,685	12,689
- over 1 year	95,827	83,416	95,827	83,416
• Financial	101,350	115,243	101,350	115,243
- up to 1 year	17,900	15,501	17,900	15,501
- over 1 year	83,450	99,742	83,450	99,742
<b>Undrawn facilities</b>	<b>457,032</b>	<b>361,907</b>	<b>457,056</b>	<b>361,930</b>
• up to 1 year	257,836	263,406	257,860	263,429
• over 1 year	199,196	98,501	199,196	98,501
<b>Spot</b>	<b>1,540</b>	<b>2,020</b>	<b>1,540</b>	<b>2,020</b>
• up to 1 year	1,540	2,020	1,540	2,020
<b>Derivative financial instruments</b>	<b>843,210</b>	<b>671,402</b>	<b>843,210</b>	<b>671,402</b>
• up to 1 year	355,941	151,132	355,941	151,132
• over 1 year	487,269	520,270	487,269	520,270
	<b>1,510,644</b>	<b>1,246,677</b>	<b>1,510,668</b>	<b>1,246,700</b>

For the purpose of secondary liquidity with ECB, securities that are ECB eligible (bonds) amount to EUR 201,524 thousand (2017: EUR 406,033 thousand). In addition ECB eligible loans amount to EUR 48,218 thousand (2017: EUR 96,958 thousand). Together loans and securities eligible for ECB funding at end of 2018 amount to EUR 549,742 thousand (2017: EUR 502,990 thousand).

## 4.38. Ordinary shares

The total number of issued shares with no par value at 31 December 2018 was 12,649,200 shares (2017: 12,649,200 ordinary shares).

Net assets per share at 31 December 2018 amount to EUR 28,18 (2017: EUR 29.11) for SKB Group and EUR 27,01 (2017: EUR 28.36) for SKB Bank.

## 4.39. Distribution of dividends

In year 2019 the distribution of dividends in the amount of EUR 53,633 thousand is planned.

## 4.40. Operations on behalf and for the account of third parties

SKB Group and SKB Bank are performing operations on behalf and for the account of third parties in the area securities. These operations are managed on special accounts.

<b>Group and Bank</b>			
	EUR 000	2018	2017
<b>ASSETS</b>		<b>1,015,573</b>	<b>1,061,371</b>
<b>Claims due to customers (settlement and current account)</b>		<b>1,015,358</b>	<b>1,059,229</b>
Due to financial instruments		1,015,233	1,052,521
Due to KDD or settlement (custody) account for sold financial instruments		125	2,185
Due to other or settlement account for sold financial instruments (buyers)			4,523
<b>Cash assets (customers)</b>		<b>215</b>	<b>2,142</b>
On settlement account		73	700
On current account		142	1,442
<b>LIABILITIES</b>		<b>26,381</b>	<b>1,061,371</b>
<b>Liabilities due to customers (settlement and current account)</b>		<b>26,381</b>	<b>1,061,371</b>
Due to customer (cash and financial instruments)		26,311	1,056,689
Due to KDD or settlement (custody) account for bought financial instruments		64	4,682
Due to bank or settlement account for commission, fees etc.		6	-
<b>OFF BALANCE SHEET</b>		<b>1,016,233</b>	<b>1,052,522</b>
<b>Customer financial instruments, diverse by services</b>		<b>1,016,233</b>	<b>1,052,522</b>
Assets management services		30	161
Custody services		1,016,203	1,052,361

## Group and Bank

	EUR 000	2018	2017
<b>Income fee and commissions from operating with investments and support investments services for customer</b>		<b>623</b>	<b>821</b>
Securities services		111	195
Custody and similar services		339	352
Monitoring of settlement account		173	274
<b>Expense fee and commissions from operating with investments and support investments services for customer</b>		<b>280</b>	<b>298</b>
Expense fee and commission due to KDD and similar organisations		270	286
Expense fee and commission due to Stock exchange company and similar organisations		10	12

SKB Group and SKB Bank have performed as agent or member of syndicate in performing the syndicate loan in EUR 85,473 thousand (2017: EUR 116,883 thousand).

## 4.41. 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	2018	2017	2018	2017
Cash in hand		26,813	25,084	26,813	25,084
Balances with central banks and other demand deposits		163,382	278,565	163,382	278,565
Loans to banks up to 90 days		28,618	30,830	28,618	30,830
		<b>218,813</b>	<b>334,479</b>	<b>218,813</b>	<b>334,479</b>



## 5. RELATED PARTY TRANSACTIONS

SKB Group and SKB Bank enter into transactions with related parties in the normal course of business that includes loans, deposits, and foreign currency transactions, which are carried out at normal commercial terms and conditions and at market rates.

### Related party transactions with Société Générale

EUR 000	Skupina		Banka	
	2018	2017	2018	2017
<b>Related party transactions with Société Générale at end of the year</b>				
Time deposits and loans to other banks	63,608	63,842	63,608	63,842
EMTN bonds	5,947	5,983	5,947	5,983
Other borrowed funds	203,335	174,640	5,335	8,529
Forward foreign exchange - bought (nominal value)	86,444	83,762	86,444	83,762
Forward foreign exchange - sold (nominal value)	86,459	84,430	86,459	84,430
Interest rate swap - purchase (nominal value)	277,279	226,133	277,279	226,133
Interest rate swap - sale (nominal value)	277,279	226,133	277,279	226,133
Options (caps, floors and collars) - purchase	24,214	25,000	24,214	25,000
Options (caps, floors and collars) - sale	-	-	-	-
Option bought (nominal value)	259	700	259	700
Option sold (nominal value)	262	681	262	681
Spot Forex bought (nominal value)	1,541	793	1,541	793
Spot Forex sold (nominal value)	1,540	794	1,540	794
Other guarantee granted	4,142	2,289	4,142	2,289
Credit lines received	280,000	230,000	280,000	230,000
Contra guarantees received	345,000	238,000	345,000	238,000
<b>Related party transactions with Société Générale in the year</b>				
Interest income from time deposits and loans	730	444	730	444
Interest expense from other borrowed funds	(137)	(218)	(42)	(95)
Income on interest rate swaps	3,595	5,209	3,595	5,209
Expense on interest rate swaps	8,624	(5,360)	8,624	(5,360)

## Related party transactions with other parties related to Société Générale Group

EUR 000	Group		Bank	
	2018	2017	2018	2017
<b>Related party transactions with other parties related to Société Générale Group at end of the year</b>				
Time deposits and loans to other banks	2,006	1,283	2,006	1,283
Other borrowed funds	513	765	513	765
Other guarantee granted	4,932	16,993	4,932	16,993
Other unused confirmed lines of credit	19	20	19	20
<b>Related party transactions with other parties related to Société Générale Group in the year</b>				
Interest income from time deposits and loans	2	-	2	-
Interest expense from other borrowed funds	(4)	(4)	-	-

## Related party transactions with SKB Leasing

EUR 000	2018	2017
<b>Related party transactions with SKB Leasing at end of the year</b>		
Loans and other financial assets	309,855	292,498
Investment in associates and joint ventures	20,454	20,454
Other assets	-	9
Financial liabilities measured at amortised cost	9,199	9,317
Other liabilities	-	34
<b>Related party transactions with SKB Leasing in the year</b>		
Interest income and similar income	2,779	2,983
Interest expense and similar expense	(1)	(1)
Dividend income	8,185	5,554
Fee and commission income	413	350
Other operating net income	188	344
Impairment of loans and other financial assets	3	-

Commonly used interest rates with Société Générale Group	EUR	foreign currency
<b>Borrowing</b>	3M EURIBOR from -0.13 to 1.35 %	Fix IR from -0.60 to -0.55 %
	Fix IR from 0.09 to 0.24 %	
<b>Lending</b>		Fix IR from 0.30 to 0.80 %
	overnight	Fix IR from 0.45 to 2.72 %

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

### Remunerations paid to members of the Board of Directors

Group and Bank	Andre Gardella	Vojka Ravbar	Cvetka Selšek	François Turcot**	Giovanni Luca Soma	Pierre - Yves Demoures
<b>EUR 000</b>	<b>2018</b>					
Fixed remuneration	306.7	137.7	-	70.3	-	-
Variable remuneration	50.6	27.0	-	155.0	-	-
In - kind benefits*	232.1	-	-	64.7	-	-
Reimbursement of expenses	148.1	10.3	-	50.0	-	-
Insurance premium	-	2.5	-	-	-	-
Other payments	-	1.3	-	-	-	-
Meeting fees	-	-	-	-	-	-
Monthly fees	-	-	20.0	-	-	-
Deferred payments	47.8	-	-	82.2	-	-
<b>Total</b>	<b>785.3</b>	<b>178.8</b>	<b>20.0</b>	<b>422.2</b>	-	-

Skupina in Banka	Karine Destre - Bohn	Patrick Gelin	Marko Košak	Jean Philippe Guillaume	Maria Rousseva	Milorad Katnić	Clara-Elen Grigore
<b>EUR 000</b>	<b>2018</b>						
Fixed remuneration	-	-	-	-	-	-	-
Variable remuneration	-	-	-	-	-	-	-
In - kind benefits*	-	-	-	-	-	-	-
Reimbursement of expenses	-	-	-	-	-	0.6	-
Insurance premium	-	-	-	-	-	-	-
Other payments	-	-	-	-	-	-	-
Meeting fees	-	-	6.5	-	-	12.0	-
Monthly fees	-	-	5.0	-	-	-	-
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>11.5</b>	<b>0.0</b>	<b>0.0</b>	<b>12.6</b>	<b>0.0</b>

\*In line with Société Générale policy the employees who are assigned to work abroad, received some in-kind benefits which are locally considered as fixed remuneration and are presented separately.

\*\*The amount includes remunerations paid to François Turcot for year 2018 and partially also for year 2017.

Members of the Board of Directors have not received payments in Bank's subsidiary SKB Leasing.

Andre Gardella is appointed Chief Executive Officer SKB from December, 8th 2017. He replaces François Turcot.

## 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.

EUR 000	Group	Bank
	2018	
Fixed remuneration	468.8	350.6
Variable remuneration	124.0	94.0
In - kind benefits*	116.5	116.5
Reimbursement of expenses	96.9	92.6
Insurance premium	7.0	4.5
Other payments	4.0	2.7
Meeting fees	-	-
Monthly fees	-	-
Deferred remuneration	20.0	20.0
<b>Total</b>	<b>837.2</b>	<b>680.9</b>

\*In line with Société Générale policy the employees who are assigned to work abroad, received some in-kind benefits which are locally considered as fixed remuneration and are presented separately.

The difference between remunerations of Group SKB and Bank SKB are remunerations paid to director of subsidiary.

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

EUR 000	Board of Directors	Key Management Personnel	Key Management Personnel
	Group and Bank	Group	Bank
	2018		
<b>Related party transactions with the members of the Board of Directors and Key Management Personnel at the end of the year</b>			
Loans and advances	-	94.2	31.4
Loan commitments	14.2	25.0	14.8
Financial liabilities measured at amortised costs	1.310.0	245.1	243.3
<b>Related party transactions with the members of the Board of Directors and Key Management Personnel in the year</b>			
Interest income	-	1.2	0.4
Interest expense	(2.8)	(2.1)	(1.0)
Fee and commission income	1.7	0.9	0.6

\* Interest rates were approved according to the SKB Bank's policy. Average interest rate is 2.49 % 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

	EUR 000	Group	Bank
		2018	
<b>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</b>			
Loans and advances		24.7	23.5
Loan commitments		11.5	9.2
Financial liabilities measured at amortised costs		147.1	145.3
<b>Related party transactions with the family members of the members of the Board of Directors and Key Management Personnel in the year</b>			
Interest income		1.2	1.2
Interest expense		(0.6)	(0.3)
Fee and commission income		1.0	0.7

The remuneration policy for the members of the Board of Directors, adopted at the 27th session of the General Meeting of Shareholders held on 2 June 2014, was valid till 29 May 2018. As of 29 May 2018, the remuneration policy for the members of the Board of Directors, adopted at the 32nd session of the General Meeting of Shareholders held on 29 May 2018, applies as follows:

All members of the Board of Directors, being considered independent according to the Société Générale rules receive 2,000 EUR (gross) for each session of the Board of Directors.

Presidents of the Committees, being considered independent according to the Société Générale rules, receive 2,000 EUR (gross) for chairing each session.

Members of the Committees, being considered independent according to the Société Générale rules, receive 1,000 EUR (gross) for attendance at each session.

Members of the Board of Directors, not being employed in SKB Group or in Société Générale Group, are entitled to reimbursement of travel and other expenses related to the performance of their function.

SKB d.d. will not pay out the profit sharing or bonuses with options or comparable financial instruments either to the members of the Board of Directors or to the members of the Committees for their work in the Board of Directors or in Committees of the Board of Directors.

### Remunerations paid to employees by individual contract

Remunerations paid to employees by individual contract in SKB Group and SKB Bank amounted to EUR 1,490 thousand.

## 6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table summarises the carrying values and fair values of those financial assets and liabilities not presented in the Group's and Bank's statement of financial position at their fair value. This table does not include the fair values of non-financial assets and non-financial liabilities.

Group	Carrying value	Fair value	Carrying value	Fair value
EUR 000	2018		2017	
<b>Financial assets not measured at fair value</b>				
Cash, cash balances at the central banks and other demand deposits	190,195	190,195	303,649	303,649
Available-for-sale financial assets	-	-	389	389
Financial assets at amortised cost	2,726,438	2,872,204	-	-
Loans and receivables	-	-	2,334,687	2,488,958
<b>Financial liabilities not measured at fair value</b>				
Financial liabilities measured at amortised cost	2,914,774	2,905,693	2,759,357	2,750,701

Bank	Carrying value	Fair value	Carrying value	Fair value
EUR 000	2018		2017	
<b>Financial assets not measured at fair value</b>				
Cash, cash balances at the central banks and other demand deposits	190,195	190,195	303,649	303,649
Available-for-sale financial assets	-	-	388	388
Financial assets at amortised cost	2,516,404	2,616,017		
Loans and receivables	-	-	2,160,085	2,272,478
<b>Financial liabilities not measured at fair value</b>				
Financial liabilities measured at amortised cost	2,713,164	2,707,432	2,597,677	2,593,313

SKB Group and SKB Bank use the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets of liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Group	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
EUR 000	2018				2017			
<b>FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE</b>								
Cash, cash balances at the central banks and other demand deposits	190,195	-	-	190,195	303,649	-	-	303,649
Available-for-sale financial assets	-	-	-	-	-	-	389	389
Loans	-	-	2,624,012	2,624,012	-	-	2,488,958	2,488,958
Government bonds - listed	-	248,192	-	248,192	-	-	-	-
<b>ASSETS MEASURED AT FAIR VALUE</b>								
<b>Financial assets held for trading</b>								
Derivative financial instruments								
• Forward	-	892	-	892	-	897	-	897
• Interest rate swap	-	4,873	-	4,873	-	3,864	-	3,864
• Currency swap	-	875	-	875	-	6	-	6
• Interest rate option	-	414	-	414	-	468	-	468
• Currency option	-	-	-	0	-	1	-	1
	-	7,054	-	7,054	-	5,236	-	5,236
<b>Non-trading financial assets mandatorily at fair value through profit of loss</b>								
Equity instruments	-	-	17,913	17,913	-	-	-	-
Loans	-	-	17,257	17,257	-	-	-	-
	-	-	35,170	35,170	-	-	-	-
<b>Financial assets designated at fair value through profit or loss</b>								
<b>Debt securities - listed</b>								
Financial assets at fair value through other comprehensive income	-	5,947	-	5,947	-	-	-	-
<b>Government bonds - listed</b>								
Financial assets at fair value through other comprehensive income	-	258,682	-	258,682	-	-	-	-
<b>Government bonds - listed</b>								
Financial assets recognised at fair value through profit or loss	-	-	-	-	-	5,983	-	5,983
<b>Debt securities - listed</b>								
<b>Available-for-sale financial assets</b>								
Government bonds - listed	-	-	-	-	-	423,329	-	423,329
Equities - not listed	-	-	-	-	-	12,924	-	12,924
	-	-	-	-	-	436,253	-	436,253
<b>Non-current assets and disposal groups classified as held for sale</b>								
	-	-	461	461	-	-	361	361

Group	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
EUR 000	2018				2017			
<b>FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE</b>								
Financial liabilities measured at amortised cost	-	-	2,905,693	2,905,693	-	-	2,750,701	2,750,701
<b>LIABILITIES MEASURED AT FAIR VALUE</b>								
<b>Financial liabilities held for trading</b>								
Derivative financial instruments								
• Forward	-	1,731	-	1,731	-	780	-	780
• Interest rate swap	-	5,569	-	5,569	-	4,480	-	4,480
• Currency swap	-	2	-	2	-	96	-	96
• Interest rate option	-	414	-	414	-	468	-	468
• Currency option	-	-	-	0	-	1	-	1
	-	<b>7,716</b>	-	<b>7,716</b>	-	<b>5,825</b>	-	<b>5,825</b>
<b>Financial liabilities designated at fair value through profit or loss</b>								
Structured deposit	-	<b>5,947</b>	-	<b>5,947</b>	-	-	-	-
<b>Financial liabilities recognised at fair value through profit or loss</b>								
Structured deposit	-	-	-	-	-	<b>5,983</b>	-	<b>5,983</b>



Bank	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
EUR 000	2018				2017			
<b>FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE</b>								
Cash, cash balances at the central banks and other demand deposits	190,195	-	-	190,195	303,649	-	-	303,649
Available-for-sale financial assets	-	-	-	-	-	-	388	388
Loans	-	-	2,367,825	2,367,825	-	-	2,272,478	2,272,478
Government bonds - listed	-	248,192	-	248,192	-	-	-	-
<b>ASSETS MEASURED AT FAIR VALUE</b>								
<b>Financial assets held for trading</b>								
Derivative financial instruments								
• Forward	-	892	-	892	-	897	-	897
• Interest rate swap	-	4,873	-	4,873	-	3,864	-	3,864
• Currency swap	-	875	-	875	-	6	-	6
• Interest rate option	-	414	-	414	-	468	-	468
• Currency option	-	-	-	0	-	1	-	1
	-	7,054	-	7,054	-	5,236	-	5,236
<b>Non-trading financial assets mandatorily at fair value through profit of loss</b>								
Equity instruments	-	-	17,913	17,913	-	-	-	-
Loans	-	-	17,257	17,257	-	-	-	-
	-	-	35,170	35,170	-	-	-	-
<b>Financial assets designated at fair value through profit or loss</b>								
<b>Debt securities - listed</b>								
Financial assets at fair value through other comprehensive income	-	5,947	-	5,947	-	-	-	-
<b>Government bonds - listed</b>								
Financial assets recognised at fair value through profit or loss	-	-	-	-	-	5,983	-	5,983
<b>Debt securities - listed</b>								
<b>Available-for-sale financial assets</b>								
Government bonds - listed	-	-	-	-	-	423,329	-	423,329
Equities - not listed	-	-	-	-	-	12,924	-	12,924
	-	-	-	-	-	436,253	-	436,253
<b>Non-current assets and disposal groups classified as held for sale</b>								
	-	-	461	461	-	-	361	361

Bank	Raven 1	Raven 2	Raven 3	Skupaj	Raven 1	Raven 2	Raven 3	Skupaj
EUR 000	2018				2017			
<b>FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE</b>								
Financial liabilities measured at amortised cost	-	-	2,707,432	2,707,432	-	-	2,593,313	2,593,313
<b>LIABILITIES MEASURED AT FAIR VALUE</b>								
<b>Financial liabilities held for trading</b>								
Derivative financial instruments								
• Forward	-	1,731	-	1,731	-	780	-	780
• Interest rate swap	-	5,569	-	5,569	-	4,480	-	4,480
• Currency swap	-	2	-	2	-	96	-	96
• Interest rate option	-	414	-	414	-	468	-	468
• Currency option	-	-	-	0	-	1	-	1
	-	<b>7,716</b>	-	<b>7,716</b>	-	<b>5,825</b>	-	<b>5,825</b>
<b>Financial liabilities designated at fair value through profit or loss</b>								
Structured deposit	-	<b>5,947</b>	-	<b>5,947</b>	-	-	-	-
<b>Financial liabilities recognised at fair value through profit or loss</b>								
Structured deposit	-	-	-	-	-	<b>5,983</b>	-	<b>5,983</b>

## FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

In estimating the fair value of SKB Group's and SKB Bank's financial instruments, the following methods and assumptions have been used:

### LOANS AND RECEIVABLES, FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

The fair value is calculated as the net present value of future cash flows discounted by the risk free rate including liquidity and credit spread. The short end of the risk free rate curve is represented by Euribor rates while the long end is constructed from the interest rate swap rates. Liquidity spread is defined as the liquidity cost of Société Générale funding, while the bank calculates credit spreads using its internal model (based on client type and rating). Market, liquidity and credit spreads are reflecting the costs in the pricing of loans and receivables and financial liabilities.

