

Annual report 2021

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I. General information for the SKB Group for 2021

Number of employees - 908	Number of customers - 238,721 SKB Bank - 200,128 SKB Leasing Group - 38,593	Number of branches - 48
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Evolution of SKB Group's main balance sheet items

EUR 000	2021	2020	Change (%)
Balance sheet total	3,837,940	3,656,175	5.0
Loans to customers ¹	2,626,570	2,453,076	7.1
Customer deposits	3,287,246	3,109,643	5.7
Equity	442,586	405,982	9.0
Loans to deposits ratio ²	65.96 %	64.23 %	+173 bp
Capital adequacy ratio	15.03 %	15.16 %	-13 bp

Key results and indicators of SKB Group's performance

EUR 000	2021	2020	Change
Net banking income	121,991	122,677	(0.6)
Overhead expenses	(66,365)	(62,216)	6.7
Operating profit	55,626	60,461	(8.0)
Provisions and impairments	1,134	(18,509)	n/a
Net profit	46,008	34,850	32.0
ROE	10.87 %	9.07 %	+180 bp
Cost/Income ratio	54.40 %	50.72 %	+368 bp

Key result drivers

Individual clients ³ activity indicators	2021		(%)
	December 2021	Change	
• Number of accounts	174,753		0.5
- Number of accounts with regular payment	161,112		24.0
• Number of E-banking users	141,366		9.0
• Number of Moj@SKB users	107,080		18.0
• Number of cards	220,839		-1.4
• Volume of loans	1,237.2 M EUR		6.6
- Housing loans	986.5 M EUR		8.3
• Volume of leasing	234.4 M EUR		-0.9
• Volume of deposits	1,974.6 M EUR		2.0

Corporate clients' activity indicators	2021		(%)
	December 2021	Change	
• Number of accounts	18,109		3.0
• Number of E-banking users	17,248		3.7
• Number of Moj@SKB users	11,210		41.2
• Number of domestic payment transactions ⁴	14,661,466		5.3
• Number of international payment transactions	1,291,646		17.3
• Volume of loans	931.1 M EUR		11.3
- Loans without state	802.1 M EUR		7.9
• Volume of leasing	223.8 M EUR		2.1
• Volume of deposits	1,312.6 M EUR		11.9

¹ Includes loans to customers measured at amortised cost and measured at fair value, includes financial leasing.

² Includes loans to customers measured at amortised cost and measured at fair value, excludes financial leasing.

³ Includes individuals conducting business activities.

⁴ Paid transactions.

Significant business events

In 2021, SKB Bank successfully continued to achieve the set goals despite the numerous global challenges and long-term trends which bring with them important consequences. We support the Slovenian economy by operating efficiently and providing suitable solutions for individuals and companies, and, as a financial partner, we help the economy to recover after the Covid crisis. Applying a clear strategy of development projects, we implement the vision of becoming and remaining the first choice for clients and offering the best user experience in all segments that we manage. As a reliable financial partner, we stand by our clients as they achieve their goals, and we support the right decisions. We firmly believe in the diverse capabilities of our clients and us, the employees, and we are aware that with our stable and reliable support of the right decisions, everyone can push their boundaries.

We are aware that even in more complex situations, it is important to stand by our clients with a tailored offer and efficient services and to offer them the best solutions. In this respect, we are constantly adjusting our offer of products and services - we have introduced ATM deposits for companies and increased the number of instalments with credit cards to 24; we are adjusting our business policy - we were the first on the market to introduce consumer loans with an interest rate linked to the loan amount (a larger amount - a lower interest rate), we are changing our terms and approaches - special treatment of affluent clients, simplification and automation of account opening and loan approval procedures, and we are preparing special offers of loans with competitive interest rates and offers that are adapted to market conditions.



90.000 EUR že za 359,94 EUR/mesec
 Stanovanjski kredit z ugodno obrestno mero do 25 let.

[Želim kredit](#)

SKB d.d., Ajdovščina 4, 1000 Ljubljana

Our offer of investment products continues to include investment funds, which are an excellent alternative form of saving and deposits, which are not the most attractive investment due to market conditions. We are proud providers of Amundi funds, which were awarded several times in 2021 by the Moje finance magazine and recognised as the Best Mutual Funds 2021 in as many as three categories. At the same time, we offer the option of a savings plan with one-time or monthly payments to Moorea funds.