For the assessment of future cash flows resulting from variable rate products, the bank is using implied forward rates.

Fair value of the doubtful loans is considered equal to the book value.

For items with no contractual maturity (i.e. sight deposits, saving accounts, overdrafts and credit cards) fair value is not calculated and equals the carrying amount.

## FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's and the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

### 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.

### FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets designated at fair value through profit or loss valued using a valuation technique consists of debt securities. 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.

### FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

## 7. EVENTS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

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

# VIII. RISK MANAGEMENT

## 1. INTRODUCTION

In accordance with Regulation (EU) No. 575/2013 (CRR) of the of the European Parliament and of the Council on the prudential requirements for credit institutions and investment firms the Bank is obliged to disclose to the public all relevant information regarded as material, since any omission could influence the assessment of a user relying on that information for the purpose of making economic decisions. Number and completeness of disclosed information related to capital adequacy, exposure towards risks and adequacy of governance and control mechanisms, have the impact to a higher transparency of the bank's operations.

SKB banka d.d. 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 2018 (either business report or accounting report), there is a reference to the respective chapter in the Annual Report 2018. The bank as a member of the international banking group Société Générale designed risk policies on the level of a particular risk as well as comprehensive risk management rules. Risk culture is well developed, the rules and risk management systems are compliant to the local/national legislation and with the guidelines of the parent bank.

## 2. RISK MANAGEMENT, OBJECTIVES AND POLICIES

### 2.1 GENERAL INFORMATION ON RISK MANAGEMENT, OBJECTIVES AND POLICIES

#### REPUTATION RISK

By strict following of local/national legislation as well as guidelines of the parent bank the bank operates transparently and does not expose itself to risk of reputation loss or degradation. Management of reputation risk is integral part of all the group's activities. This is achieved through increase of this risk awareness, trainings on this topic, through monitoring of media's publications, analysis and adequate management of clients' complaints.

#### RISK APPETITE

Risk Appetite is defined as the level of risk that the SKB Group is willing to assume in achieving its strategic goals. It is formalized in two documents (the Risk Appetite Framework and the Risk Appetite Statement) which describe the SKB Group-level principles, policies and metrics which establish the Group's Risk Appetite. The Risk Appetite is therefore articulated:

- Qualitatively, through a set of principles and policies applicable to various types of risk;
- Quantitatively, through risk control mechanisms comprising forward-looking targets, limits and alert thresholds.

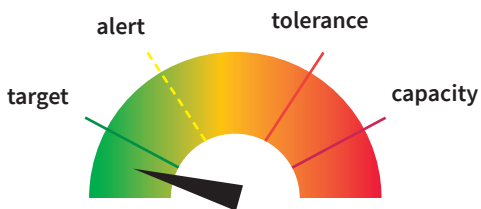
Risk Appetite is revised annually and adjusted based on the annual risk identification process. It is established at SKB Group level, cascaded operationally down to Business Lines through credit policies and delegations and monitored through defined principles. Risk Appetite is design such as to encompass the interactions with major strategic processes in the Group such as budgeting and strategic and financial planning (SFP), the internal capital adequacy assessment process (ICAAP), the internal liquidity adequacy assessment process (ILAAP), the Recovery Plan and the compensation mechanism.

Risk Appetite is monitored through various indicators, defined per major risk types and steered by defined thresholds:

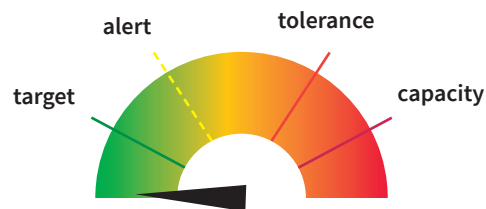
- Risk capacity: is the maximum risk that the bank can absorb without jeopardizing its sustainability
- Risk tolerance: is the maximum negative impact, loss amount, a bank is willing to accept from a specific risk event or series of risk events
- Risk target: is defined as expected level of risk indicators assuming the base macroeconomic scenario and base financial projections of the Group
- Risk alert: the threshold level of the risk indicators which triggers analyses and proposal of potential actions to be taken in order to steer the Group within the risk tolerance

SKB Group monitors five major risk types. Overall, in 2018 the demonstrated strong financial profile with stable levels of main risk types.

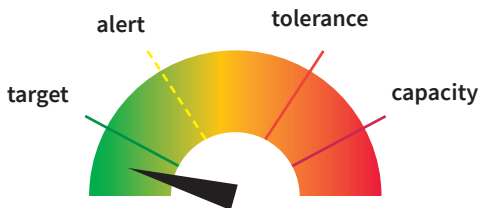
### Targeted financial and strategic profile



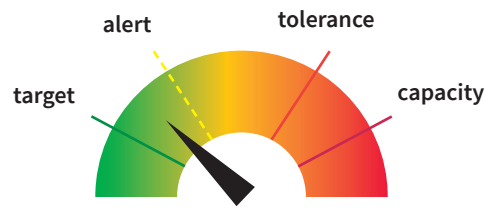
### Liquidity and funding risk



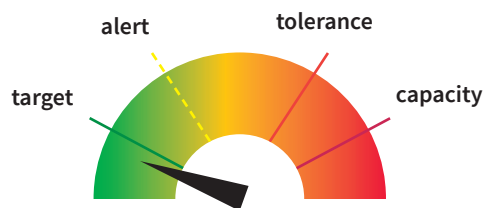
### Structural risk



### Credit risk



### Operational risk



## 2.2 INFORMATION ON RISK MANAGEMENT, OBJECTIVES AND POLICIES BY RISK CATEGORY

### RISK STRATEGY

The risk management strategy of SKB Group takes into account the advanced risk management standards of the Société Générale 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

The SKB 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 Division

The 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 and to the risk departments in Société Générale.

#### • 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 control system.

#### • Finance Division

The 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 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 the bank has been using maturity matched internal transfer pricing system, which takes into account current market conditions and strategic guidelines of the bank consequently enabling more efficient management of liquidity risk, allocation of costs and benefits and monthly monitoring of the Bank's operations' effectiveness.

## CREDIT RISK

### RISK APPROVAL

#### NON-RETAIL

Risk approval is conducted in the Credit Risk Assessment unit and is independent from the operational units (Branches and Commercial Departments). The approval process is based on approving credit limit applications submitted by the business units. Any credit risk undertaking must be based on sound knowledge of the client and a thorough understanding of the client's business, type and nature, the structure and the purpose of the transaction, as well as the sources of repayment.

The final risk profile of the client is defined by the rating and is the basis for the credit decision process and the definition of limits and pricing. The Credit Risk Assessment unit closely co-operates with the operational units in order to support the Group's business activities and to make the credit process more efficient, while closely monitoring the quality of SKB'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

The SKB rating system is based on three key pillars:

- internal rating models used to measure counterparty risk (expressed as the probability of default by the borrower within the horizon of one year),
- set of procedures and guidelines for the usage of the rating tools and monitoring the usage of the rating system,
- reliance on expert judgment to assess the model results.

## CLIENT FOLLOW-UP AND MONITORING

### NON-RETAIL

Sensitive clients are included on a watch list for regular and systematic follow-up. The main important trigger events to include clients on the watch list are:

- deterioration of credit quality,
- difficulties in the settlement of credit obligations),
- breach of covenants,
- blocked accounts.

Through a client watch list, the Credit Risk Assessment unit is enabled to closely monitor sensitive clients with deteriorating credit qualities and difficulties in the settlement of their debts from an early stage. The development of exposure towards clients on the watch list is regularly reported to the credit risk committee. Clients' follow-up supports the activities for facilities' restructuring and refinancing.

### 2.3 QUALITATIVE DISCLOSURE REQUIREMENTS RELATED TO CCR

Counterparty credit risk is the risk arising from the possibility that the counterparty may default on derivative transactions concluded with the bank, which can result to a due closing-out settlement amount based on the actual market value of such transactions. In SKB Group the number of derivative transactions is low and limited to the client driven hedging operations. The deals are not executed by using the central clearing institutions, instead the Group is using intragroup agreement in line with European Market Infrastructure Regulation (EMIR). All derivative deals initiated by the client are closed with back to back deals.

### 2.4. INFORMATION ON GOVERNANCE ARRANGEMENTS

SKB Group d.d. 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..

## 3. INFORMATION ON THE SCOPE OF APPLICATION OF THE REGULATORY FRAMEWORK

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

Consolidated statements for accounting and prudential purposes consist of SKB bank, SKB Leasing d. o. o., 100 % owned by the bank, and SKB Leasing Select, 100 % owned by SKB Leasing. Both companies are fully consolidated. There are no differences in consolidated statements for accounting and prudential purposes.

In the group there are no impediments to the transfer of own funds or repayment of liabilities among the parent bank and its subsidiary.



## 4. 4. OWN FUNDS

Capital disclosures as prescribed in the Capital Requirements Regulation (EU) nr. 575 / 2013 and Commission Implementing Regulation (EU) nr. 1423 / 2013

Reconciliation of capital items, filters and deductions from capital to the Statement of financial position

Group			
	EUR 000	Statement of financial position	Items' adjustments, necessary for calculation of capital adequacy
Cash, cash balances at central banks and other demand deposits at banks		190,195	
Financial assets held for trading		7,054	
Non trading financial assets mandatorily at fair value through profit or loss		35,170	
Financial assets designated at fair value through profit or loss		5,947	
Financial assets at fair value through other comprehensive income		258,682	(645)
Financial assets at amortised cost		2,726,438	(1,051)
Derivatives - hedge accounting		607	
Non-current assets and disposal groups classified as held for sale		461	
Property, plant and equipment		37,818	
Investment property		2,165	
Intangible assets		11,534	(11,534)
• goodwill		4,243	(4,243)
• other intangible assets		7,291	(7,291)
Investments in subsidiaries, associates and joint ventures		-	
Tax assets		3,108	-
• current tax assets		25	
• deferred tax assets		3,083	
Other assets		34,770	
<b>Total assets</b>		<b>3,313,949</b>	<b>(13,230)</b>
Financial liabilities held for trading		7,719	
Financial liabilities designated at fair value through profit or loss		5,947	
Financial liabilities measured at amortised cost		2,914,774	
Fair value changes of the hedged items in portfolio hedge of interest rate risk		602	
Provisions		11,873	
Tax liabilities		6,813	
• current tax liabilities		2,578	
• deferred tax liabilities		4,235	
Other liabilities		9,726	
<b>Total liabilities</b>		<b>2,957,454</b>	-
Capital		52,784	52,784
Share premium		104,061	104,061
Accumulated other comprehensive income		17,281	17,281
Reserves from profit		29,106	29,106
Retained earnings (including income from current year)		153,263	95,494
<b>Total shareholders' equity</b>		<b>356,495</b>	<b>298,726</b>
<b>Total equity and liabilities</b>		<b>3,313,949</b>	<b>298,726</b>
<b>Equity for the purpose of capital adequacy</b>			<b>285,496</b>

**Disclosure of the nature and amounts of prudential filters, deductions from capital and a description of all restrictions applied to the calculation of own funds in accordance with the regulation CRR and the instruments, prudential filters and deductions to which those restrictions apply**

Group		EUR 000	(A) disclosure date	(B) CRR article reference	(C) amounts subject to pre-CRR treatment or CRR prescribed residual amount
<b>Common Equity Tier 1 capital: instruments and reserves</b>					
1	Capital instruments and the related share premium accounts	156,845		26(1), 27, 28, 29, 26(3), seznam EBA	
	of which: Instrument type 1	156,845		26(3), seznam EBA	
2	Retained earnings	95,493		26(1)(c)	
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	46,387		26(1)	
6	Common Equity Tier 1 capital before regulatory adjustments	298,725			-
<b>Common Equity Tier 1 capital: regulatory adjustments</b>					
7	Additional value adjustment (negative amount)	(1,696)			
8	Intangible assets (net of related tax liability) (negative amount)	(11,534)		36(1)(b), 37, 472(4)	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)			36(1)(c), 38, 472(5)	
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment				
26a	Regulatory adjustments related to unrealised gains and losses pursuant to articles 467 in 468	-			
	of which: unrealised losses on exposures to central governments			467	
	of which: unrealised losses on other exposures			467	
	of which: unrealised gains on exposures to central governments			468	
	of which: unrealised gains on other exposures	-		468	
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	-			
	of which: intangible assets			481	
	of which: deferred tax assets that rely on future profitability excluding those arising from temporary differences			481	
27	Qualifying Additional Tier 1 capital deductions that exceed the Additional Tier 1 capital of the institution (negative amount)			36(1)(j)	
28	<b>Total regulatory adjustments to Common Equity Tier 1 capital</b>	(13,230)			
29	<b>Common Equity Tier 1 capital</b>	285,495			-
<b>Additional Tier 1 capital: instruments</b>					
36	<b>Additional Tier 1 capital before regulatory adjustments</b>				
<b>Additional Tier 1 capital: regulatory adjustments</b>					
41	Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in regulation CRR (EU) 575/2013 (i. e. CRR residual amounts)				
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of regulation CRR (EU) 575/2013			472, 472(3)(a), 472(4), 472(6), 472(8)(a), 472(9), 472(10)(a), 472(11)(a)	
	of which: intangible assets				

Group		EUR 000	(A) disclosure date	(B) CRR article reference	(C) amounts subject to pre-CRR treatment or CRR prescribed residual amount
42	Qualifying Tier 2 capital deductions that exceed the Tier 2 capital of the institution (negative amount)			56(e)	
43	<b>Total regulatory adjustments to Additional Tier 1 capital</b>		-		
44	<b>Additional Tier 1 capital</b>		-		
45	<b>Tier 1 capital (Tier 1 capital = Common Equity Tier 1 capital + Additional Tier 1 capital)</b>		285,495		-
<b>Tier 2 capital: instruments and provisions</b>					
51	<b>Tier 2 capital before regulatory adjustments</b>		-		
<b>Tier 2 capital: regulatory adjustments</b>					
57	<b>Total regulatory adjustments to Tier 2 capital</b>		-		
58	<b>Tier 2 capital</b>		-		
59	<b>Total capital (Total capital = Tier 1 capital + Tier 2 capital)</b>		285,495		34,797
<b>Risk weighted assets</b>					
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in the CRR (EU) 575/2013 (i. e. CRR residual amounts)		7,707		
	of which: deferred tax assets that rely on future profitability and do not arise from temporary differences		-		
	of which: deferred tax assets that rely on future profitability and arise from temporary differences		7,707		
	of which: significant investments in the capital of financial sector entities				
60	<b>Total risk weighted assets</b>		2,250,221		
<b>Capital ratios</b>					
61	Common Equity Tier 1 capital (as a percentage of risk exposure amount)		12,69%	92(2)(a), 465	
62	Tier 1 capital (as a percentage of risk exposure amount)		12,69%	92(2)(b), 465	
63	Total capital (as a percentage of risk exposure amount)		12,69%	92(2)(c)	
<b>Amounts below the thresholds for deduction (before risk weighting)</b>					
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10 % threshold and net of eligible short positions)		3,083		
73	Direct and indirect holdings by the institution of the Common Equity Tier 1 capital instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10 % threshold and net of eligible short positions)			36(1)(i), 45, 48, 470, 472(11)	
75	Deferred tax assets arising from temporary differences (amount below 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met)		3,083	36(1)(c), 38, 48, 470, 472(5)	

## A description of the main features of the capital categories issued by the Bank

1	Issuer	SKB BANKA D.D. LJUBLJANA
2	Unique identifier	SKBB, ISIN SI0021103013
3	Legislation governing instrument	Act on dematerialised securities Banking act Companies act
	<b>Regulatory treatment</b>	
4	Transitional CRR rules	
5	Post-transitional CRR rules	
6	Eligible at solo / (sub)consolidated / solo and (sub)consolidated	
7	Instrument type	Ordinary shares
8	Amount recognised in regulatory capital	
9	Nominal amount of instrument	No nominal amount - par value share
9a	Issue price	No nominal amount of the issue - par value shares
9b	Redemption price	
10	Accounting classification	
11	Original date of issuance	June 30, 1997
12	Perpetual or dated	
13	Original maturity date	
14	Issuer call subject to prior supervisory approval	
15	Optional call date	
16	Subsequent call dates, if applicable	
	<b>Coupons / dividends</b>	
17	Fixed or variable dividend / coupon interest rate	Variable dividend
18	Coupon interest rate and any related index	
19	Possibility of unpaid earnings	
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	
21	Existence of step up or other incentive to redeem	
22	Noncumulative or cumulative	
23	Convertible or non-convertible	
24	If convertible, conversion trigger(s)	
25	If convertible, fully or partially	
26	If convertible, conversion rate	
27	If convertible, mandatory or optional conversion	
28	If convertible, specify instrument type convertible into	
29	If convertible, specify issuer of instrument it converts into	
30	Write-down features	
31	If write-down, write-down trigger(s)	
32	If write-down, full or partial	
33	If write-down, permanent or temporary	
34	If temporary write-down, description of write-down mechanism	
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	
36	Non-compliant transitioned features	
37	If yes, specify non-compliant features	
36	Non-compliant transitioned features	
37	If yes, specify non-compliant features	

**Group**

	EUR 000	2018	2017
<b>OWN FUNDS</b>		285,496	277,963
TIER 1 CAPITAL		285,496	277,963
COMMON EQUITY TIER 1 CAPITAL		285,496	277,963
<b>Capital instruments eligible as CET1 Capital</b>		156,846	156,846
• Paid up capital instruments		52,784	52,784
• Share premium		104,061	104,061
<b>Retained earnings</b>		95,492	106,496
• Previous years retained earnings		95,492	106,496
• Profit or loss attributable to owners of the parent		57,569	43,367
• (-) Part of interim or year-end profit not eligible		-57,569	-43,367
<b>Accumulated other comprehensive income</b>		17,281	32,435
<b>Other reserves</b>		29,106	29,106
<b>Value adjustments due to the requirements for prudent valuation</b>		-1,696	-1,767
(-) Goodwill		-4,243	-4,243
(-) Other intangible assets		-7,291	-6,113
(-) Excess of deduction from AT1 items over AT1 Capital		/	-2,071
<b>Other transitional adjustments to CET1 Capital</b>		/	-32,726

## 5. CAPITAL REQUIREMENTS

The Group measures its credit and operational risks under Basel II Pillar I rules. Capital requirements for credit risk and counterparty credit risk are calculated using the standardized approach, while AMA (Advanced Measurement Approach) is used for operational risk.

### CAPITAL ADEQUACY

The Group monitors the adequacy of its capital using ratios defined by the requirements of the Bank of Slovenia. These ratios measure capital adequacy by comparing the Group's capital with risk-weighted assets.

While the minimum amount of capital required is 8 % of risk weighted assets, the Group sets its internal limit for capital adequacy to 12% of total capital. This internal limit is the alert level set in Risk Appetite Framework and Risk Appetite Statement and is monitored on a quarterly basis on the Board of Directors committee.

Overall in 2018 the capital adequacy of the group decreased; however, it still remains strong and safely above the alert threshold. The main drivers for this decrease was the increase of the commercial portfolio as the capital level remained stable.

## MINIMUM CAPITAL REQUIREMENT FOR CREDIT RISK BY EXPOSURE SEGMENTS

### CAPITAL SOLVENCY STRUCTURE – SKB GROUP

Capital requirements are calculated using standardized approach. The tables below describe the components of capital requirements and capital adequacy ratio as per December 31st 2018 and December 31st 2017.

Group	RWA		Capital requirement	
	2018	2017	2018	2017
<b>EUR 000</b>				
Central governments or central banks	7,709	8,072	617	646
Regional governments or local authorities	6,527	7,733	522	619
Public sector entities	10,999	24,517	880	1,961
Institutions	27,980	26,307	2,238	2,105
Corporates	912,807	836,082	73,025	66,887
Retail	1,140,216	1,053,073	91,217	84,246
Exposures in default	43,951	47,702	3,516	3,816
Collective investments undertakings (CIU)	1,604	1,467	128	117
Other items	41,706	43,000	3,336	3,440
Credit value adjustment (CVA)	2,851	3,050	228	244
Equities	376	388	30	31
Operational risk	53,496	46,682	4,280	3,735
<b>Total exposure value and capital requirements for credit, counterparty credit and dilution risks and free deliveries</b>	<b>2,250,222</b>	<b>2,098,073</b>	<b>180,018</b>	<b>167,846</b>

### Solvency ratio -Group

	v tisoč EUR	2018	2017
<b>CAPITAL REQUIREMENTS</b>		<b>180,018</b>	<b>167,846</b>
Total capital requirements for credit, counterparty credit and dilution risks and free deliveries		175,510	163,867
Total capital requirements for position, foreign exchange and commodity risks		0	0
• Position, foreign exchange and commodity risks under standardised approaches (SA)		0	0
• Position, foreign exchange and commodity risks under internal models (IM)		0	0
Total capital requirement for operational risk		4280	3,735
<b>Solvency ratio (%)</b>		<b>12.69</b>	<b>13.25</b>

## THE INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

The Group implemented Internal Capital Adequacy Assessment Process (ICAAP) to be able to assess its capital needs in accordance with its risk profile and risk strategy.

The process consists of a qualitative and quantitative assessment. The qualitative part represent the assessment of Group's risk exposure and assessment of its control system, which is performed on an annual basis. The quantitative calculation of the internal estimate of capital needs is performed at SKB Group level on a quarterly basis and reported to the Group's General Management through the ALCO Committee. Internal estimates of capital needs are calculated for all important risks from normative<sup>7</sup> and economic<sup>8</sup> 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 is 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. MACRO-PRUDENTIAL SUPERVISORY MEASURES

The group considered 1.25% of conservation capital buffer in the capital adequacy calculation. The geographical distribution of the Group's credit exposures relevant for the calculation of its countercyclical capital buffer is as follows:

Država	Kreditna izpostavljenost EUR 000
Bosnia and Herzegovina	12,421
United Kingdom	9,421
Netherlands	6,608
Luxembourg	6,042
Serbia	4,459
Germany	4,025
Slovenia	2,715,264
Other	3,806

The majority of exposure (98%) is allocated to Slovenian market where no countercyclical buffer is applied. Total institution-specific countercyclical capital buffer rate is 0 %. The level of countercyclical capital buffer by country is according to Directive 2013/36/EU as follows:

Country	Capital buffer in %
Czech Republic	0.01
United Kingdom	0.01
Sweden	0.02
Slovakia	0.01
Other countries	0.00

The exposure of the Group on the four countries in question represents 0.34% of the total exposure of the Group.

<sup>7</sup>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.

<sup>8</sup>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.

## 7. CREDIT RISK AND GENERAL INFORMATION

### 7.1 GENERAL QUALITATIVE INFORMATION ON CREDIT RISK

#### 7.1.1. DEFINITION OF PAST DUE AND CREDIT RISK ADJUSTMENT FOR ACCOUNTING PURPOSE

##### DEFAULT RULES

The Group is applying the regulatory default definition and is performing the monitoring of the default marking process. In line with EBA requirements defaulted exposures are classified as non-performing assets and are all either individually impaired or impaired by using statistical methods.

While the group follows the overdue exposures from first day of overdue and regardless the amount of overdue exposure, a materiality threshold is applied for default marking. Thus, only exposures that do not breach materiality threshold while being over 90 days past due can remain in the sound portfolio.

##### FORBORNE CLASSIFICATION

In case of financial difficulties of the debtor and subject to still viable underlying business of such debtor, the group primarily seeks to implement restructuring of the financial obligations instead of insolvency procedures. In accordance with SG group standards, which encompass EBA – regulatory rules and IFRS 9 standards, all such assets are individually impaired and are classified as defaulted. As such they are treated as non-performing loans.

Following internal rules the Group keeps forbore assets / obligors in non-performing classification at least one year.

The performing forbore assets / obligors can exit forbearance classification in case of becoming performing assets / obligors. That can take place under two conditions:

- successfully passing the probation period of two years, starting from the date of upgrade from non-performing (defaulted) assets / obligors,
- all required credit quality conditions for facility / debtor are fulfilled.

#### 7.1.2. 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.



## 7.2 GENERAL QUANTITATIVE INFORMATION ON CREDIT RISK

### TOTAL AND AVERAGE NET AMOUNT OF EXPOSURES

Group	EUR 000	Net value of exposures per 31.12.2018	Average net exposures over 2018	Net value of exposures per 31.12.2017	Average net exposures over 2017
Central governments or central banks		713,703	693,622	673,542	567,327
Regional governments or local authorities		41,058	56,151	71,244	104,180
Public sector entities		/	/	/	/
Multilateral Development Banks		/	/	/	/
International Organisations		/	/	/	/
Institutions		147,472	139,407	131,342	175,746
Corporates		1,237,266	1,193,767	1,150,267	1,102,848
• Of which SME		566,655	538,254	509,853	480,314
Retail		1,682,296	1,624,226	1,566,155	1,502,311
• Of which SME		236,233	234,561	232,889	226,558
• Of which secured by mortgages on immovable property		854,157	816,409	778,661	735,852
Exposures in default		60,602	60,048	59,494	57,350
Items associated with particular high risk		/	/	/	/
Covered bonds		/	/	/	/
Claims on institutions and corporates with a short-term credit assessment		/	/	/	/
Collective investments undertakings (CIU)		/	/	/	/
Equity		/	/	/	/
Other items		/	/	/	/

Note: exposure value is net value (after exclusion of provisions) of balance and off balance credit risk exposure

The highest share of total exposure, after reduction of specific and general allowance, was at the end of 2018 observed on retail segment (43%) and corporate segment (32%). In comparison to 2017, the biggest increase of exposure was observed on the institutions portfolio (12%), corporate portfolio (8%) and retail portfolio (7%). Among the latest, the highest increase is observed on housing loans (almost 10%). Portfolio was reduced on a regional governments and local authorities segment.

### CONCENTRATION OF RISK

The concentration of risk is managed by client, by geographical region and by industrial sector. The Bank precisely monitors concentration of risk by client name, using large exposure analyses, and manages it by defining the limits comparing to the Group's capital. The regular reporting on large exposure and limits is part of the risk management process of the Group. For regular portfolio analyses, the Group also quarterly monitors concentration by the industrial sector as part of ICAAP process.

In terms of geographical breakdown the majority of exposure remains to be allocated on Slovenian market.

The portfolio structure on the other hand remains well diversified in respect with client name and by industrial sector.

## GEOGRAPHICAL BREAKDOWN OF EXPOSURES

Group - as per 31.12.2018

EUR 000	European Union	Slovenia	South East Europe	Other	Total
Central governments or central banks	713,691	576,799	0	12	713,703
Regional governments or local authorities	41,058	41,058	0	0	41,058
Public sector entities	/	/	/	/	/
Multilateral Development Banks	/	/	/	/	/
International Organisations	/	/	/	/	/
Institutions	145,256	30,335	122	2,093	147,472
Corporates	1,234,319	1,225,619	2,421	526	1,237,266
• Of which SME	566,639	566,638	0	16	566,655
Retail	1,680,821	1,678,891	894	581	1,682,296
• Of which SME	236,233	236,233	0	0	236,233
• Of which secured by mortgages on immovable property	853,432	851,921	221	504	854,157
Exposures in default	48,594	48,558	12,008	0	60,602
Items associated with particular high risk	/	/	/	/	/
Covered bonds	/	/	/	/	/
Claims on institutions and corporates with a short-term credit assessment	/	/	/	/	/
Collective investments undertakings (CIU)	/	/	/	/	/
Equity	/	/	/	/	/
Other items					

**Group - as per 31.12.2017**

EUR 000	European Union	Slovenia	South East Europe	Other	Total
Central governments or central banks	673,528	571,877	0	14	673,542
Regional governments or local authorities	71,244	71,244	0	0	71,244
Public sector entities	/	/	/	/	/
Multilateral Development Banks	/	/	/	/	/
International Organisations	/	/	/	/	/
Institutions	127,969	31,372	93	3,280	131,342
Corporates	1,146,276	1,135,775	3,497	494	1,150,267
• Of which SME	509,853	509,853	0	0	509,853
Retail	1,565,363	1,563,145	624	168	1,566,155
• Of which SME	232,879	232,879	0	10	232,889
• Of which secured by mortgages on immovable property	778,405	771,614	152	104	778,661
Exposures in default	46,336	46,289	13,158	0	59,494
Items associated with particular high risk	/	/	/	/	/
Covered bonds	/	/	/	/	/
Claims on institutions and corporates with a short-term credit assessment	/	/	/	/	/
Collective investments undertakings (CIU)	/	/	/	/	/
Equity	/	/	/	/	/
Other items					

Note: Exposure value is net value (after exclusion of provisions) of balance and off balance credit risk exposure

The vast majority of Group's exposure at the end of 2018 is allocated on Slovenian debtors (92.3% of total exposure). Geographical breakdown structure demonstrates no significant change when comparing to 2017.

## Concentration of exposures by industry or counterparty types

Group - as per 31.12.2018

EUR 000	Agriculture and forestry, finshing	Mining	Manufacturing	Electricity, gas and water services	Construction	Commerce	Hotel trading	Traffic, warehousing and communication	Other financial organizations	Real estate	Government	Education	Health and social services	Other public, collective and personal services	Individuals	Total
Central governments or central banks	0	0	0	0	0	0	0	5	133,546	0	443,246	0	0	136,906	0	713,703
Regional governments or local authorities	0	0	0	0	0	825	0	5,052	0	333	32,653	277	1,216	701	0	41,058
Public sector entities	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
Multilateral Development Banks	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
International Organisations	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
Institutions	0	0	0	0	0	0	0	0	147,472	0	0	0	0	0	0	147,472
Corporates	278	7,603	370,937	87,136	63,851	273,253	18,392	247,611	57,088	20,659	0	120	9,900	80,437	0	1,237,266
• Of which SME	278	4,573	181,725	4,843	51,715	146,005	3,755	89,875	225	14,083	0	115	9,900	59,564	0	566,655
Retail	4,321	88	44,854	1,578	40,119	40,074	9,235	57,818	408	1,231	214	865	3,510	31,944	1,446,039	1,682,296
• Of which SME	4,321	88	44,853	1,578	40,076	40,030	9,235	57,818	408	1,231	214	861	3,510	31,939	73	236,233
• Of which secured by mortgages on immovable property	0	0	0	0	32	45	0	0	0	0	0	0	0	4	854,076	854,157
Exposures in default	38	10	2,507	7	1,151	37,035	128	12,621	335	58	9	25	20	832	5,827	60,602
Items associated with particular high risk	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
Covered bonds	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
Claims on institutions and corporates with a short-term credit assessment	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
Collective investments undertakings (CIU)	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
Equity	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
Other items																

Group - as per 31.12.2017

EUR 000	Agriculture and forestry, finshing	Mining	Manufacturing	Electricity, gas and water services	Construction	Commerce	Hotel trading	Traffic, warehousing and communication	Other financial organizations	Real estate	Government	Education	Health and social services	Other public, collective and personal services	Individuals	Total
Central governments or central banks	0	0	0	0	0	0	0	5	247,615	0	324,263	0	0	101,659	0	673,542
Regional governments or local authorities	0	0	0	0	0	826	1	30,398	0	340	38,673	316	61	629	0	71,244
Public sector entities	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
Multilateral Development Banks	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
International Organisations	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
Institutions	0	0	0	0	0	0	0	0	131,342	0	0	0	0	0	0	131,342
Corporates	202	9,927	356,682	79,942	60,575	243,218	10,580	249,240	51,929	12,702	0	97	8,256	66,916	0	1,150,267
• Of which SME	202	5,146	182,308	6,726	48,931	122,098	4,012	76,222	302	4,649	0	92	8,256	50,909	0	509,853
Retail	3,834	765	45,125	1,248	35,370	41,527	8,843	59,198	316	1,334	414	825	3,883	30,147	1,333,327	1,566,155
• Of which SME	3,834	765	45,125	1,248	35,321	41,479	8,843	59,198	316	1,334	414	821	3,883	30,139	169	232,888
• Of which secured by mortgages on immovable property	0	0	0	0	35	47	0	0	0	0	0	0	0	8	778,571	778,661
Exposures in default	554	0	2,537	963	2,800	36,799	37	7,582	347	58	0	42	7	324	7,447	59,495
Items associated with particular high risk	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
Covered bonds	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
Claims on institutions and corporates with a short-term credit assessment	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
Collective investments undertakings (CIU)	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
Equity	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
Other items																

Note: the counterparties have been allocated to the groups according to Standard industry classification. Exposure value is net value (after exclusion of provisions) of balance and off balance credit risk exposure

In 2018 the highest exposure is observed on the Government industry, out of which the majority of exposure (440 million euro) is allocated to Slovenian government bonds. The manufacturing industry follows in the second place, commerce and other financial organizations are in third and fourth. In comparison to 2017, the biggest increase of exposure was observed in the government industry, whereas the exposure towards other financial organizations was reduced.

At the end of 2018 the exposure toward individuals represented 37% of total exposure and increased by 6.7% if compared to 2017.

## Maturity of exposures

### Group - as per 31.12.2018

EUR 000	On demand	Less than 1 year	From 1 to 5 years	More than 5 years	Total
Central governments or central banks	231,925	40,704	206,963	336,703	816,296
Regional governments or local authorities	1,577	34,513	97,740	59,908	193,738
Public sector entities					
Multilateral Development Banks					
International Organisations					
Institutions	69,501	1,107	6,141	41,381	121,054
Corporates	43,081	326,706	435,207	63,459	868,454
• Of which SME	3,338	32,545	40,335	1,887	78,105
Retail	19,416	184,813	565,530	623,534	1,393,293
• Of which SME	2	21	30	3	55
Credit adjustment charges	4,798	22,407	36,563	15,115	78,882

### Group - as per 31.12.2017

EUR 000	On demand	Less than 1 year	From 1 to 5 years	More than 5 years	Total
Central governments or central banks	25,084	332,040	99,772	239,588	696,484
Regional governments or local authorities	0	27,899	28,560	13,635	70,093
Public sector entities	/	/	/	/	/
Multilateral Development Banks	/	/	/	/	/
International Organisations	/	/	/	/	/
Institutions	54,986	46,216	6,168	1	107,371
Corporates	6,661	268,899	371,885	151,807	799,251
• Of which SME	6,466	144,883	149,928	22,267	323,545
Retail	36,997	282,786	589,479	529,991	1,439,252
• Of which SME	14,964	77,924	91,595	2,991	187,474
Credit adjustment charges	0	-30,429	-77,421	-5,988	-113,838

Presented in the table above is the maturity of exposures of particular items of the balance sheet of the Group. The maturity of exposures considered in this report is as defined for liquidity purposes.

At the end of 2018 the exposures that mature from one to five years represented 39% of total exposure, whereas the exposures with maturity in over 5 years represented 33% of total exposure of the Group. Maturity wise, the structure of the portfolio did not change in comparison with the previous year.