Oplemenitite svoje prihranke
 Varčujte v Amundi in Moorea skladih brez vstopnih in izstopnih stroškov.

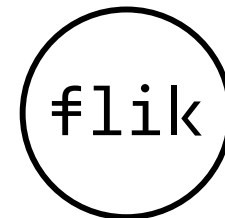
[Zanima me](#)

SKB d.d., Ajdovščina 4, 1000 Ljubljana



We place great emphasis on development projects to improve and modernise our digital banking channels. We are aware that a modern consumer is constantly changing, so our strategy is focused on accepting ever new challenges and ensuring our clients the latest solutions. Digitisation of banking operations and internal processes is one of the main pillars of development and it is inevitable as far as future successful operations are concerned. Digital channels with the growing basic infrastructure (the web, mobile phones) are becoming a key driver of our sales and cost-effectiveness of our banking services. Our development projects follow an agile methodology as we believe that this is the most effective response to the rapidly changing banking and digital environment. The ultimate goals of our development projects include the complete replacement of the existing digital solutions for all segments, and, at the same time, becoming the bank with the best digital solution on the Slovenian market. This year we entered into an important partnership with Backbase, who we are developing the best digital banking channels with as part of an internal development project, with the support of the OTP parent group, which has ensured that the same digital platform we are developing will serve as the basis also for other banks in the Group.

Last year, we presented Flik to the SKB Bank's clients. It is a mobile application enabling instant free transfers among bank users in Slovenia. Today, Flik can be used by clients of all Slovenian banks, and, at the same time, it also enables payments at retailers' points of sale. We also replaced the existing ATMs with multifunctional ones, which places us among the banks with the most modern, advanced and powerful ATMs. An important novelty at ATMs is a simple deposit of cash and daily proceeds for our business clients, which proved beneficial.



We are aware that young people are the future so with the growing popularity of banking packages, we also introduced them in the youth segment. Regulated finances as well as carefree and safe business operations are a condition for young people to live carefree lives, and this is exactly what the Youth Package and the ISIC Package enable. Our young clients can now choose a package that suits their lifestyle, while SKB Bank ensures easy switching between packages, without the need of changing the debit card and account number.

SKB Bank supports various segments and population groups. By means of a comprehensive offer and approach, we entered the agro segment, thus supporting the development of the Slovenian agriculture. We are aware that there is a lot of potential in the agro field, which is why our employees are experts in the field of agri sales. We have started project financing in the field of real estate. With the support of our OTP parent company, SKB Bank has decided to support the right decisions in this area as well, and it has thus successfully participated in quite some real estate projects so far.



Despite the problems in the business environment related to the epidemic and even more so due to the lack of new passenger cars on the market, the SKB Leasing Group realised a volume of new business that was by a third higher than last year and even higher than in the period before the Coronavirus, in 2019. The Group recorded growth in all three business segments, the highest being in the private vehicle financing segment. It thus maintained its position among the three largest leasing companies in Slovenia with a more than 20 % market share. It further consolidated business partnerships with providers of private vehicles of most of the most successful brands on the Slovenian market and, at the same time, it enriched its offer and offered its clients new forms of financing which can be arranged at points of sale in just a few minutes.

Compared to clients of other banks in Slovenia, satisfaction of the SKB Bank's clients is above average, and the value of the SKB brand is growing. This is also proven by the fact that this year, for the tenth time in eleven years, SKB Bank won the "Bank of 2021 in Slovenia" award conferred by the internationally acclaimed The Banker magazine, and the "Best Bank 2021 in Slovenia" award in the category of countries in Central and Eastern Europe according to the Global Finance Journal. We are also proud that our brand has been recognised for the third time as one of the super brands and was conferred the "Superbrands Slovenia" title, as this means that the public recognises SKB Bank as a quality and trustworthy brand.



Due to the epidemiological situation in 2021, we were not able to organise events for clients and employees where we could meet in person. However, we invited clients individually to performances at the SNG Opera in Balet Ljubljana and to the charitable Manager's Concert, where exceptional young musical talents performed. By sponsoring these projects, we supported cultural creation also this year.



In 2021, we also participated in several professional events, thus showing support for the economy, expanding our know-how, and sharing our experience, as well as, at the same time, taking the opportunity to make new acquaintances. We are aware that banks are essential for reinvigorating and recovery of the Slovenian economy. The Bank's management and associates, experts from various fields of the Bank, were present as speakers and participants at key economic events including the Financial Conference, the Business Conference and the Business Forum organised by the Finance Academy and at the events organised by the Bank Association.



We kept in touch with our employees through regular internal communication, and, at the end of the year, we gifted them a festive package of sustainable products. Rather than in person, we met the management, regional directors and ambassadors on a monthly basis at SKB focus online events, where we educated ourselves and broadened our horizons. The events were created by our colleagues from various fields together with external experts. We covered the topics of the agro segment, project financing, sustainability and sustainable finance, the LinkedIn social network, investment opportunities and employee commitment. We are planning many interesting and current topics in the future as well.

Through effective internal communication, our employees get regular monthly news from all areas of the Bank via the internal monthly SKB Utrip e-newspaper, and we also prepared for them on the semi-annual level a broader overview of events within the SKB Group in the SKB IN e-newspaper. The group of SKB ambassadors who are employed by the SKB Group and who come from different fields, each of them contributing to ensuring that we are connected and informed about important projects, events and achievements within the Group, is also of great help in strengthening internal communication.

We are aware that with small steps we can change the world for the better and work in favour of nature and the environment where we operate. In our daily lives, we are increasingly introducing activities of raising awareness and educating employees in terms of social and environmental responsibility, and through various activities encourage employees to taking small steps to achieve great goals in the transformation to a green future of our environment and planet. Despite the extremely bad season, our bee colleagues from the terrace on the third floor produced more than 30 kilos of delicious urban honey. We also strengthen sustainability through internal initiatives for employees. At the end of the year, we established the SKB book exchange at the SKB Bank's headquarters thus promoting circular exchange and reading culture.



As the proud main sponsor of the Olympic Committee of Slovenia, we connected our clients and employees throughout Slovenia with the Olympic Torch project and accompanied our Olympians at the 2020 Summer Olympics in Tokyo. The #Vztrajam project regularly raises awareness of the importance of sport and physical activity in terms of health and well-being. At the end of 2021, we encouraged employees and the public to be charitable with the "Do something good" #Vztrajam project thus putting smiles on the faces of children and families who will, also because of us, get help from the Association of Friends of Youth of Slovenia.



SKB Bank continues to achieve the set goals. We will continue to support the Slovenian economy and, as a financial partner, encourage our clients, companies and employees. We will follow a clear strategy of development projects that will help us realise the vision of becoming and remaining the first choice for clients and offering them the best user experience in all segments.

Presentation of the Group

SKB Group

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

SKB Bank is a development-oriented universal bank that provides a comprehensive and diverse range of quality banking products and services via various sales channels including 48 branches throughout Slovenia and via digital banking channels such as online and mobile banking, as well as its network of ATMs, payment and credit cards. SKB Bank deals with retail as well as small, medium-sized and large companies, it offers a wide range of financial services, but it does not trade in financial instruments for its own account.

SKB Leasing and SKB Leasing Select upgrade banking services and products with the leasing ones. They offer all leasing products except real estate leasing to individuals and companies via their network of bank branches located in all major regional centres throughout Slovenia and via the help of their sales representatives. SKB Leasing, SKB Leasing Select and SKB Bank take advantage of all available synergies.

SKB Bank follows its values and strategic orientations according to which it strives to support the right decisions of individuals and stands by their side when they realise them, including the most important ones in life including decisions regarding a new home and investments in the future. By constantly adjusting the offer of our products and services, we strive to always bring clients closer to the solution they are looking for thus posing as an ever-present but almost invisible financial partner they can always rely on.

We pay special attention to the formation of comprehensive and long-term business relationships and to the protection of the environment. We improve the quality of our services that is based on excellent performance and professional advice by responding quickly to the wishes and needs of our clients, as well as by constantly searching for the optimal location of our banking and ATM network on the business map of Slovenia. This enables us to meet the financial needs of the existing clients and, at the same time, attract new individuals, sole traders and small and medium-sized companies. We have specially designed products with appropriate sales approaches and orientations for each segment of clients. When developing each individual offer, we strive to create useful banking products for a wider circle of clients and to introduce a standardised approach.

Figure 1: Business network



OTP Group

The OTP Group is one of the largest financial service providers in Central and Eastern Europe offering a comprehensive range of banking services for individuals and legal entities. With more than 37,500 employees, it offers services to more than 16 million clients and has a network of almost 1,500 branches (data from December 2021).