## Credit quality of exposures by exposure class and instrument

### Group - as per 31.12.2018

EUR 000	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non defaulted exposures					
Central governments or central banks	0	713,803	0	101	/	101	713,703
Regional governments or local authorities	0	41,161	0	103	/	102	41,058
Public sector entities	/	/	/	/	/	/	/
Multilateral Development Banks	/	/	/	/	/	/	/
International Organisations	/	/	/	/	/	/	/
Institutions	0	147,490	0	18	2	18	147,472
Corporates	96,278	1,245,661	41,447	10,007	5,297	-21,822	1,237,266
• Of which SME	18,756	572,508	8,202	7,444	5,297	-5,668	566,655
Retail	42,512	1,691,210	7,498	36,546	20,765	-20,072	1,682,296
• Of which SME	9,415	238,932	927	9,634	1,438	-2,241	236,233
• Of which secured by mortgages on immovable property	20,348	857,597	3,535	15,568	5,535	-5,605	854,157
Exposures in default	138,790	/	/	/	/	/	60,602
Items associated with particular high risk	/	/	/	/	/	/	/
Covered bonds	/	/	/	/	/	/	/
Claims on institutions and corporates with a short-term credit assessment	/	/	/	/	/	/	/
Collective investments undertakings (CIU)	/	/	/	/	/	/	/
Equity	/	/	/	/	/	/	/
Other items	/	/	/	/	/	/	/

Group - as per 31.12.2017

EUR 000	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non defaulted exposures					
Central governments or central banks	0	673,542	0	0	/	0	673,542
Regional governments or local authorities	0	71,246	0	2	/	1	71,244
Public sector entities	/	/	/	/	/	/	/
Multilateral Development Banks	/	/	/	/	/	/	/
International Organisations	/	/	/	/	/	/	/
Institutions	0	131,342	0	0	2	0	131,342
Corporates	114,260	1,160,161	59,976	13,300	11,796	-14,027	1,201,145
• Of which SME	24,404	515,318	12,444	8,871	11,414	-11,943	518,407
Retail	65,094	1,573,794	8,992	55,125	5,573	-4,449	1,574,772
• Of which SME	11,088	235,777	1,296	11,506	267	-361	234,063
• Of which secured by mortgages on immovable property	27,657	781,741	3,776	20,932	1,966	-2,455	784,690
Exposures in default	179,354	/	/	/	/	/	/
Items associated with particular high risk	/	/	/	/	/	/	/
Covered bonds	/	/	/	/	/	/	/
Claims on institutions and corporates with a short-term credit assessment	/	/	/	/	/	/	/
Collective investments undertakings (CIU)	/	/	/	/	/	/	/
Equity	/	/	/	/	/	/	/
Other items	/	/	/	/	/	/	/



Note: exposure value is net value (after exclusion of provisions) of balance and off balance credit risk exposure. Specific credit risk adjustment are the ones that are individually impaired. General credit risk adjustments are the ones, calculated based on statistical model.

At the end of 2018 the share of defaulted exposures represented 4.7% of the total exposure of the Group. The level of defaulted exposures was reduced in comparison with 2017 by 23%. The amount of specific credit risk adjustments was lower by almost 30% compared with 2017, approximately the same reduction in comparison to previous year was observed on general credit risk adjustments. The coverage of the Group's total gross exposure with provisions was slightly reduced when compared with 2017.

### Credit quality of exposures by industry or counterparty types

#### Group - as per 31.12.2018

EUR 000	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non defaulted exposures					
Agriculture and forestry, fishing	177	4,667	1	205	502	-268	4,636
Mining	19	7,843	0	160	0	-25	7,701
Manufacturing	7,604	420,805	3,708	6,403	2,204	-3,136	418,298
Electricity, gas and water services	131	89,038	111	338	1	-464	88,721
Construction	12,646	104,880	10,064	2,341	843	-3,376	105,121
Commerce	61,587	315,943	23,181	3,162	1,485	-12,961	351,187
Hotel trading	841	27,981	0	1,067	78	124	27,755
Traffic, warehousing and communication	17,492	311,830	3,287	2,928	657	-3,655	323,107
Other financial organizations	1,385	338,675	995	218	2	120	338,848
Real estate	362	22,392	0	473	533	-448	22,281
Government	23	476,281	0	181	0	174	476,122
Education	64	1,275	0	52	1	-20	1,287
Health and social services	65	14,711	6	124	0	20	14,646
Other public, collective and personal services	3,239	250,750	1,021	2,149	610	-111	250,820
Individuals	33,156	1,452,255	6,571	26,974	19,146	-17,649	1,451,866
<b>Total</b>	<b>138,790</b>	<b>3,839,326</b>	<b>48,945</b>	<b>46,775</b>	<b>26,063</b>	<b>-41,674</b>	<b>3,882,396</b>

Group - as per 31.12.2017

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	952	4,111	231	243	2	71	4,589
Mining	0	10,877	0	185	0	32	10,692
Manufacturing	11,199	406,392	6,861	6,386	4,507	-5,429	404,345
Electricity, gas and water services	1,468	81,598	401	512	0	-111	82,153
Construction	17,251	97,273	12,455	3,325	1,636	-2,361	98,744
Commerce	73,122	288,551	33,095	6,208	3,766	-2,215	322,370
Hotel trading	761	19,642	7	936	29	-952	19,460
Traffic, warehousing and communication	15,653	340,643	6,112	3,759	1,464	-2,830	346,425
Other financial organizations	1,369	431,272	979	113	15	-72	431,549
Real estate	893	14,463	507	414	2	71	14,435
Government	0	363,359	0	7	0	3	363,351
Education	101	1,250	0	72	1	16	1,279
Health and social services	39	12,279	6	104	0	49	12,208
Other public, collective and personal services	2,656	200,297	617	2,664	643	-595	199,672
Individuals	53,888	1,338,079	7,696	43,498	5,306	-4,154	1,340,773
<b>Total</b>	<b>179,354</b>	<b>3,610,085</b>	<b>68,968</b>	<b>68,426</b>	<b>17,371</b>	<b>-18,475</b>	<b>3,652,046</b>

Note: the counterparties have been allocated to the groups according to Standard industry classification.

The highest share of defaulted exposures at the end of 2018 was observed in the commerce industry (over 44%). Traffic, warehousing and communication industry took the second place with 12.6% share of defaulted exposures. Within the Group, the distribution of defaulted exposure among industries had the same structure at the end of 2018 as a year before. At the end of 2018 the commerce industry also had the highest share of credit risk adjustments (47%).

### Group - as per 31.12.2018

EUR 000	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non defaulted exposures					
European Union	126,782	3,832,481	48,945	46,579	26,044	-40,119	3,863,739
Of which: Slovenia	126,677	3,569,954	48,945	46,427	25,884	-39,991	3,601,260
South East Europe	12,008	3,626	0	189	13	-1,556	15,445
Other	0	3,219	0	6	7	-0	3,212
<b>Total</b>	<b>138,790</b>	<b>3,839,326</b>	<b>48,945</b>	<b>46,775</b>	<b>26,063</b>	<b>-41,674</b>	<b>3,882,396</b>

### Group - as per 31.12.2017

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	164,776	3,601,581	67,556	68,087	17,365	-18,703	3,630,715
Of which: Slovenia	164,485	3,390,578	67,556	67,806	17,361	-18,807	3,419,701
South East Europe	14,572	4,546	1,412	333	5	336	17,373
Other	6	3,958	0	6	1	-108	3,957
<b>Total</b>	<b>179,354</b>	<b>3,610,085</b>	<b>68,968</b>	<b>68,426</b>	<b>17,371</b>	<b>-18,475</b>	<b>3,652,046</b>

At the end of 2018 the majority of defaulted exposure (more than 90%) was observed on the debtors from Slovenia, which corresponds to the distribution of the total Group's exposure. The entire amount of specific credit risk adjustment is allocated on Slovenia as well.

### Credit quality of exposures by rating buckets (in EUR 000)

The credit quality of financial assets is managed by using internal credit ratings which is mapped to the S&P rating scale.

Rating As per 31.12.2018	S1	S2	S3
AAA do A-	864,280		
BBB+ do B-	1,214,647	47,388	
CCC+ do C-		21,801	
D			96,278

Note: exposure value is gross value of balance and off balance credit risk exposure among which the retail portfolio is excluded from demonstration.

## Exposures by exposure categories and by stage

Group - as per 31.12.2018		Gross carrying amount by stage			Credit risk adjustments by stage		
EUR 000	S1	S2	S3	S1	S2	S3	
Central governments or central banks	713,803	0	0	-101	0	0	
Regional governments or local authorities	40,708	453	0	-36	-67	0	
Public sector entities							
Multilateral Development Banks							
International Organisations							
Institutions	147,490	0	0	-18	0	0	
Corporates	1,176,926	68,735	96,278	-4,589	-3,807	-43,058	
• Of which SME	533,807	38,701	18,756	-3,061	-2,792	-9,793	
Retail	1,626,487	64,724	42,512	-4,520	-4,394	-35,130	
• Of which SME	214,949	23,983	9,415	-1,612	-1,087	-7,862	
• Secured by mortgages on immovable property	840,247	17,350	20,348	-1,500	-1,939	-15,663	

## Ageing of past-due exposures

Group - as per 31.12.2018		Gross carrying amount						Total
EUR 000	up to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	more than 361 days		
Total loans	Total	20,457	4,835	2,829	4,306	53,138	187,861	
Total debt securities	/	/	/	/	/	/	/	
<b>Total exposures</b>	<b>102,355</b>	<b>20,472</b>	<b>4,840</b>	<b>2,835</b>	<b>4,311</b>	<b>53,314</b>	<b>188,126</b>	

Group - as per 31.12.2017		Gross carrying amount						Total
EUR 000	up to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	more than 361 days		
Total loans	167,260	22,602	6,866	3,590	3,731	83,508	287,557	
Total debt securities	/	/	/	/	/	/	/	
<b>Total exposures</b>	<b>170,566</b>	<b>22,697</b>	<b>6,883</b>	<b>3,669</b>	<b>4,740</b>	<b>83,797</b>	<b>292,351</b>	

The majority of past due exposures (54%) was at the end of 2018 allocated in the first bucket (up to 30 days of delay). The total amount of past due exposures was in comparison to 2017 reduced by 35%.

## Non-performing and forborne exposures

### Group - as per 31.12.2018

EUR 000	Gross carrying amount of exposures with forbearance measures							Accumulated impairment, accumulated changes in fair value due to credit risk and provisions			Collateral received and financial guarantees received	
	Performing exposures with forbearance measures				Non-performing exposures with forbearance measures				on performing exposures with forbearance measures	on non-performing exposures with forbearance measures	Collateral received on exposures with forbearance measures	Financial guarantees received on exposures with forbearance measures
		Instruments with modifications in their terms and conditions	of which: Performing forborne exposures under probation		of which: Defaulted	of which: Impaired						
Debt securities												
Loans and advances	43,556	640	150	599	42,916	42,916	42,916	-28,241	-12	-28,230	11,174	43,556
General governments	246	69		69	177	177	177	-137	0	-137	35	246
Non-financial corporations	34,900	67	46	67	34,833	34,833	34,833	-21,087	-1	-21,085	10,790	34,900
• Of which: SME	7,038	67	46	67	6,971	6,971	6,971	-4,407	-1	-4,405	1,100	7,038
Households	8,411	504	104	463	7,907	7,907	7,907	-7,018	-10	-7,008	349	8,411

### Group - as per 31.12.2017

EUR 000	Gross carrying amount of exposures with forbearance measures							Accumulated impairment, accumulated changes in fair value due to credit risk and provisions			Collateral received and financial guarantees received	
	Performing exposures with forbearance measures				Non-performing exposures with forbearance measures				on performing exposures with forbearance measures	on non-performing exposures with forbearance measures	Collateral received on exposures with forbearance measures	Financial guarantees received on exposures with forbearance measures
		Instruments with modifications in their terms and conditions	of which: Performing forborne exposures under probation		of which: Defaulted	of which: Impaired						
Debt securities												
Loans and advances	71,287	643	164	385	70,644	70,644	70,644	-40,143	-8	-40,135	8,000	12,161
General governments	309	135	0	135	174	174	174	-104	0	-104	62	0
Non-financial corporations	58,037	131	15	19	57,906	57,906	57,906	-28,714	-1	-28,713	7,435	12,161
• Of which: SME	8,637	131	15	19	8,506	8,506	8,506	-5,946	-1	-5,945	618	-0
Households	12,942	378	150	231	12,564	12,564	12,564	-11,325	-7	-11,318	503	0

Vast majority of forborn exposures are classified as non-performing/defaulted. Comparing to 2017 the exposure on accounts with forbearance measures has dropped considerably, whereas the drop corresponds to the removal of accounts treated as fair value according to IFRS 9 standard.

## Changes in the stock of general and specific credit risk adjustments

The table below represents the changes in the stock of general and specific credit risk adjustments for SKB Group.

<b>Group – as per 31.12.2018</b>			
	EUR 000	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment*
<b>Opening balance</b>		<b>56,491</b>	<b>51,088</b>
Increases due to amounts set aside for estimated loan losses during the period		40,635	13,710
Decreases due to amounts reversed for estimated loan losses during the period		-49,878	-15,595
Decreases due to amounts taken against accumulated credit risk adjustments		-4,795	-21,060
Transfers between credit risk adjustments		-8	8
Impact of exchange rate differences		55	37
Business combinations, including acquisitions and disposals of subsidiaries		0	0
Other adjustments		535	1,015
<b>Closing balance</b>		<b>43,035</b>	<b>29,203</b>
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss		0	1,098
Specific credit risk adjustments directly recorded to the statement of profit or loss		0	328

\* only general credit risk adjustments for defaulted portfolio are taken into consideration

<b>Group – as per 31.12.2017</b>			
	EUR 000	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment*
<b>Opening balance</b>		<b>78,666</b>	<b>57,347</b>
Increases due to amounts set aside for estimated loan losses during the period		44,798	13,959
Decreases due to amounts reversed for estimated loan losses during the period		-49,019	-13,607
Decreases due to amounts taken against accumulated credit risk adjustments		-11,080	-6,858
Transfers between credit risk adjustments		588	-588
Impact of exchange rate differences		191	109
Business combinations, including acquisitions and disposals of subsidiaries		0	0
Other adjustments		78	387
<b>Closing balance</b>		<b>64,222</b>	<b>50,749</b>
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss		-74	-401
Specific credit risk adjustments directly recorded to the statement of profit or loss		22	158

\* only general credit risk adjustments for defaulted portfolio are taken into consideration

In comparison to 2017, the level of specific and general credit risk adjustment was reduced by 35%. The reduction is the result of efficient recovery process and accompanied repayments, partially also from write-offs.

## Changes in the stock of defaulted and impaired loans and debt securities

### Group – as per 31.12.2018

	EUR 000	Gross carrying value defaulted exposures
<b>Opening balance</b>		<b>144,603</b>
Loans and debt securities that have defaulted or impaired since the last reporting period		11,060
Returned to non-defaulted status		-640
Amounts written off		-25,855
Other changes		-21,977
<b>Closing balance</b>		<b>107,190</b>

### Group – as per 31.12.2017

	EUR 000	Gross carrying value defaulted exposures
<b>Opening balance</b>		<b>193,273</b>
Loans and debt securities that have defaulted or impaired since the last reporting period		5,787
Returned to non-defaulted status		-1,580
Amounts written off		-17,771
Other changes		-15,013
<b>Closing balance</b>		<b>164,696</b>

## Changes in stock between stages

### Group – as per 31.12.2018

EUR 000	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3
<b>Loans and advances</b>	<b>24,341</b>	<b>21,409</b>	<b>2,993</b>	<b>1,603</b>	<b>3,879</b>	<b>98</b>
Non-fin. corporations	10,431	8,463	302	194	2,642	4
Households	13,908	12,945	2,691	1,409	1,237	95

## 7.3 GENERAL QUALITATIVE INFORMATION ON CRM

The Group uses collaterals and other credit enhancements to optimize the risk on credit assets. In accordance with the collateral policy, the main types of collaterals are:

- cash collateral which are used in full amount or with potential maturity mismatch adjustment for capital adequacy purposes,
- state guarantees; which are used in full amount for capital adequacy purposes,
- real estate.

Real estate is the main type of collateral for housing loans portfolio. The evaluations are done either by internal or external evaluators or taken from official real estate data-base. Starting January 2019 the initial evaluation is always 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 the mother company, sovereign exposures (Republic of Slovenia) and some insurance companies for individual loan portfolio.

## 7.4 GENERAL QUANTITATIVE INFORMATION ON CRM

### Group – as per 31.12.2018

EUR 000	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	3,132,119	107,290	6,441	100,849	-
Total debt securities	518,501	-	-	-	-
Total exposures	3,650,620	107,290	6,441	100,849	-
Of which defaulted	124,351	12,330	296	12,034	-

### Group – as per 31.12.2017

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	2,693,567	132,073	5,363	126,710	-
Total debt securities	429,312	-	-	-	-
Total exposures	3,657,366	132,073	5,363	126,710	-
Of which defaulted	165,791	13,563	192	13,371	-

The table represents only collaterals eligible for regulatory reporting purposes. Share of secured exposure in total exposure was at the end of 2018 just under 3% and has not changed significantly in comparison to 2017.



## Overview of collateralized portfolio by segment and collateral type

Group – as per 31.12.2018

EUR 000	Primarno zavarovanje	Bruto izpostava zavarovanih poslov	Vrednost zavarovanja
<b>Banks</b>	Guarantees (except state)	9,123	9,119
<b>Territorial authorities</b>	Deposits	36	36
	Commercial RE	69	1,520
	Guarantees (except state)	105	169
<b>Large enterprises</b>	State guarantee	68,736	67,184
	Deposits	2,845	1,247
	Commercial RE	108,855	148,713
	Shares	899	0
	Guarantees (except state)	343,622	421,760
<b>SME</b>	State guarantee	20,368	14,524
	Deposits	21,281	3,355
	Residential RE	4,707	4,511
	Commercial RE	110,912	145,868
	Shares	1,538	2,725
	Guarantees (except state)	34,491	54,953
<b>Retail/SME</b>	State guarantee	5,470	3,861
	Deposits	5,474	1,591
	Residential RE	3,273	7,647
	Commercial RE	6,971	19,535
	Insurance company	6	14
	Guarantees (except state)	5,313	9,682
<b>Retail/Individuals</b>	Deposits	503	792
	Residential RE	720,254	1,165,351
	Commercial RE	6,674	10,281
	Insurance company	70,750	106,508
	Guarantees (except state)	49,256	96,991
<b>Total</b>		<b>1,601,530</b>	<b>2,297,938</b>

## 8. CREDIT RISK AND CRM IN A STANDARDIZED APPROACH

### 8.1 QUALITATIVE INFORMATION ON THE USE OF A STANDARDIZED APPROACH

The nominated ECAIs are Fitch, Moody's and S&P and are used for exposure classes' Central government, Central Bank and institutions.

The risk weights are defined based on client's external ratings and corresponding scale for standardized approach in credit risk regulation.

The RWA, calculated by ECAI, is 159 million € on the Group level, which represents 4.7% of total RWA.

### 8.2 QUANTITATIVE INFORMATION ON THE USE OF A STANDARDIZED APPROACH

#### Credit risk exposure and CRM effects

The table below demonstrates the effect of risk mitigation techniques and credit conversion factors on exposure values by exposure classes.