The OTP Group comprises a number of subsidiaries that provide services in the areas of insurance, real estate, factoring, leasing, asset management as well as investment and pension funds. It currently operates via subsidiaries in 11 countries in the region, namely Hungary (OTP Bank), Albania (OTP Bank Albania), Bulgaria (DSK Bank PLC), Croatia (OTP banka d.d.), Romania (OTP Bank Romania), Serbia (OTP banka Serbia), Ukraine (OTP Bank JSC), Russia (JSC OTP Bank), Moldova (OTP Bank S.A.), Montenegro (CKB banka) and Slovenia (SKB banka d.d. Ljubljana).



II. Statement by Chief Executive Officer



Year after year, banking has been increasingly influenced by changes and is involved in the rapid digitalization of processes, procedures, and ways of doing business, as well as under the supervision of regulators. Clients have growing expectations and we wish to enable them to perform all services quickly, easily and as far as possible, even remotely. SKB Bank has thus been successfully operating in a dynamic and at the same time complex environment, which is also influenced by global economic developments. We are witnessing low interest rates on the market, high levels of liquidity, and the current situation requires a high degree of proactivity and advanced thinking of our future and strategy, where we place great emphasis on sustainable development and care for the entire environment in which we operate.

At SKB Bank, in 2021, in addition to financial goals, we achieved many steps forward in our key strategic directions: digitalization of operations, simplification and automation of internal processes and procedures, we did a lot on development and employee incentives, we seriously engaged in sustainable operations and financing. The coming year brings new challenges and projects, in which we will continue to follow our vision and always put the client first, at the centre of our thinking and action. We will also continue our responsible approach to the environment in which we operate by sponsoring sports, culture and promoting charity.

The digitalisation of banking and internal processes remains one of our main strategic priorities and is indispensable for successful performance in the future. We would like to justify the trust of clients in our solutions. We understand that digitalisation will have a significant impact on the future of the banking system, but at the same time we are aware that personal contact with the client and professional advice will still be important.

We also recognize new challenges and opportunities for the Bank in our contribution to a fair and gradual green transformation of the economy and thus building a sustainable future, by offering balanced financing options based on long-term operational and organizational resilience and sustainability. SKB Bank follows the strategy of the OTP Group, which aims to become a regional leader in financing a fair and gradual transition to a low-carbon economy and thus build a sustainable future by offering balanced sustainability oriented financial products.

In 2021, SKB Bank conducted a survey on the commitment of our employees, for the first time under the auspices of the OTP Group. Based on the results of the research, we prepared a strategy and action plan for achieving new goals, all with the aim of achieving even greater commitment and satisfaction of our employees. We are aware that we will continue to be so successful only with committed and well-trained employees who have a positive attitude towards their work and the company and are at the same time results-oriented and willing to make additional efforts for the common good. To this end, we have also launched a new strategic project "Employer's Brand", within which many activities in the field of employee development will take place.

In our everyday lives, we strive to continue implementing awareness-raising and education activities in terms of social and environmental responsibility. Through development projects and exceptional partnerships, we will develop the bank of the future for our clients and, while encouraging and developing our employees, in order to make sure that we are both the best bank and the best employer. We believe that small steps each of us can take will lead us to great victories in the future as well.



Anita Stojčevska
Chief Executive Officer

III. Report of the Board of Directors and Committees

Report on the work of the Board of Directors in 2021

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

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

Four Committees are functioning within the Board of Directors: the Audit Committee, the Risks Committee, the Remuneration Committee and the Nomination Committee. All four Committees are dealing with the issues under their competences. The Presidents of these Committees regularly report on their work to the Board of Directors. The report of the work of the Board of Directors in 2021 is presented hereinafter.

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

In exercising its powers, the Board of Directors particularly:

- examines the Annual Report and other financial reports of the bank and adopts the Annual Report and the annual report of the Internal Audit Department;
- examines proposal for resolution on the use of balance sheet profit;
- supervises the adequacy of procedures and effectiveness of the Internal Audit Department performance;
- explains to the General Meeting of Shareholders its opinions on the annual report of the Internal Audit Department and opinion on the annual report of the General Management;
- adopts and supervises execution of the general principles of remuneration policies;
- forms the Audit Committee, Risks Committee, Nomination Committee, Remuneration Committee and other committees;
- discuss the findings of the Bank of Slovenia or the European Central Bank (when in accordance with the EU regulation 1024/2013 European Central Bank performs the authorizations and tasks of supervision over the bank), the findings of other bodies when the said findings refer to the bank, findings of the tax inspection and other regulatory bodies when performing supervision of the bank;
- takes note of the compliance report;
- may review the books and documentation of the Bank, its cash transactions, deposited securities and other matters;
- performs other tasks and decides on other matters in accordance with the applicable law.

The Board of Directors gives prior consent to the following business operations and matters of the Bank:

- the conclusion of a transaction that in consideration of the overall exposure of the Bank, including indirect credit exposure, would result in the Bank's exposure to a single party or a group of linked parties which reach or exceed 10 % (ten per cent) of the acceptable capital of the bank from point 71 (b) of the first paragraph of the Article 4 of the EU Regulation 575/2013;
- the 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 5 % (five per cent) of the acceptable capital of the Bank;
- the cancellation of the contract on audit inspection, concluded between the audit company and the Bank, before the termination of the term, agreed in the contract;
- the dismissal of the Chief Risk Officer;
- to the appointment, dismissal and remuneration of the Head of Internal Audit Department;
- plan of activities for Risk management in accordance with the strategies and policies of Risk accepting and managing;
- the 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 EUR 100,000, and for each further transaction whereby the overall exposure of the bank against a single party from all transactions increase for the subsequent EUR 100,000 and the conclusion of a legal transaction with a person in a special relationship with the Bank under conditions that are more favourable than usual provided that objectively justified reasons are given for the conclusion of such a transaction, particularly in the event of the restructuring of a debtor who is a person in a special relationship with the SKB Bank;
- to legal transactions of the Bank with related parties, with members of the Board of Directors or their family members in accordance with the applicable legislation, except for transactions performed in the ordinary course of business and under normal market conditions.

The Board of Directors gives consent to the following business of the Management:

- determination of the business policy of the SKB Bank;
- determination of the financial plan of the SKB Bank;
- determination of the organization of internal controls' system;
- determination of the frame annual program of work for Internal Audit Department.

The Board of Directors may give consent ex-post to a decision taken by the Executive Directors provided such decision is compliant with parent company corporate rules.

In the period from 1. 1. 2021 till 31. 12. 2021, the Board of Directors had seven (7) members, of which four (4) were women and three (3) were men. At its session on 4th May 2021, the SKB General Shareholders was informed about the resignation of one member of the Board of Directors and appointed a new member.

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

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

Within 2021, the work of the Board of Directors was duly organized and performed in compliance with the Rules of procedure of the work of the Board of Directors of SKB banka d.d. Ljubljana. The members of the Board of Directors were on time provided with professionally prepared material enabling an in-depth discussion and professional decision-making.

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

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

The President of the Board of Directors, performed the tasks in line with the Rules of procedure of 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 to enable the Board of Directors to perform accountable and professional decision-making of the Board of Directors.

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

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

The submitted descriptive self-assessment of the work of the Board of Directors and its Committees in 2021 shows that the members of the Board of Directors regularly attended the meetings and actively and professionally participated in the discussions and decision-making of the Board of Directors or its Committees and were thus successfully orienting and supervising the operations of the bank in 2021.

In accordance with the provisions of the Banking Act the Board of Directors started, very early, the discussion about the method of assessment of the suitability of its members and key function holders in the bank as it passed the "Rules of SKB banka d.d. Ljubljana on assessment of suitability of members of the Board of Directors", that had always been prepared in compliance with the technical standards and EBA guidelines.

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

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 2021 of the SKB Group as a whole. This is evident from the report on operations of the bank and SKB Group in 2021, 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 Regulation on Internal Governance Arrangements, the Management body and the Internal Capital Adequacy Assessment Process for Banks and Savings banks, issued by the Bank of Slovenia. According to the Board of Directors, no conflict of interest in the work has been noted, as general measures against conflict of interest were carried out regularly in order to prevent any conflict. In the event of a potential conflict of interest, a member of the Board of Directors withdrew from the discussion and vote on a specific issue.

In 2021, eight (8) regular sessions of the Board of Directors were held. The quorum was met at all sessions, what is also noted in the minutes.

The list of attendees is indicated in the minutes of the sessions of the Board of Directors.