**Group – as per 31.12.2018**

EUR 000	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
Central governments or central banks	669,999	50,466	736,542	25,233	7,709	1%
Regional governments or local authorities	32,620	32	32,620	16	6,527	20%
Public sector entities	7,196	1,247	21,142	856	10,999	50%
Multilateral Development Banks						
International Organisations						
Institutions	47,017	43,222	47,017	50,168	27,980	29%
Corporates	825,652	464,459	756,757	225,395	912,807	93%
Retail	1,554,980	136,063	1,554,079	13,872	1,140,216	73%
Secured by mortgages on immovable property						
Exposures in default	49,485	6,623	37,451	3,091	43,951	108%
Items associated with particular high risk						
Covered bonds						
Claims on institutions and corporates with a short-term credit assessment						
Collective investments undertakings (CIU)	12,915	0	12,915	0	1,604	12%
Equity	376	0	376	0	376	100%
Other items	67,356	0	67,356	0	41,706	62%

Group – as per 31.12.2017

EUR 000	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
Central governments or central banks	683,175	2,413	754,658	1,206	8,072	0,39%
Regional governments or local authorities	38,647	31	38,647	15	7,733	0,38%
Public sector entities	31,473	1,135	48,323	711	24,517	1,20%
Multilateral Development Banks						
International Organisations						
Institutions	75,372	25,107	75,372	24,071	26,307	1,28%
Corporates	766,935	410,190	691,820	205,265	836,082	40,82%
Retail	1,436,315	134,922	1,435,717	14,420	1,053,073	51,41%
Secured by mortgages on immovable property						
Exposures in default	56,579	4,352	43,358	2,169	47,702	2,33%
Items associated with particular high risk						
Covered bonds						
Claims on institutions and corporates with a short-term credit assessment						
Collective investments undertakings (CIU)	12,924	0	12,924	0	1,467	0,07%
Equity	388	0	388	0	388	0,02%
Other items	66,962	0	66,962	0	43,000	2,10%

Comment:

CCF – credit conversion factor

CRM – credit risk mitigation

At the end of 2018 the credit risk mitigation effect amounted to 107 million euros in total. The mentioned effect amounted to 55 million euros on central governments and central bank category, to 92 million on the Corporates category and 2 million on Retail category.

Credit conversion factors had the biggest effect on the off-balance exposure on Corporates and Retail categories.

The risk weighted assets have increased by 7%. The majority of RWA is attributed to retail and corporates exposures.

The highest RWA density (average risk weight) was observed on the following categories: exposures in default, equity, corporates and retail.

## Breakdown of exposures under the standardised approach by asset class and risk weight

### Group – as per 31.12.2018

EUR 000	Risk weights																Total	Of which unrated
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	Deducted		
Central governments or central banks	758,680				13							3,083					761,776	761,776
Regional governments or local authorities					32,636												32,636	32,636
Public sector entities							21,997										21,997	21,997
Institutions					68,839		28,270			77							97,186	62,566
Corporates							5,947			976,206							982,153	879,629
Retail									1,567,951								1,567,951	1,567,951
Secured by mortgages on immovable property																	0	0
Exposures in default										33,725	6,817						40,542	40,542
Items with particular high risk																	0	0
Covered bonds																	0	0
Claims on institutions and corporates with a S-T credit assessment																	0	0
Collective investments undertakings (CIU)															12,915		12,915	12,915
Equity										376							376	376
Other items	21,002				5,810					40,543							67,355	67,355

Group – as per 31.12.2017

EUR 000	Risk weights																Total	Of which unrated
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	Deducted		
Central governments or central banks	752,635											3,229					755,864	755,864
Regional governments or local authorities					38,663												38,663	38,663
Public sector entities							49,034										49,034	49,034
Institutions					78,459		20,738			246							99,443	0
Corporates							5,983			891,103							897,086	0
Retail									1,450,137								1,450,137	58,524
Secured by mortgages on immovable property																	0	778,975
Exposures in default										41,180	4,348						45,528	1,450,137
Items with particular high risk																	0	0
Covered bonds																	0	45,528
Claims on institutions and corporates with a S-T credit assessment																	0	0
Collective investments undertakings (CIU)															12,924		12,924	0
Equity										388							388	0
Other items	19,476				5,607					41,878							66,962	12,924

## 9. COUNTERPARTY CREDIT RISK (CCR)

### 9.1 INFORMATION ON REGULATORY MEASURES

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. The deals are not executed by using the central clearing institutions, instead the Group is using intragroup agreement in line with European Market Infrastructure Regulation. All derivative deals initiated by the client are closed with back to back deals.

#### Analysis of CCR exposure by approach

Group – as per 31.12.2018							
EUR 000	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
Mark to market							
Original exposure							
Standardised approach	778,210					15,566	12,181
IMM (for derivatives and SFTs)							
Of which securities financing transactions							
Of which derivatives and long settlement transactions	778,210					15,566	12,181
Of which from contractual cross-product netting							
Financial collateral simple method (for SFTs)							
Financial collateral comprehensive method (for SFTs)							
VaR for SFTs							
Total	778,210					15,566	12,181

**Group – as per 31.12.2018**

EUR 000	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
Mark to market							
Original exposure							
Standardised approach	671,402					13,331	10,360
IMM (for derivatives and SFTs)							
Of which securities financing transactions							
Of which derivatives and long settlement transactions	671,402					13,331	10,360
Of which from contractual cross-product netting							
Financial collateral simple method (for SFTs)							
Financial collateral comprehensive method (for SFTs)							
VaR for SFTs							
Total	671,402					13,331	10,360

In comparison to 2017 the exposure deriving from counterparty credit risk was increase by 16%, following the same increase in the number of deals.

## CVA capital charge

### Group – as per 31.12.2018

	EUR 000	Exposure value	RWA's
Total portfolios subject to the advanced method			
• VaR component (including the 3× multiplier)			
• SVaR component (including the 3× multiplier)			
All portfolios subject to the standardised method		8,969	2,851
Based on the original exposure method			
Total subject to the CVA capital charge		8,969	2,851

### Group – as per 31.12.2017

	EUR 000	Exposure value	RWA's
Total portfolios subject to the advanced method			
• VaR component (including the 3× multiplier)			
• SVaR component (including the 3× multiplier)			
All portfolios subject to the standardised method		6,034	3,050
Based on the original exposure method			
Total subject to the CVA capital charge		6,034	3,050

The share of exposure deriving from counterparty credit risk is still relatively small within the group. CVA capital charge thus represents only 0.12% of total capital requirement and approximately remains at the level from 2017.



## 9.2 INFORMATION BY REGULATORY RISK-WEIGHTING APPROACH

### CCR exposures by regulatory portfolio and risk

Group – as per 31.12.2018																		
EUR 000	Uteži tveganja																Total	Of which unrated
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Oth-ers	De-ducted		
Central governments or central banks																		
Regional governments or local authorities																		
Public sector entities																		
Institutions					586		5,793											6,379
Corporates										9,187								9,187
Retail																		
Secured by mortgages on immovable property																		
Exposures in default																		
Items with particular high risk																		
Covered bonds																		
Claims on institutions and corporates with a S-T credit assessment																		
Collective investments undertakings (CIU)																		
Equity																		
Other items																		

Group – as per 31.12.2017

EUR 000	Uteži tveganja																Total	Of which unrated		
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Oth-ers	De-ducted				
Central governments or central banks																				
Regional governments or local authorities																				
Public sector entities																				
Institutions																				
Corporates																				
Retail					741		4,730												5,471	3
Secured by mortgages on immovable property										7,860									7,860	6,033
Exposures in default																				
Items with particular high risk																				
Covered bonds																				
Claims on institutions and corporates with a S-T credit assessment																				
Collective investments undertakings (CIU)																				
Equity																				
Other items																				

### 9.3 OTHER INFORMATION ON COUNTERPARTY CREDIT RISK

Not applicable for SKB group (EU CCR5-A, EU CCR5-B, EU CCR6).

## 10. LIQUIDITY RISK

Liquidity risk represents the risk that the Group will not be able to meet its payment obligations associated with its financial liabilities at maturity, replace the financial sources in case of sudden outflows and meet its contractual obligations.

Liquidity management procedures, responsibilities and reporting are defined in the Memorandum on liquidity management, containing also the general principles on liquidity management in the Group, liquidity risk limit system, primary and secondary liquidity sources, stress tests scenarios and contingency funding plan.

SKB Group respects the following principles of liquidity management:

- establishing the strategy and policies related to the management of liquidity,
- establishing an adequate information system to effectively execute the liquidity strategy and internal control system,
- establishing agreed day-to-day management of liquidity,
- establishing a process for the ongoing measurement and monitoring of funding requirements,
- ensuring sufficient diversification of funding sources,
- monitoring and management of liquidity in foreign currencies.

SKB bank monitors and manages liquidity risk on the Group level, consisting of SKB bank, SKB Leasing and SKB Leasing Select.

The Corporate Banking and Financial markets Division with its Financial market and liquidity department (FML) is responsible for management of the Group's daily and intra-day liquidity. Finance Division with its Assets and liabilities management department (ALM) is responsible for management of the Group's global, structural and regulatory liquidity.

### LIQUIDITY MANAGEMENT

For the purpose of liquidity risk management, SKB Group continuously monitors future cash flows as well as calculates and analyses short, medium and long term liquidity gaps arising from balance and off balance sheet items. SKB Group optimizes liquidity flows and respects regulatory requirements (liquidity ratios, obligatory reserves), which are reported to the Asset and Liability Committee (ALCO) on a monthly basis. In addition to regulatory liquidity ratios, SKB Group monitors and regularly discusses a number of internal liquidity indicators on ALCO committees. Eventual deterioration of liquidity indicators are also used as early warning signals indicating potential liquidity crisis.

Group - liquidity indicators	At 31 December 2018	At 31 December 2017
Customer loans / Customer deposits	98%	97%
Liquid assets / Total assets	22%	24%
Sight deposits / Total deposits	57%	52%
Short-term deposits / Total deposits	37%	37%
Long-term deposits / Total deposits	6%	11%

SKB maintains daily Class I and Class II liquidity ratio above the recommended level. Class I liquidity ratio is calculated as assets maturing within 30 days compared to liabilities maturing within 30 days, while Class II liquidity ratio takes into account assets and liabilities maturing within 180 days. Class I liquidity ratio stood at 1.05 as at 31 December 2018, while Class II liquidity ratio stood at the level of 1.02.

SKB bank fully implemented Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) reporting and analysis in line with the Capital Requirements Regulation (CRR) and the new Delegated Act No. 2015/61.

SKB bank regularly reports and monitors LCR which requires that the bank maintains an adequate level of unencumbered, high-quality liquid assets to survive a significant stress scenario lasting 30 calendar days. LCR is calculated daily and monthly as high-quality liquid assets compared to total net cash outflows within the next 30 days under a financial stress scenario. From 1st of January 2018 LCR ratio must be above 100%. As at 31.12.2018 SKB bank's liquidity buffer amounted to EUR 631 million, while the net cash outflows amounted to EUR 238 million resulting in LCR of 265%.

**SKB bank solo**

EUR million	Total unweighted value (average)		Total weighted value (average)					
	31.3.18	30.6.18	30.9.18	31.12.18	31.3.18	30.6.18	30.9.18	31.12.18
Quarter ending on								
Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
<b>HIGH-QUALITY LIQUID ASSETS</b>								
Total high-quality liquid assets (HQLA)					581	617	612	602
<b>CASH-OUTFLOWS</b>								
Retail deposits and deposits from small business customers, of which:	1.674	1.715	1.764	1.828	114	116	120	126
• Stable deposits	1.295	1.322	1.354	1.396	65	66	68	70
• Less stable deposits	379	393	410	433	49	50	52	55
Unsecured wholesale funding	313	317	332	336	144	142	146	147
Operational deposits (all counterparties) and deposits in networks of cooperative banks	0	0	0	0	0	0	0	0
• Non-operational deposits (all counterparties)	313	317	332	336	144	142	146	147
• Unsecured debt	0	0	0	0	0	0	0	0
Secured wholesale funding					0	0	0	0
Additional requirements	360	374	391	415	27	28	30	32
• Outflows related to derivative exposures and other collateral requirements	0	0	0	0	0	0	0	0
• Outflows related to loss of funding on debt products	0	0	0	0	0	0	0	0
• Credit and liquidity facilities	360	374	391	415	27	28	30	32
Other contractual funding obligations	0	0	0	0	0	0	0	0
Other contingent funding obligations	193	198	199	201	13	14	14	14
<b>TOTAL CASH OUTFLOWS</b>					298	300	310	319
<b>CASH-INFLOWS</b>								
Secured lending (eg reverse repos)	0	0	0	0	0	0	0	0
Inflows from fully performing exposures	122	105	110	113	99	81	86	87
Other cash inflows	227	238	251	263	0	0	0	0
<b>TOTAL CASH INFLOWS</b>	349	343	361	375	99	81	86	87
Fully exempt inflows	0	0	0	0	0	0	0	0
Inflows Subject to 90% Cap	0	0	0	0	0	0	0	0
Inflows Subject to 75% Cap	349	343	361	375	99	81	86	87
<b>LIQUIDITY BUFFER</b>								
<b>TOTAL NET CASH OUTFLOWS</b>					199	219	224	232
<b>LIQUIDITY COVERAGE RATIO (%)</b>					292%	282%	273%	259%

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 ratio has been developed with the aim of ensuring a bank's ability to withstand long-term liquidity risk. SKB reports and analyses NSFR on a quarterly basis. At the end of December 2018 NSFR stood at 143% as the available stable funding amounted to EUR 2,611 million and required amount of stable funding amounted to EUR 1,824 million.

Within regular reports to the Bank of Slovenia and Société Générale SKB Group calculates additional monitoring metrics (AMM) for liquidity reporting which includes different reports: concentration of funding by counterparty, concentration of funding by product type, prices for various lengths of funding, roll-over of funding and maturity ladder.

SKB Group continuously monitors future cash flows as well as calculates and analyses short term, medium term and long term liquidity gaps arising from balance and off balance sheet items in line with its liquidity risk management framework. Assets and liabilities maturity mismatch is measured monthly, based on maturity gaps per liquidity time buckets. SKB Group uses liquidity profiles for non maturing items and models for early repayment of loans which are defined by Société Générale Group. The Group monitors its liquidity risk exposure gap against limits set by the parent bank Société Générale.

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 Société Générale and all other funding sources. Short term and long term funding limits are in line with its liquidity risk management policy set by Société Générale and SKB Group within the annual budget process.

SKB Group's liquidity position was highly sufficient in the year 2018, consisting mainly of customer deposits in the amount of EUR 2,499 million as at 31 December 2018, which represents 74% of the Group's total liabilities.

The Group maintained a sound liquidity position through diversification of funding sources. The Group has EUR 203 million funding taken from Société Générale, EUR 143 million funding taken from The European Investment Bank (EIB) and additional EUR 31 million of funding from The Council of Europe Development Bank (CEB) as at 31 December 2018.

SKB bank maintained a sufficient and diversified pool of ECB unencumbered liquid assets in amount of EUR 550 million as at 31 December 2018. 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 ICAS<sup>9</sup> eligible loans). At the end of December 2018 SKB Group took no funding from ECB.

## LIQUIDITY STRESS TESTING AND CONTINGENCY LIQUIDITY RISK MANAGEMENT

The Group measures effects of liquidity risk, which are based on assumptions of different stress scenarios: idiosyncratic stress scenario, market based scenario and combined scenario. The scenarios are analysed on a quarterly basis through different time periods (survival periods for which the size of the liquidity buffer should be sufficient to withstand the volume of the Group's liquidity needs under scenario assumptions): a short acute phase of stress (up to one week) followed by a longer period of less acute, but more persistent stress (up to one month, up to three months and up to twelve months).

The liquidity stress tests are interconnected with a contingency funding plan evaluating liquidity sources which can be obtained under stress scenarios. Contingency funding plan provides a detailed overview of the funding sources availability, its impact on the Group's profitability, depending on the severity of an eventual liquidity crisis. It serves as an estimation of readily available liquidity transactions and defines the amount of additional funding sources that can be collected in times of crisis. Liquidity transactions summarize potential interbank, money market and commercial funding sources which can be used in a liquidity contingency scenario.

<sup>9</sup>In-house Credit Assessment System

## **INTERNAL LIQUIDITY ADEQUACY ASSESSMENT PROCESS (ILAAP)**

Internal liquidity adequacy review for the year 2018 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. 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 prescribed by Société Générale and applicable credit risk associated with the client and the facility. The model is also being used in the process of setting the Group's overall pricing policy for loans, leasing deals and deposits.

Besides a forward looking model SKB bank has also established an internal profitability analysis, which measures a profitability of the stock of the portfolios per client(s), organisational units(s), segment(s), product(s) taking into account maturity matched transfer pricing and allocation of fees, overhead expenses and cost of risk. This enables the bank to better monitor implementation of strategic guidelines and execution of policies of the bank, consequently enabling more efficient management of liquidity risk, allocation of costs and benefits and monthly monitoring of the bank's operations' profitability.

The tables below summarize the maturity profile of the Group's financial liabilities contractual undiscounted repayment obligations, including future interest payments, based on balance sheet structure as of the end of the year.

## Group

EUR 000	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
<b>As of 31 December 2018</b>						
Financial liabilities held for trading	7,719	-	-	-	-	7,719
Financial liabilities designated at fair value through profit or loss	(207)	-	-	6,154	-	5,947
Financial liabilities measured at amortised cost	2,274,933	162,858	119,338	339,178	26,088	2,922,395
Derivatives - hedge accounting	-	-	-	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	602	-	-	-	-	602
Other liabilities	9,726	-	-	-	-	9,726
<b>Total undiscounted financial liabilities</b>	<b>2,292,773</b>	<b>162,858</b>	<b>119,338</b>	<b>345,332</b>	<b>26,088</b>	<b>2,946,389</b>
<b>As of 31 December 2017</b>						
Financial liabilities to central banks						
Financial liabilities held for trading	5,827	-	-	-	-	5,827
Financial liabilities designated at fair value through profit or loss	(184)	-	-	6,167	-	5,983
Derivatives - hedge accounting	-	-	-	-	-	-
Financial liabilities measured at amortised cost	2,061,346	175,016	125,180	353,455	55,998	2,770,995
Other liabilities	9,654	-	-	-	-	9,654
<b>Total undiscounted financial liabilities</b>	<b>2,076,643</b>	<b>175,016</b>	<b>125,180</b>	<b>359,622</b>	<b>55,998</b>	<b>2,792,459</b>

## Contractual expiry by maturity of the Group's contingent financial liabilities and commitments:

### 2018

EUR 000	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Contingent financial liabilities and commitments	421,379	17,675	90,611	103,298	32,931	665,894

### 2017

EUR 000	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Contingent financial liabilities and commitments	369,403	12,558	88,363	68,920	34,011	573,255

All loan commitments are presented as commitments "On demand" while all other commitments are based on contractual maturity. The Group expects that majority of the contingent financial liabilities or commitments (especially related to guarantees) will be drawn at maturity.