At its sessions held in 2021, the Board of Directors:

- discussed, reviewed and, based on the positive opinion of the independent external auditor Deloitte Revizija d.o.o., passed the Annual Report on SKB Group's operations in 2020 and the Internal Audit Report for 2020;
- convoked the General Meeting of Shareholders where non-distribution of profit and discharge of the members of the Board of Directors were proposed;
- discussed periodical reports on operations and on implementation of business policy in 2021, whereby a special attention was paid to the achievement of the planned commercial objectives, development of the bank and of SKB Group, risk exposure and management of all kinds of risks, management of costs, as well as to strengthening of the position of SKB Bank and SKB Group in the Slovenian banking sector;
- regularly discussed the impact of COVID-19 pandemic and the measures taken by the state on the operations of SKB Bank and SKB Group, as well as the responses taken by the SKB Group to prevent the spread of COVID-19 infection within the SKB Group;
- was regularly informed of the work and decisions of the Audit Committee, Risks Committee, Remuneration Committee and Nomination Committee;
- contributed to the preparation of the material for the above stated Committees in order to achieve a better transparency and easier understanding of more complex topics;
- discussed periodical reports on large exposures, paid special attention to the large exposures of the bank towards certain companies or groups of companies and towards individual sectors and agreed with the bank's strategy towards these companies;
- discussed the report on ICAAP and ILAAP of SKB Group in 2020 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 provisions and impairments;
- discussed and passed the annual report on prevention of money laundering and financing of terrorism in 2020;
- discussed the report on compliance of operations for 2020 and annual action plan for 2021;
- 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 2021 and guidelines for the period 2022 - 2023;
- discussed the regular periodical reports of the Internal Audit Department;
- was informed about the activities of preparation of the Audit Plan for the year 2022, in line with the OTP IAD group timeline, taking into consideration that the Audit Plan 2022 shall be discussed at the first session of the Audit Committee in 2022;
- discussed reports on regular and extraordinary inspections of individual units of the Bank and took note of key findings and recommendations from the performed audits;
- got acquainted with the new methodological documents of Internal Audit, aligned with the OTP Group (SIAS⁵ package);
- was informed and approved the annual assessment of the Nomination Committee that each member of the Board of Directors individually, executive directors combined and non-executive directors combined, as well as the members of the Board of Directors as a whole met the adopted criteria and attained the set objectives;
- was acquainted with the resignation of a member and Deputy President of the Board of Directors;
- appointed the new President and the Deputy President of the Board of Directors;
- confirmed some changes in the members of the individual committees of the Board of Directors;
- appointed a new President of the Risks Committee;
- confirmed credit limits for SKB d.d. towards subsidiaries SKB Leasing in SKB Leasing Select;
- confirmed credit limits for SKB d.d. towards other OTP Group members;
- passed the schedule of the sessions of the Board of Directors and its Committees for the year 2021;
- accepted the changes and additions to the Rules of procedure regulating the work of the Executive Directors (General Management) of SKB banka d.d. Ljubljana;
- was acquainted with the departure of the Chief anti-money laundering officer and the appointment of a new one;
- was acquainted with the appointment of Chief compliance officer;

⁵ SIAS – Standardised International Audit System

- adopted a training plan for 2021 for the members of the Board of Directors;
- noted and adopted various reports in accordance with the regulations;
- was acquainted with SKB Group recovery plan;
- was acquainted with ESG strategic guidelines of SKB Group;
- was acquainted regarding the progress on the program for organic growth of the bank in the coming years (ROBIN program) and confirmed it;
- was acquainted with the Rules for the performance measurement and assessment system for the SKB Group;
- was acquainted with the personal area for 2021 (in accordance with the Remuneration Policy of the SKB Group, the term personal scope refers to persons / employees whose professional activities significantly affect the risk profile of institutions);
- was acquainted with the information on contracts amounting over EUR 200,000, which were signed in accordance with the Rules by the Bank's General Management in 2021;
- approved the KPI library;
- got acquainted with all other information as submitted, and
- was also informed that SKB Bank had received for the tenth time The Banker magazine's award for the Best bank of the year in Slovenia in 2021.

The business environment in 2021 changed significantly compared to the previous years. Due to the continuation of various restrictions in the economy and society as a whole due to COVID-19, work in the SKB Group and in the country as a whole has changed significantly. SKB Bank constantly adapted and complied with all the measures taken.

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

The policy of timely and prudent measures with regard to the changing conditions on the market, in the banking sector and in the economy as a whole, orientation towards clients, diligent control over operating costs and risks enabled SKB Group to attain a very good business result in 2021.

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 SKB 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 36th General Meeting of Shareholders of SKB banka d.d. Ljubljana, held on 4th May 2021.