## Maturity analysis of contractual cash flows of assets and liabilities

### Group - As at 31 December 2018

EUR 000	Demand	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
<b>ASSETS</b>							
Cash and cash balances with central banks	56,664	133,531	-	-	-	-	190,195
Financial assets held for trading	-	7,054	-	-	-	-	7,054
Financial assets designated at fair value through profit or loss	-	192	455	2,544	10,879	21,100	35,170
Available-for-sale financial assets	-	(207)	-	-	6,154	-	5,947
Derivatives - hedge accounting	-	27,661	19,995	-	61,334	149,692	258,682
Loans and receivables	76,261	68,624	101,141	410,598	1,172,101	897,713	2,726,438
Held-to-maturity investments	-	607	-	-	-	-	607
Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	-	-
Other assets	-	34,770	-	-	-	-	34,770
<b>Total financial assets</b>	<b>132,925</b>	<b>272,232</b>	<b>121,591</b>	<b>413,142</b>	<b>1,250,468</b>	<b>1,068,505</b>	<b>3,258,863</b>
<b>LIABILITIES</b>							
Financial liabilities held for trading	-	7,719	-	-	-	-	7,719
Financial liabilities designated at fair value through profit or loss	-	(207)	-	-	6,154	-	5,947
Financial liabilities measured at amortised cost	1,413,916	308,687	124,165	317,132	606,821	144,053	2,914,774
Derivatives - hedge accounting	-	-	-	-	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	602	-	-	-	-	602
Other liabilities	-	9,726	-	-	-	-	9,726
<b>Total financial liabilities</b>	<b>1,413,916</b>	<b>326,527</b>	<b>124,165</b>	<b>317,132</b>	<b>612,975</b>	<b>144,053</b>	<b>2,938,768</b>
<b>Net balance sheet position</b>	<b>(1,280,991)</b>	<b>(54,295)</b>	<b>(2,574)</b>	<b>96,010</b>	<b>637,493</b>	<b>924,452</b>	<b>320,095</b>



**Group - As at 31 December 2017**

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
<b>ASSETS</b>							
Cash and cash balances with central banks	56,040	247,609	-	-	-	-	303,649
Financial assets held for trading	-	5,236	-	-	-	-	5,236
Financial assets designated at fair value through profit or loss	-	(184)	-	-	6,167	-	5,983
Available-for-sale financial assets	-	50,559	15,013	18,834	99,739	252,497	436,642
Derivatives - hedge accounting	-	-	-	-	-	-	-
Loans and receivables	67,687	73,053	85,636	435,830	989,957	682,524	2,334,687
Held-to-maturity investments	-	-	-	-	-	-	-
Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	-	-
Other assets	-	26,254	-	-	-	-	26,254
<b>Total financial assets</b>	<b>123,727</b>	<b>402,527</b>	<b>100,649</b>	<b>454,664</b>	<b>1,095,863</b>	<b>935,021</b>	<b>3,112,451</b>
<b>LIABILITIES</b>							
Financial liabilities held for trading	-	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	5,827	-	-	-	-	5,827
Financial liabilities measured at amortised cost	-	(184)	-	-	6,167	-	5,983
Derivatives - hedge accounting	-	-	-	-	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,222,803	286,984	246,404	278,027	530,712	194,427	2,759,357
Other liabilities	-	9,654	-	-	-	-	9,654
<b>Total financial liabilities</b>	<b>1,222,803</b>	<b>302,281</b>	<b>246,404</b>	<b>278,027</b>	<b>536,879</b>	<b>194,427</b>	<b>2,780,821</b>
<b>Net balance sheet position</b>	<b>(1,099,076)</b>	<b>100,246</b>	<b>(145,755)</b>	<b>176,637</b>	<b>558,984</b>	<b>740,594</b>	<b>331,630</b>

## MATURITY ANALYSIS OF ASSETS AND LIABILITIES ACCORDING TO EXPECTED CASH FLOWS

The tables below show an analysis of the Group's assets' and liabilities' expected cash flows as of the end of the year.

### Group - As at 31 December 2018

	EUR 000	Within 12 months	After 12 months	Total
<b>ASSETS</b>				
Cash, cash balances at central banks and other demand deposits at banks		190,227	(32)	190,195
Financial assets held for trading		7,054	-	7,054
Non-trading financial assets mandatorily at fair value through profit or loss		3,191	31,979	35,170
Financial assets designated at fair value through profit or loss		(207)	6,154	5,947
Financial assets at fair value through other comprehensive income		47,656	211,026	258,682
Financial assets at amortised cost		690,431	2,036,007	2,726,438
Derivatives - hedge accounting		607	-	607
Fair value changes of the hedged items in portfolio hedge of interest rate risk		-	-	-
Investments in subsidiaries, associates and joint ventures		-	-	-
Property, plant and equipment		674	37,144	37,818
Investment property		-	2,165	2,165
Intangible assets		424	11,110	11,534
Tax assets		1,554	1,554	3,108
Other assets		34,770	-	34,770
<b>Non-current assets and disposal groups classified as held for sale</b>		<b>461</b>	<b>-</b>	<b>461</b>
<b>Total financial assets</b>		<b>976,842</b>	<b>2,337,107</b>	<b>3,313,949</b>
<b>LIABILITIES</b>				
Financial liabilities held for trading		7,719	-	7,719
Financial liabilities designated at fair value through profit or loss		(207)	6,154	5,947
Financial liabilities measured at amortised cost		362,606	2,552,168	2,914,774
Derivatives - hedge accounting		-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk		602	-	602
Provisions		4,289	7,584	11,873
Tax liabilities		6,813	-	6,813
Other liabilities		9,726	-	9,726
<b>Total financial liabilities</b>		<b>391,548</b>	<b>2,565,906</b>	<b>2,957,454</b>
<b>Net balance sheet position</b>		<b>585,294</b>	<b>(228,799)</b>	<b>356,495</b>

**Group - As at 31 December 2017**

	EUR 000	Within 12 months	After 12 months	Total
<b>ASSETS</b>				
Cash and cash balances with central banks		303,649	-	303,649
Financial assets held for trading		5,236	-	5,236
Financial assets designated at fair value through profit or loss		(184)	6,167	5,983
Available-for-sale financial assets		84,406	352,236	436,642
Loans and receivables		689,624	1,645,063	2,334,687
Held-to-maturity investments		-	-	-
Non-current assets and disposal groups classified as held for sale		361	-	361
Property, plant and equipment		740	38,415	39,155
Investment property		-	2,228	2,228
Intangible assets		424	9,931	10,355
Investments in subsidiaries, associates and joint ventures		-	-	-
Tax assets		6,878	2,840	9,718
Other assets		26,241	13	26,254
<b>Total financial assets</b>		<b>1,117,375</b>	<b>2,056,893</b>	<b>3,174,268</b>
<b>LIABILITIES</b>		-	-	-
Deposits from central banks		-	-	-
Financial liabilities held for trading		5,827	-	5,827
Financial liabilities designated at fair value through profit or loss		(184)	6,167	5,983
Financial liabilities measured at amortized cost		477,561	2,281,796	2,759,357
Provisions		5,575	8,904	14,479
Tax liabilities		10,719	-	10,719
Other liabilities		9,654	-	9,654
<b>Total financial liabilities</b>		<b>509,152</b>	<b>2,296,867</b>	<b>2,806,019</b>
<b>Net balance sheet position</b>		<b>608,223</b>	<b>(239,974)</b>	<b>368,249</b>

## 11. 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 2018 SKB Group's encumbrance ratio stood at the level of 1.27% as the Group had EUR 42 million of encumbered assets vs EUR 2 million and 0.07% encumbered ratio as at 31.12.2017.

Encumbered assets consist of government bonds which are held by the bank for the purpose of Single Resolution Fund established in Slovenia, government bonds reserved due to Market in Financial Instruments Act (ZTFI) and European Central Bank (ECB) required mandatory reserve which has to be held on the Bank of Slovenia target account.

Due to inclusion of encumbered bonds for Slovene Resolution Funds and mandatory reserve in Assets Encumbrance reporting, encumbrance ratio increased in year 2018.

**Table A: Assets**

Group - as at 31 December 2018		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
EUR 000		010	040	060	090
<b>010</b>	<b>Assets of the reporting institution</b>	42,034		3,271,914	
020	Loans on demand	23,954	-	139,429	-
030	Equity instruments	-	-	17,913	17,913
040	Debt securities	18,080	18,080	500,346	500,346
100	Loans and advances other than loans on demand	-	-	2,489,898	-
120	Other assets	-		124,329	

Group - as at 31 December 2017		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
EUR 000		010	040	060	090
<b>010</b>	<b>Assets of the reporting institution</b>	2,196		3,172,072	
020	Loans on demand	-	-	278,565	-
030	Equity instruments	-	-	13,313	13,313
040	Debt securities	2,196	2,196	427,116	427,116
100	Loans and advances other than loans on demand	-	-	2,334,687	-
120	Other assets	-		118,391	

Table B: Collateral received

Group - as at 31 December 2018		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
EUR 000		010	040
<b>130</b>	<b>Collateral received by the reporting institution</b>	-	-
150	Equity instruments	-	-
160	Debt securities	-	-
230	Other collateral received	-	-
240	Own debt securities issued other than own covered bonds or ABSs	-	-

Group - as at 31 December 2017		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
EUR 000		010	040
<b>130</b>	<b>Collateral received by the reporting institution</b>	-	-
150	Equity instruments	-	-
160	Debt securities	-	-
230	Other collateral received	-	-
240	Own debt securities issued other than own covered bonds or ABSs	-	-

Table C: Sources of encumbrance

Group - as at 31 December 2018		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
EUR 000		010	030
010	Carrying amount of selected financial liabilities	0,300	2,122

Group - as at 31 December 2017		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
EUR 000		010	030
010	Carrying amount of selected financial liabilities	0,300	2,196

## 12. MARKET RISK

### STRUCTURAL FOREIGN EXCHANGE RISK

Foreign exchange risk represents potential loss arising from an open foreign exchange position and from changes in foreign exchange rates. SKB Group monitors its foreign exchange risk in accordance with the requirements of its parent bank Société Générale and optimizes its foreign exchange risk within the approved limits. The main goal of SKB Group is to minimize foreign exchange risk exposure by matching foreign exchange positions per each currency with minimal exposure against given limits.

Foreign exchange structural position (as defined internally) is managed daily for each currency by the Financial market and liquidity department, monitored by the Treasury Middle/Back office department. Structural position is monitored by the Assets and liabilities management department (ALM) on a monthly basis and managed within foreign exchange limits prescribed by Société Générale Group.

All foreign exchange positions of SKB are monitored as a part of structural risk management. The trading book is not relevant to SKB due to the following reasons:

- There is no proprietary trading, neither by SKB bank nor by its subsidiaries.
- All derivative deals initiated by the client are closed with back to back deals, therefore having practically no open position from derivative deals on a daily basis.
- If needed SKB bank uses derivative instruments with the purpose to hedge structural risks arising from balance sheet mismatches. Decisions for structural portfolio hedging are passed by ALCO Committee, which is regularly informed about the level of risk exposure.
- Securities initiated by ALM and bought for hedging, liquidity and interest rate risk management are part of the banking book. Securities bought/sold for clients are fully backed on a daily basis.
- FX spot operations are part of the banking book.

### FOREIGN EXCHANGE SENSITIVITY ANALYSIS

The table below show the SKB Group sensitivity to exchange rate changes by +/- 5%:

in EUR	USD	CHF	GBP	OTHER
EUR 000	010	040	060	090
Impact on P&L +5%	2.250	(200)	100	86.350
Impact on P&L -5%	(2.250)	200	(100)	(90.350)

\* mainly SEK, PLN, HRK

## 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. From the table below it can be seen that sum of all net foreign exchange positions represent 0.6% of SKB Group's own funds.

<b>Group – As at 31 December 2018</b>							
	<b>EUR 000</b>	<b>EUR</b>	<b>USD</b>	<b>CHF</b>	<b>GBP</b>	<b>Other</b>	<b>Total</b>
<b>ASSETS</b>							
Cash, cash balances at central banks and other demand deposits at banks		176,138	919	6,117	765	6,256	190,195
Financial assets held for trading		7,054	-	-	-	-	7,054
Non-trading financial assets mandatorily at fair value through profit or loss		35,170	-	-	-	-	35,170
Financial assets designated at fair value through profit or loss		5,947	-	-	-	-	5,947
Financial assets at fair value through other comprehensive income		258,682	-	-	-	-	258,682
Financial assets at amortised cost		2,662,167	38,933	18,429	5,096	1,813	2,726,438
• debt securities		253,797	-	-	-	-	253,797
• loans to banks		3	38,404	-	5,096	1,813	45,316
• loans to non-bank customers		2,404,138	522	18,429	-	-	2,423,089
• other financial assets		4,229	7	-	-	-	4,236
Derivatives - hedge accounting		607	-	-	-	-	607
Other assets		89,856	-	-	-	-	89,856
<b>Total financial assets</b>		<b>3,235,621</b>	<b>39,852</b>	<b>24,546</b>	<b>5,861</b>	<b>8,069</b>	<b>3,313,949</b>
<b>LIABILITIES</b>							
Financial liabilities held for trading		7,719	-	-	-	-	7,719
Financial liabilities designated at fair value through profit or loss		5,947	-	-	-	-	5,947
Financial liabilities measured at amortised cost		2,838,488	39,642	24,550	5,844	6,250	2,914,774
• deposits from banks and central banks		1,678	-	-	-	-	1,678
• deposits from non-bank customers		2,428,775	39,165	19,156	5,812	6,096	2,499,004
• loans from banks and central banks		371,167	-	5,335	-	-	376,502
• loans from non-bank customers		-	-	-	-	-	-
• debt securities		-	-	-	-	-	-
• other financial liabilities		36,868	477	59	32	154	37,590
Fair value changes of the hedged items in portfolio hedge of interest rate risk		602	-	-	-	-	602
Other liabilities		384,677	165	-	15	50	384,907
<b>Total financial liabilities</b>		<b>3,237,433</b>	<b>39,807</b>	<b>24,550</b>	<b>5,859</b>	<b>6,300</b>	<b>3,313,949</b>
<b>Net balance sheet position</b>		<b>(1,812)</b>	<b>45</b>	<b>(4)</b>	<b>2</b>	<b>1,769</b>	<b>-</b>

**Group – As at 31 December 2017**

	EUR 000	EUR	USD	CHF	GBP	Other	Total
<b>ASSETS</b>							
Cash, cash balances at central banks and other demand deposits at banks		294,026	1,014	5,126	704	2,779	303,649
Financial assets held for trading		5,236	-	-	-	-	5,236
Non-trading financial assets mandatorily at fair value through profit or loss		5,983	-	-	-	-	5,983
Financial assets designated at fair value through profit or loss		436,642	-	-	-	-	436,642
Financial assets at fair value through other comprehensive income		-	-	-	-	-	-
Financial assets at amortised cost		2,268,951	39,473	20,911	3,381	1,971	2,334,687
• debt securities		-	38,967	-	3,381	1,971	44,319
• loans to banks		2,260,983	498	20,911	-	-	2,282,392
• loans to non-bank customers		7,968	8	-	-	-	7,976
• other financial assets		-	-	-	-	-	-
Derivatives - hedge accounting		-	-	-	-	-	-
Other assets		88,071	-	-	-	-	88,071
<b>Total financial assets</b>		<b>3,098,909</b>	<b>40,487</b>	<b>26,037</b>	<b>4,085</b>	<b>4,750</b>	<b>3,174,268</b>
<b>LIABILITIES</b>		-	-	-	-	-	-
Financial liabilities held for trading		-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss		5,827	-	-	-	-	5,827
Financial liabilities measured at amortised cost		5,983	-	-	-	-	5,983
• deposits from banks and central banks		-	-	-	-	-	-
• deposits from non-bank customers		2,684,236	40,177	26,044	4,113	4,787	2,759,357
• loans from banks and central banks		1,468	-	-	-	-	1,468
• loans from non-bank customers		2,275,842	39,272	17,403	3,980	4,711	2,341,208
• debt securities		369,440	-	8,529	-	-	377,969
• other financial liabilities		-	-	-	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk		37,486	905	112	133	76	38,712
Other liabilities		402,609	389	1	1	101	403,101
<b>Total financial liabilities</b>		<b>3,098,655</b>	<b>40,566</b>	<b>26,045</b>	<b>4,114</b>	<b>4,888</b>	<b>3,174,268</b>
<b>Net balance sheet position</b>		<b>254</b>	<b>(79)</b>	<b>(8)</b>	<b>(29)</b>	<b>(138)</b>	<b>0</b>



## 13. STRUCTURAL INTEREST RATE RISK

The structural interest rate risk arises from mismatches among items of the balance sheet and off balance sheet and volatility of market interest rates, affecting net interest income and the economic value of SKB Group's capital. The main purpose of structural interest rate risk management is to maintain interest rate risk within defined limits and to limit volatility of financial results of SKB Group on the long term.

SKB Group successfully managed interest rate risk in the year 2018 despite the adverse financial market conditions and low interest rates environment. For the purpose of structural interest rate risk management SKB Group followed the procedures and methods for control, measurement, analysis and interest rate risk reporting which are defined in the Memorandum on the interest rate risk management.

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 instruments in the banking portfolio and arising from the timing of instruments' rate changes.
- Basis risk which results from funding assets with liabilities with different index tenors.
- 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 based on the following methods:

- Interest rate sensitivity of the Net Present Value ("NPV") is calculated on a monthly basis using repricing dates or maturity dates for all balance sheet items and for certain off-balance sheet products according to Société Générale methodology (taking into account different interest rate shocks; parallel increase by +10 basis points, parallel decrease by -10 basis points, non-parallel yield curve shock to the upside corresponding to stressed values defined currency by currency ("NIRUP" scenario) and non-parallel yield curve shock to the downside corresponding to stressed values defined currency by currency ("NIRDW" scenario)). In SKB Group, the level of interest rate sensitivity is monitored within the authorized limits and thresholds defined by Société Générale and approved by the ALCO Committee. Interest rate sensitivity taking into account +10 basis points shock amounted to negative EUR 0.4 million at the end of December 2018 and was within the thresholds and limits defined by Société Générale.
- SKB Group calculates EVE (economic value of equity) sensitivity based Société Générale methodology following IRRBB requirements. Interest rate sensitivity is calculated based on parallel movements of interest rate curves by +/-200 basis points only for interest bearing balance and off balance sheet items.
- The Group uses dynamic gap analysis for net interest margin (NIM) sensitivity calculation. Net interest margin sensitivity is based on Société Générale methodology which calculates the impact of different interest rate shock scenarios (interest rate shock: +/- 100 b.p., +/- 200 b.p., interest rate curve steepening or flattening) on the Group's net interest margin over a three-year rolling horizon.
- The Group also performs calculation of interest rate sensitivity based on parallel movements of interest rate curves by 200 basis points for the ICAAP calculation. The whole balance sheet of SKB Group is considered with the exception of non interest bearing items. Fixed rate instruments are scheduled according to the residual term to maturity and floating rate instruments according to the residual term to the next repricing date taking into account interest rate profiles for non maturing items.
- Additionally, the Group calculates the annual effect of interest rate changes (a parallel increase of interest rate curves by 100 basis points) on its net interest income based on internal methodology. As at 31 December 2018 the net interest rate sensitivity was positive at EUR 3.3 million.

SKB Group analyses and estimates the interest rate risk profile of non maturing products on annual basis. Models are defined by the Société Générale Group based on data provided by SKB Group. Interest rate profiles are defined for cash, mandatory reserves, credit cards, overdrafts, deposit agreements, sight deposits, saving accounts, off balance sheet items, early repayment of loans, while for non performing loans we use internal SKB methodology. Models are back tested on a yearly basis and approved by ALCO Committee upon receiving notification from Société Générale Group or SKB Risk Division respectively.

Asset and Liability Committee (ALCO) approves and regularly discusses all actions needed for managing interest rate risk sensitivity within the acceptable level defined in the SKB Group Risk Appetite Statement, the Recovery and Resolution plan and in the Internal Capital Adequacy Assessment Process (ICAAP).

## INTEREST RATE POLICY

The main goal of the interest rate policy in 2018 was to manage the negative interest rate environment while maintaining the competitive position of SKB Group by offering a quality product mix to its clients at acceptable, win-win prices for the clients and the bank.

SKB Group optimizes the interest rate risk exposure, considering the structure of the Group's balance sheet in terms of variable rate and fixed rate products with different maturities. SKB Group uses different hedging strategies for the purpose of interest rate risk management.

### Realized interest rates (in %) by currency for SKB bank:

As of 31 December 2018	Domestic currency	Foreign currency
<b>Assets</b>		
Cash and balances with central banks	-0.3%	0.0%
Due from banks	-0.3%	1.5%
Loans and advances to customers	2.3%	1.6%
Debt securities	2.2%	-
Other assets	-	-
<b>Liabilities</b>		
Due to banks	-0.1%	0.6%
Due to customers	-0.1%	0.0%
Debt securities in issue	-	-
Other borrowed funds	-	-
Druge obveznosti	-	-

As of 31 December 2017	Domestic currency	Foreign currency
<b>Assets</b>		
Cash and balances with central banks	-0.3%	0.0%
Due from banks	-0.2%	1.2%
Loans and advances to customers	2.3%	1.3%
Available-for-sale financial assets	2.6%	-
Held-to-maturity investments	-	-
<b>Other assets</b>		
	-	-
<b>Liabilities</b>		
Due to banks	0.1%	-0.6%
Due to customers	0.1%	0.0%
Debt securities in issue	-	-
Other borrowed funds	-	-

## INTEREST RATE RISK

The tables below represent the Group's assets and liabilities at carrying amounts, categorized by the earlier of the contractual repricing or the maturity dates.

### Group - As of 31 December 2018

EUR 000	Demand	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
<b>ASSETS</b>								
Cash and cash balances with central banks	56,664	133,531	-	-	-	-	-	190,195
Financial assets held for trading	-	7,054	-	-	-	-	-	7,054
Financial assets designated at fair value through profit or loss	-	192	455	2,544	10,879	21,100	-	35,170
Available-for-sale financial assets	-	-	-	-	6,154	-	(207)	5,947
Derivatives - hedge accounting	-	-	19,995	-	61,334	149,692	27,661	258,682
Loans and receivables	76,261	513,131	818,356	437,055	392,125	483,905	5,605	2,726,438
Held-to-maturity investments	-	-	-	-	-	-	607	607
Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	34,770	34,770
<b>Total financial assets</b>	<b>132,925</b>	<b>653,908</b>	<b>838,806</b>	<b>439,599</b>	<b>470,492</b>	<b>654,697</b>	<b>68,436</b>	<b>3,258,863</b>
<b>LIABILITIES</b>								
Financial liabilities to central banks	-	7,719	-	-	-	-	-	7,719
Financial liabilities held for trading	-	-	-	-	6,154	-	(207)	5,947
Financial liabilities designated at fair value through profit or loss	1,413,916	495,646	656,751	277,024	66,417	5,020	-	2,914,774
Derivatives - hedge accounting	-	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	-	-	-	-	-	-	602	602
Other liabilities	-	-	-	-	-	-	9,726	9,726
<b>Total financial liabilities</b>	<b>1,413,916</b>	<b>503,365</b>	<b>656,751</b>	<b>277,024</b>	<b>72,571</b>	<b>5,020</b>	<b>10,121</b>	<b>2,938,768</b>
<b>Net balance sheet position</b>	<b>(1,280,991)</b>	<b>150,543</b>	<b>182,055</b>	<b>162,575</b>	<b>397,921</b>	<b>649,677</b>	<b>58,315</b>	<b>320,095</b>

**Group - As of 31 December 2017**

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
<b>ASSETS</b>								
Cash and cash balances with central banks	56,040	247,609	-	-	-	-	-	303,649
Financial assets held for trading	-	5,236	-	-	-	-	-	5,236
Financial assets designated at fair value through profit or loss	-	-	-	-	6,167	-	(184)	5,983
Available-for-sale financial assets	-	-	15,013	18,795	99,586	252,306	50,942	436,642
Derivatives - hedge accounting	-	-	-	-	-	-	-	-
Loans and receivables	67,687	521,291	849,873	398,578	258,509	238,749	-	2,334,687
Held-to-maturity investments	-	-	-	-	-	-	-	-
Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	26,254	26,254
<b>Total financial assets</b>	<b>123,727</b>	<b>774,136</b>	<b>864,886</b>	<b>417,373</b>	<b>364,262</b>	<b>491,055</b>	<b>77,012</b>	<b>3,112,451</b>
<b>LIABILITIES</b>								
Financial liabilities to central banks	-	-	-	-	-	-	-	-
Financial liabilities held for trading	-	5,827	-	-	-	-	-	5,827
Financial liabilities designated at fair value through profit or loss	-	-	-	-	6,167	-	(184)	5,983
Derivatives - hedge accounting	-	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	1,222,804	467,511	653,968	321,891	92,974	209	-	2,759,357
Other liabilities	-	-	-	-	-	-	9,654	9,654
<b>Total financial liabilities</b>	<b>1,222,804</b>	<b>473,338</b>	<b>653,968</b>	<b>321,891</b>	<b>99,141</b>	<b>209</b>	<b>9,470</b>	<b>2,780,821</b>
<b>Net balance sheet position</b>	<b>(1,099,077)</b>	<b>300,798</b>	<b>210,918</b>	<b>95,482</b>	<b>265,121</b>	<b>490,846</b>	<b>67,542</b>	<b>331,630</b>

## 14. EQUITY INSTRUMENTS NOT INCLUDED IN THE TRADING BOOK (CRR, item 446)

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; SKB Group holds capital investment into Single Resolution Fund (Sklad za reševanje bank) which is managed by Bank of Slovenia;
- Equity instruments held for strategic reasons; these are long term equity instruments associated with group's core business objectives;
- Non-strategic equity instruments; temporarily held equity instruments available for sale;
- Equity instruments obtained through debt to equity swap of some non-performing assets. SKB Group holds these financial instruments temporarily with the aim to sell them after considering appropriate offer.

The book value of all equity instruments is equal to their fair value.

Issuer	Fair value in 000 EUR as at 31.12.2018	Fair value in 000 EUR as at 31.12.2017
<b>Equity instruments acquired through debt to equity swap</b>	<b>1,914</b>	<b>0</b>
Intereuropa, d.d.	1,914	0
Peko, d.d.	0	0
<b>Non-strategic equity instruments</b>	<b>0</b>	<b>1</b>
Slovenski raziskovalni inštitut za management	0	0
Ustanova Slovenska znanstvena fundacija	0	0
IEDC Bled, d.o.o.	-	0
Direkcija za turizem Bled	-	0
Koperinvest, d.o.o.	-	1
<b>Strategic equity instruments</b>	<b>3,083</b>	<b>388</b>
Bankart, d.o.o.	2,437	365
Pokojninska družba A, d.d.	630	3
S.W.I.F.T.	17	20
<b>Equity instruments acquired for regulatory reasons</b>	<b>12,915</b>	<b>12,924</b>
Sklad za reševanje bank	12,915	12,924
<b>Total equity investments</b>	<b>17,913</b>	<b>13,313</b>

The fair value of the two non-strategic equity instruments, where SKB banka participated as a founder and long-term investor, without the possibility of withdrawal, is 0 EUR. The investment in Peko (in insolvency proceedings) was acquired through debt to equity swap; its fair value equals 0 EUR.

In the table below the total realized gains in 2018 from dividends, sale of equity investments and fair value valuation are presented.

1. Dividends received	Realized gains in 000 EUR in 2018
<b>Total</b>	<b>252</b>
Bankart, d.o.o.	235
Pokojninska družba A, d.d.	17
<b>2. Gains/losses from sale of equity investments</b>	
<b>Total</b>	<b>23</b>
IEDC - Poslovna šola Bled, d.o.o.	23
TURIZEM BLED, zavod za pospeševanje turizma Bled	1
Koperinvest d.o.o.	-1
<b>3. Effect from the FV valuation</b>	
<b>Total</b>	<b>4.601</b>
Bankart, d.o.o.	2.073
Intereuropa, d.d.	1.914
Pokojninska družba A, d.d.	626
S.W.I.F.T.	-3
Sklad za reševanje bank	-9

The majority of SKB Group's equity instruments are not listed on a regulated security market, for the one that is listed (Intereuropa), we think that market price does not reflect the real value of shares. The bank reassessed the fair value of investments in Bankart and Pokojninska družba A based on bank's corresponding share in investment equity and the estimated net assets value of the company. The fair value of investment in Intereuropa was valued as a medium value of the three non-binding offers received in the sales process of Intereuropa.

## 15. OPERATIONAL RISK

Operational risk exists in the Bank's day to day operations. It is inherent to all the 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 the Bank's costs, its competitiveness, compliance and image. We 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.

The 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, as a part of the Société Générale Group, SKB Banka 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 Banka 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, the SKB Group performs regular training for all employees. The Bank can only manage effectively the things that can be known and measured well.

## OPERATIONAL UNITS

At SKB each individual operational unit and management level takes responsibility for its own operational risks and the provision of adequate resources and procedures for the management and mitigation of those risks. Operational risk is thus controlled through a network of controls, procedures, reports and responsibilities.

### Independent operational risk management function implemented in the Bank consists of:

- **The Operational Risk and Compliance Committee** is responsible for overseeing the operational risk framework at the Bank level, for defining the scope of monitoring and control, the analysis of operational risk losses, the following up of corrective measures and all actions related to operational risk – resulting in early warnings of identified weaknesses, and a quick and timely approach to mitigating the risk. It is composed of both executive directors of the Bank and all directors of divisions as well as representatives from all relevant functions.  
The Security Committee, Permanent Supervision, Compliance and Anti-Money-Laundering officers report regularly to the Operational Risk and Compliance Committee. The Operational Risk and Compliance Committee meets quarterly and reports to the General Management of the Bank and to the Audit Committee of the Board of Directors.
- **Operational Risk Manager** is responsible for implementation and consistent application of operational risk policies, processes, procedures and controls, proper identification, measurement and management of operational risk throughout the entire Bank, and reports to General Management of the bank, Board of Directors, Operational Risk 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 the Bank 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.

## 15.1 ADVANCED MEASUREMENT APPROACH OF OPERATIONAL RISK

The methodology implemented by the Bank for the management of operational risk fulfilled all the requirements for the Advanced Measurement Approach (AMA) under the Basel II framework and in 2008 the Bank of Slovenia granted the Bank approval to use AMA for calculation and allocation of operational risk capital requirements.

### Use of insurance policies and other risk transfer techniques for reduction of operational risk

SKB Group does not use insurance policies or other risk transfer techniques for reduction of operational risk. Capital requirement for operational risk under AMA approach is calculated based on internal model by the parent bank and allocated to its entities. In accordance with regulations, Société Générale Group incorporates risk cover provided by insurance policies when calculating regulatory capital requirements for operational risks also for its entities. These insurance policies cover part of the SG Group's major risks, i.e. civil liability, fraud, fire and theft, as well as systems interruptions and operating losses due to a loss of operating environment.

**The set of tools and measurement techniques** that the Bank has implemented within the AMA approach consist of:

#### • An operational loss database

Operational loss is the financial impact associated with an operational event that is recorded in the institution's financial statements in line with International Financial Reporting Standards (IFRS).

The Bank implemented the collection of operational losses in 2003. The implemented procedure requests a rigorous collection of loss data in order to take corrective actions to minimize the possibility of recurrence. In 2010, the Bank extended the collection of data on operational risk events also to include near misses and gains.

Business line managers are responsible for the declaration of losses to the Operational Risk department if they exceed the defined threshold.

The bank also established reporting and analysis of operational risk events with no financial impact or with impact below the threshold defined for reporting of operational losses.

All losses are regularly presented to General Management of the bank, Board of Directors, Operational Risk Committee and reported to parent bank.

#### • Key Risk Indicators

A Key Risk Indicator (KRI) is an objective and measurable piece of information that prompts the Bank to assess one or more key risks and to manage such risks more effectively.

Monitoring of indicators, such as employee turnover, training rates, transaction breaks, cash errors and system failures provide early warnings of increased risk of future losses. Monitoring of these indicators is regularly presented to General Management of the bank, Board of Directors, Operational Risk Committee and parent bank. Operational Risk Committee analyses the received information and defines adequate measures to be taken.

#### • Scenario analysis and stress tests

An operational risk stress test is the evaluation of the maximum financial impact a bank could face. To evaluate this kind of stress test, scenario analysis is mandatory to determine all factors which could lead to such a loss.

Scenario analysis is a strategy that involves the assessment of various potential future events and the development of scenarios regarding the probability of occurrence if various combinations of those events did take place.

The Bank uses scenario analysis and stress tests to challenge the operational efficiency, cover estimated high risk areas, identify main action plans to avoid similar losses, and calculate regulatory capital.

The results of a performed scenario analysis are reviewed and discussed by the General Management of the Bank and the Operational Risk Committee and are presented to parent bank.

#### • Risk and control self-assessment (RCSA)

The aim of RCSA is to identify the intrinsic risk to which the Bank is exposed by the nature of the activity, to evaluate the quality of the prevention and control system and to mitigate the residual risk to which the Bank is exposed.



The assessment is done on a bi-annual basis with full determination of weak zones within processes and controls. The completed exercise is followed by an action plan of corrective measures. The monitoring of the realization is under the full responsibility of the Operational Risk Committee.

- **Monitoring of corrective measures**

Corrective measures are taken to minimize the possibility of an operational event recurrence. The realization of defined measures is strictly followed by the Operational Risk Manager and the Operational Risk Correspondent and is reported regularly to the Operational Risk Committee.

- **Exhaustive reporting**

In the year 2007, the Bank also implemented an exhaustive report on declared operational losses, in which the senior management certified the declaration of all known losses in their area of operations.

## **PERMANENT SUPERVISION**

SKB Banka started with the implementation of permanent supervision in the period from 2003 to 2005. It is defined as a set of controls and measures on the first level applied on a daily basis to guarantee the regularity, security, and validity of operations performed and processed at an operational level. Permanent supervision on the first level consists of the following:

- Day-to-day security of daily tasks and activities performed by all employees by correct and consistent application of the rules and internal operational procedures and processes, including the simultaneous elimination of irregularities,
- Formalised supervision by heads of the organisational units of the Bank in the form of periodic verifications of the correct application of working procedures and accounts considered as sensitive, and in accordance with control guidelines, in formalised registers and with hierarchical reports.

## **PERMANENT SUPERVISION IN THE SKB GROUP INCLUDES ALL DIVISIONS AND DEPARTMENTS**

At the end of the year, SKB introduced a second level of control for compliance, finance and risk areas. The goal is to ensure on a regular basis that controls of first level exist, to be effective and properly implemented. Second level controls have two components:

- Quantitative and qualitative overview of the results of the first level of controls (if they have led to the identification of anomalies or not), both in terms of the performance and frequency of anomalies, as well as the analysis of larger anomalies;
- Review of the quality of the implementation of controls and monitoring of anomalies with the aim of checking the design of controls, the quality of their implementation and monitoring activities related to detected anomalies.

## **BUSINESS CONTINUITY AND CRISIS MANAGEMENT**

The main purpose of Business Continuity Management (BCM) and Crisis Management (CM) activities is to ensure the presence of written procedures and adequately trained employees, as well as to have resources ready and properly tested, to be ready for immediate activation in case of a crisis.

The complete BCM operational team has been trained, as well as the BCM IT team and new members of the Crisis Management team.

BCP, IT and CM tests, prepared in advance, have been tested on-site – such as:

- branch network closure, a Head Office closure with users directed to a recovery site, IT support from a back-up site, and a Head Office disaster recovery plan test,
- BCM IT test has been performed as a technical test of application restoration on the back-up servers,
- CM routines were executed in four different types of tests, namely as a Notification test, Notification and Meeting test, Crisis Room test and Evacuation of the Head Office test.

The BCM and CM Synthesis for SKB, written by the Société Générale Group, confirmed the high quality of the Bank's executed tests and the excellent reporting done through the regular quarterly Test Reports.

## 16. LEVERAGE RATIO

### Management of the risk of excessive leverage ratio

Group			
	EUR 000	2018	2017
Total Leverage Ratio exposure - using a transitional definition of Tier 1 capital		3,589,973	3,385,985
Tier 1 capital - transitional definition		285,496	277,963
Leverage Ratio -using a transitional definition of Tier 1		7.95%	8.21%

### Leverage ratio according to Commission Delegated Regulation (EU) 2015/62

CRR Leverage Ratio - Group		
Table LRSUM: Summary reconciliation of accounting assets and leverage ratio exposures		
		Applicable Amounts
1	Total assets as per published financial statements	3,977,282
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	0
4	Adjustments for derivative financial instruments	0
5	Adjustments for securities financing transactions "SFTs"	0
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	-374,079
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	0
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	0
7	Other adjustments	-13,230
<b>8</b>	<b>Total leverage ratio exposure</b>	<b>3,589,973</b>

**Table LRCom: Leverage ratio common disclosure**

		CRR leverage ratio exposures
	<b>On-balance sheet exposures (excluding derivatives and SFTs)</b>	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	3,267,596
2	(Asset amounts deducted in determining Tier 1 capital)	-13,230
<b>3</b>	<b>Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)</b>	<b>3,254,366</b>
	Derivatives exposures	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	15,566
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	0
EU-5a	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
<b>11</b>	<b>Total derivative exposures (sum of lines 4 to 10)</b>	<b>15,566</b>
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	0
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	0
15	Agent transaction exposures	0
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	0
<b>16</b>	<b>Total securities financing transaction exposures (sum of lines 12 to 15a)</b>	<b>0</b>
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	694,120
18	(Adjustments for conversion to credit equivalent amounts)	-374,079
<b>19</b>	<b>Other off-balance sheet exposures (sum of lines 17 to 18)</b>	<b>320,041</b>
	<b>Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)</b>	
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
	<b>Capital and total exposures</b>	
<b>20</b>	<b>Tier 1 capital</b>	<b>285,496</b>
<b>21</b>	<b>Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)</b>	<b>3,589,973</b>
	<b>Leverage ratio</b>	
<b>22</b>	<b>Leverage ratio</b>	<b>0.0795</b>
	<b>Choice on transitional arrangements and amount of derecognised fiduciary items</b>	
EU-23	Choice on transitional arrangements for the definition of the capital measure	
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	

**Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)**

		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	3,267,596
EU-2	Trading book exposures	0
EU-3	Banking book exposures, of which:	3,267,596
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	669,999
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	39,816
EU-7	Institutions	47,017
EU-8	Secured by mortgages of immovable properties	0
EU-9	Retail exposures	1,554,980
EU-10	Corporate	825,652
EU-11	Exposures in default	49,485
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	80,647

**Table LRQua**

1	Description of the processes used to manage the risk of excessive leverage	<p>The risk of leverage ratio is managed in the bank on regular bases. It is based on the evolution of the solvency capital and the balance sheet, which might trigger the risk of excessive leverage ratio. The bank makes the assessment on a quarterly basis if the risk to leverage ratio has significantly increased so that corrective measures can be taken.</p> <p>Risk is responsible for assessing the stress tests impacts on the leverage ratio in the framework of annual stress test process for ICAAP. In the case the leverage ratio under stress scenario falls under 3%, additional capital needs under Pillar II is reported.</p> <p>The bank defines as prudential threshold for leverage ratio not lower than 3.5 %.</p>
2	Description of the factors that had an impact on the leverage Ratio during the period to which the disclosed leverage Ratio refers	<p>In year 2018 there were no special events which would have a significant influence on the leverage ratio. The reduction in the leverage ratio corresponds to the planned portfolio growth.</p>

## 17. REMUNERATION POLICY

The purpose of the remuneration policy is to define, in a transparent way, the types of remuneration, criteria and rules for the execution of remuneration payment and their beneficiaries. At the same time, the execution of the policy provides an adequate level of control and proportionality of the height of remuneration, tasks and responsibilities in order to reduce the Bank's potential risk from a long-term perspective.

The parts of remuneration are designed in a way which does not encourage employees to take irresponsible and disproportionate risks. This is ensured by an appropriate ratio between fixed and variable parts of remuneration for all categories of employees, taking into account the remuneration policy of the Société Générale as the parent bank, as well as a more detailed definition of the remuneration policy of the Bank itself.

The remuneration policy is adopted by the Board of Directors on the proposal of the Remuneration Committee. The Remuneration Committee had two sessions in 2018. At its sessions, the Remuneration Committee addressed the remuneration of employees falling within its domain and the proposed change in the Remuneration policy, which was aligned with the requirements arising from national and European legislation.

The amount of funds for employee's remuneration, both fixed and variable, is planned on the basis of annual and multi-annual plans, based on the Bank's business objectives. They are regularly and critically compared with the expected results of the Bank during the observed period. Special attention is paid to the core capital of the Bank and capital adequacy requirements required by the regulator - the Bank of Slovenia.

Employees' remuneration is determined by provisions of the Collective Agreement for Banking Sector, compensation policy of Société Générale Group and Bank's internal acts. Remuneration comprises of a fixed part and a variable part, which includes as well the yearly bonus.

The fixed part of the remuneration is determined by complexity of the job, the expected performance results and work conditions, regulated in the Bank's Act on organization and systematization and Remuneration policy.

The level of remuneration of employees with individual contracts is determined by management of the bank, based on the importance of the position for a business function, current market conditions and potential of a candidate for this position. The fixed part remuneration of these employees reflects the value of comparable labour on the market, the importance of business functions for the Bank's operations, as well as the impact of the position on the operations of the Bank.

The variable part of the remuneration is formed on the basis of the provisions of the Collective Agreement for Banking Sector. The purpose of the variable part of the remuneration is to reward employees for their contribution to the business results of the Bank.

The allocation of variable part of the remuneration is a subject of criteria such as:

- the achievement of agreed plans,
- the degree of creativity, autonomy and innovation at work,
- the quality of the performed tasks,
- additional amount of work above planned,
- the usage of new knowledge acquired in the process of functional training.

Yearly bonus is a part of the variable part of remuneration. The amount of funds for the yearly bonus is dependent on the business results of the Bank. Management of the Bank in annual budgeting process of the yearly bonus funds verifies the potential impacts of planned payments of bonus on the planned financial statements. The decision on the payment of the yearly bonuses is at discretion of Board of Directors, Remuneration Committee and Management of the Bank. When drawing up proposals for the allocation of yearly bonus the following performance criteria are considered:

- the achievement and fulfilment of the set objectives;
- the volume of assignments of the individual,
- creativity in the execution of tasks, autonomy and innovation, accuracy and consistency in the performance of the set tasks and objectives,
- the impact of individual efforts on the work of the division, sector or department and fulfilment of agreed plans.

The amount of yearly bonus shall be determined according to the fulfilment of the above criteria. There is no direct or automatic connection between the commercial and financial results of each employee and the amount of yearly bonus. Employees are assessed on the basis of the achieved operational objectives and the way operational objectives are achieved. The operational objectives are set in the way they are; precise, measurable, accessible, relevant and time-bound (SMART methodology). When assessing the way the objectives were achieved, however, the quality of risk management, the behaviour that employee displays in his individual and team work, as well as the consideration of the interests of clients and their satisfaction with the service offered are taken into account.

The risk of disproportion or an inadequate ratio between fixed and variable remuneration components is reduced by limiting the amount of payments of the variable part of remuneration, to the amount of three monthly salaries of an individual, and with the process of planning of annual labour cost which includes evaluation of all foreseeable risks. There are no individuals in the Bank whose variable part of the remuneration would exceed one million EUR in one financial year. Deferred payments of variable part of remuneration are carried out in accordance with legislation and the policy of the Société Générale Group, which stipulates that the deferred payment of variable amount is carried out over a certain amount.

The amount of remuneration and the structure of remuneration of executive directors is the jurisdiction of the Remuneration Committee and Board of Directors. The remuneration policy of other members of the Board of Directors is determined by the decision of the General Assembly of SKB d.d. and designed in accordance with the applicable legislation and the remuneration policy of the Société Générale Group.

The amount of the variable part of the remuneration of the members of the Management Board for which only executive directors are eligible, is considered by the following performance criteria:

- financial indicators of the Group SKB operations and the attitude towards the environment in which the Group operates,
- achievement the objectives set in the annual business plan of the Bank,
- the manner in which the objectives have been achieved,
- performance results of the Group taking in to account social economic environment in which the Group operates.

Their variable remunerations do not exceed 100% of their fixed remuneration and are in line with the Remuneration policy of the Société Générale Group. Depending on the amount of the variable part, the payment of it is in the form of cash and differed payment which is consistent of cash payment as well as payment linked to shares performance. (See chapter: Remunerations paid to members of the Board of Directors and Key Management Personnel).

The Remuneration Committee also addresses and determines fixed and variable remuneration of employees who have a significant influence within the scope of their competence on the risk profile of the bank or fall into this category according to the quantitative criterion of the CRD IV guidelines.

At the bank level there are 14 persons including the Chief Executive Officer and Deputy Chief Executive Officer. Only the Chief Executive was paid a yearly bonus in the amount for which the SG Group's policy and regulations in force define limitations by cash payments of yearly awards (the information is disclosed in the Financial report - section Remunerations paid to members of the Board of Directors and Key Management Personnel).

Payment of yearly bonus is structured as follows:

- A vested, non-deferred part paid in cash in March of the year following the close of the financial year;
- A vested part deferred in the form of share equivalents, for which the final amount paid to the employee depends on the Société Générale share price in October of the year following the close of the financial year;
- A non-vested deferred cash part (which is not indexed to the share price) in one instalment in next year, conditional on the employee's continuous employment with the Bank and dependent on the performance and adequate risk allocation;
- A non-vested part deferred in Société Générale shares or share equivalents are paid in two instalments in following years for which vesting conditional on the employee remaining is employed by the Bank and dependent on performance and adequate risk allocation.

Within the Remuneration policy we have defined functions which have a significant impact on the Bank's risk profile. In accordance with the remuneration policy of the Société Générale Group managers can make a proposal to the Bank's management to reward individual employees with shares of Société Générale Group.

Severance payments in 2017 were paid in accordance with the Labour Relations Act and Collective Agreement for Banking Sector.

Alignment of Remuneration policy and its practices are subject of annual monitoring of the Internal audit department.

## 18. STATEMENTS

### SKB BANKA 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 all important risks to which the Group is exposed. ICAAP process includes quantitative and qualitative elements of risk management process. 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 (credit risk, market risk, interest rate risk, liquidity risk, operational risk, compliance risk, strategic risk, reputation risk, profitability risk and capital risk).

The total residual risk evaluation for SKB Group decreased from 1,65 in 2017 to 1,55 in 2018 and is within the acceptable range according to Bank of Slovenia scale. Average assessment of residual risk for credit, operational, interest rate, profitability and reputational risk decreased, while assessment of capital and market risk slightly increased. In the year 2018 the bank also included compliance risk within material risks and assessed the risk for the first time.

<b>SKB GROUP'S RESIDUAL RISK ASSESSMENT in year 2018</b>		85,4%	1,0%	1,0%	6,1%	1,5%	1,0%	1,0%	1,0%	1,0%	1,0%
<b>RISK AREA</b>		CREDIT RISK	OPERATIONAL RISK	COMPLIANCE RISK	INTEREST RATE RISK	LIQUIDITY RISK	PROFITABILITY RISK	STRATEGIC RISK	REPUTATION RISK	CAPITAL RISK	MARKET RISK
<b>BUSINESS ACTIVITY</b>											
Retail business (RETAIL)		1,51	2,76	1,77	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Corporate business - facilities and treasury (CORP)		1,79	2,76	1,59	0,00	0,00	0,00	0,00	0,00	0,00	1,00
Joint functions - finance (FIN)		0,00	1,55	1,35	1,67	1,35	2,34	0,00	0,00	1,55	0,00
Joint functions - central back offices and payment system (CBS)		0,00	2,76	2,26	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	1,50	0,00	0,00	0,00	2,46	1,69	0,00	0,00
Joint functions - risks and bad debts (RISK)		1,27	1,34	1,70	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Joint functions - informatics, technology, organization (GMS)		0,00	2,90	1,32	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Subsidiaries - SKB Leasing		1,64	1,96	2,01	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Subsidiaries - SKB Leasing Select		1,64	1,84	1,86	0,00	0,00	0,00	0,00	0,00	0,00	0,00
<b>Average assessment by type of risk</b>		<b>1,52</b>	<b>2,23</b>	<b>1,71</b>	<b>1,67</b>	<b>1,35</b>	<b>2,34</b>	<b>2,46</b>	<b>1,69</b>	<b>1,55</b>	<b>1,00</b>
<b>Total weighted assessment by the type of risk</b>		<b>1,55</b>	<b>Calculated residual risk for 2018 (acceptable)</b>								
		<b>1,65</b>	<b>Calculated residual risk for 2017 (acceptable)</b>								

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<sup>10</sup> and normative<sup>11</sup> 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.

<sup>10</sup> 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.

<sup>11</sup> 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.

CAPITAL ADEQUACY (in %)	Economic perspective	Normative perspective - base scenario			Normative perspective - adverse scenario		
	31.12.2018	31.12.2019	31.12.2020	31.12.2021	31.12.2019	30.12.2020	30.12.2021
Total capital ratio	12,69%	12,09%	11,44%	10,86%	12,67%	12,39%	11,95%
CAPITAL in MEUR	31.12.2018	31.12.2019	31.12.2020	31.12.2021	31.12.2019	30.12.2020	30.12.2021
Capital (own funds) of the group:	285,5	290,6	290,6	289,3	290,6	290,6	289,3
Tier 1 capital of which:	285,5	290,6	290,6	288,3	290,6	290,6	288,3
- Common equity tier 1 capital	285,5	290,6	290,6	288,3	290,6	290,6	288,3
- 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	31.12.2018	31.12.2019	31.12.2020	31.12.2021	31.12.2019	30.12.2020	30.12.2021
Material risks	207,6	207,6	222,0	230,4	213,1	216,5	220,9
Credit risk	175,7	188,5	197,4	207,2	177,7	181,7	187,6
Concentration risk	10,5	11,2	11,8	12,4	17,8	18,2	18,8
Operational risk	4,3	4,6	4,6	4,8	8,7	8,7	8,7
Interest rate risk	13,3	1,1	3,1	6,7	0,6	1,5	6,0
Liquidity risk	3,4	3,6	3,7	3,9	3,4	3,4	3,5
Model risk	0,4	0,7	1,4	1,6	4,9	2,8	3,0
Stress tests	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Overall capital requirements / internal estimate of capital needs	207,6	207,6	222,0	230,4	213,1	216,5	220,9
Capital buffer	77,9	83,0	68,6	58,9	77,6	74,1	68,4

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 (in %)	Economic perspective	Normative perspective - base scenario			Normative perspective - adverse scenario		
	31.12.2018	31.12.2019	31.12.2020	31.12.2021	31.12.2019	30.12.2020	30.12.2021
LCR	265%	244%	236%	229%	262%	266%	265%
NSFR	143%	143%	141%	140%	144%	142%	141%



By signing this statement, we, the undersigned members of the General Management and Board of Directors of the bank, hereby confirm, that SKB banka d.d. Ljubljana has in place a sound risk management system in line with its risk tolerance and limits set within the Risk Appetite Framework, Risk Appetite Statement and in accordance to its business strategy on 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.

The following documentation has been submitted by the SKB bank to the Bank of Slovenia:

- qualitative and quantitative analysis ICAAP with all appendixes,
- qualitative and quantitative ILAAP analysis.

Members of the Board of Directors

Jean-Philippe Guillaume



Pierre-Yves Demoures



Maria Koytcheva Rousseva



Clara-Elen Grigore



Milorad Katnić



Vojka Ravbar



Andre Gardella



Ljubljana, 29.03.2019

Andre Gardella  
Chief Executive Officer

# VIII. ADDRESSES & CONTACTS

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## HEAD OFFICE

### **SKB banka d.d. Ljubljana**

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Register number: 5026237

SWIFT: SKBASIX

Telex: 39144 skb dp si

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<sup>12</sup> Network as at 31. December 2018

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**Oddelek: Privatno bančništvo**

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**Trzin**

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**Vrhnika**

Ljubljanska cesta 29  
1360 Vrhnika  
tel.: 01/757 12 00

**Zagorje**

Kopališka ulica 14  
1410 Zagorje ob Savi  
tel.: 03/566 47 90

## **SKB LEASING d.o.o.**

Ajdovščina 4, 1000 Ljubljana  
Telephone number.: 01/300 50 00, Fax number.: 01/433 61 81  
E-mail: info@skb-leasing.si  
Website: <http://www.skb-leasing.si>  
Bank account number: SKB Leasing d.o.o.: SI 56 0310 0101 2002 555  
VAT number: 31037038  
Identification number for VAT: SI31037038  
Registration number: SKB Leasing d.o.o., Ljubljana: 5808596000

## **SKB LEASING SELECT, d.o.o.**

Ajdovščina 4, 1000 Ljubljana  
Telephone number.: 01/300 50 10, Fax number.: 01/433 61 81  
E-mail: select-info@skb-leasing.si  
Website: <http://www.skb-leasing.si>  
Bank account number: SKB Leasing Select d.o.o.:SI 56 0310 0100 2108 167  
VAT number: 63452359  
Identification number for VAT: SI63452359  
Registration number: SKB Leasing Select d.o.o., Ljubljana: 2366878000

### **Branch Ljubljana**

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1000 Ljubljana  
Tel.: 01/300 50 30  
Faks.: 01/430 54 79

### **Branch Celje in Maribor**

Vrunčeva ulica 2a  
3000 Celje  
Tel.: 01/300 50 61  
Faks.: 01/430 54 77

### **Office Maribor**

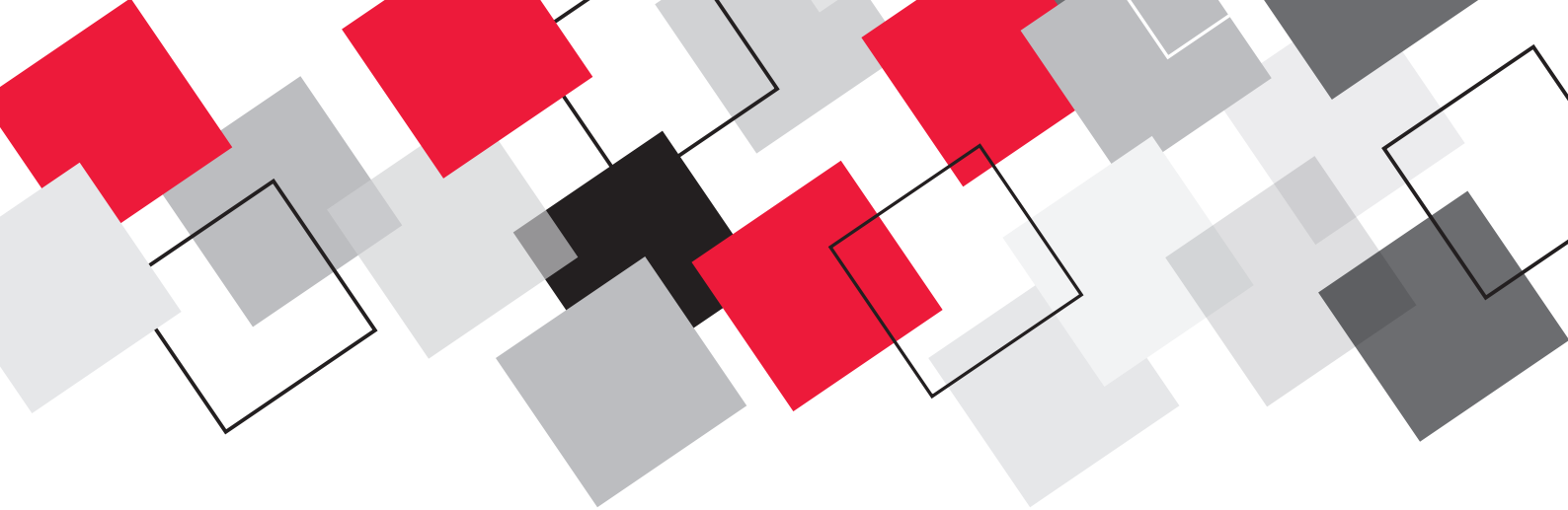
Ulica heroja Bračiča 1  
2000 Maribor  
Tel.: 01/300 50 75  
Faks.: 01/430 54 77

### **Branch Novo mesto**

Novi trg 3  
8000 Novo mesto  
Tel.: 01/300 50 71  
Faks.: 01/430 54 78


### **Office Koper**

Ferrarska ulica 6  
6000 Koper  
Tel.: 01/300 50 80  
Faks.: 01/430 54 76



**SKB d.d.**

Ajdovščina 4, 1000 Ljubljana

SKB Banka d.d. Ljubljana, Ajdovščina 4, is registered with the  
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