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

SKB Group pays a lot of attention to innovation, commitment, responsibility and team spirit, as well as to the business ethics. These are the values that are implemented in practice in our everyday work. In this respect, all the members of the Board of Directors of SKB d.d. also have adequate education level and experience in various fields of operations, in finance or in banking operations in particular, as well as the know-how related to operations in companies and they perform their work conscientiously and professionally, in compliance with the highest ethical standards.

The Board of Directors estimates that cooperation with the General Management of the bank was carried out on a highly professional level and was constantly oriented towards a common goal - successful and secure operations of the SKB Bank and SKB Group in the strained economic conditions, what is reflected in very good business results of the SKB Bank and SKB Group as a whole. The Board of Directors congratulates the General Management of the SKB Bank and all its employees for the achieved results in 2021.

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

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



Imre Bertalan
President of the Board of Directors

Report on the work of the Audit Committee

The responsibilities of the Audit Committee are above all:

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

The Audit Committee functioned within the frame of the Board of Directors and assembled in 2021 at seven (7) regular sessions.

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

At its sessions in 2021 the Audit Committee above all:

- discussed the report on SKB Group's operations in 2020 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 2020;
- discussed draft report on the work of the Internal Audit in the year 2020;
- approved the regular annual Audit plan for 2021;
- regularly discussed periodic reports of the Internal Audit regarding their work, including reports on follow up of Internal Audit department recommendations;
- discussed the reports on implementation of Internal Controls that include, above all, the following segments of the bank's operations: operational risk management (including the presentation and analysis of operational losses and corrective measures, monitoring key risk indicators (KRI), monitoring of all RCSA action plans and presentation of scenario analysis - SA); IT security, security mechanisms for persons and equipment of the bank, bank's Business Continuity Management (BCM) and crisis management;
- regularly discussed and gave a special attention to compliance, prevention of money laundering and terrorist financing, and was regularly informed regarding the upgrade of SIRON tool and its implementation;
- regularly discussed tax risks and also major legal risks, introduction of new products, operations with essential external partners (EOS), risks related to human resources and other topics;
- was regularly informed about the management of risks associated with COVID-19;
- received information on the foreseen changes to the methodological documents of the Internal Audit (SIAS package);
- received information on plans for the preparation of the audit of financial statements for 2021,
- discussed and approved the proposal for the appointment of the external auditor of SKB Bank for the financial years 2021, 2022 and 2023;
- gave the approval to the external auditor Deloitte to carry out a review of the compliance of the SISBON and SISBIZ information systems;
- took note of the audit plan for the financial statements for 2020 and the audit strategy for the review of the financial year 2021 by the external auditor Ernst & Young Svetovanje d.o.o.;
- was informed about the departure of the Chief anti-money laundering officer and the appointment of a new one;
- took note of various reporting in accordance with the regulation;
- performed other tasks in accordance 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, the Audit Committee significantly contributed to the efficient work of the Board of Directors.



Draga Cukjati
President of the Audit Committee

Report on the work of the Risk Committee

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

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

The Risk Committee, which has three members, is a Committee of the Board of Directors, which met on five (5) regular sessions in 2021, two (2) sessions were chaired by Mr. Tamás Kamarási and three (3) sessions were chaired by Mr. Attila Kovács. Due to the resignation of Tamás Kamarási as a member of the Board of Directors, the SKB General Assembly appointed Attila Kovács as a new member of the Board of Directors at its session on 4th May 2021. On 31st May 2021, the Board of Directors appointed him to be the Chairman of the Risk Committee.

The quorum was met at all sessions, as indicated in the minutes of the sessions. In case of an absent member the latter authorized another member of the Board of Directors to represent and vote on his behalf at the session of the Committee. On some sessions also, other members of the Board of Directors were present, which contributed to even better acknowledgment of the implementation of the risk policy in SKB Bank.

At its sessions the Risks Committee discussed above all:

- report on the work of the Risks Committee in 2020;
- periodic reports on credit risk, with emphasis on the macroeconomic situation and the SKB Bank's exposure to various risks and risk management;
- work plan of the Risks Committee in 2021;
- 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;
- periodic reports on nonperforming loans and nonperforming exposures;
- activities in the bank related to risk management, including the volume of formed provisions and impairments, periodic reports on large exposure of the bank towards persons being in a special relationship with the bank;
- preparation and follow-up on Risk Appetite Framework and Risk Appetite Statement in SKB Group;
- review of structural risks;
- policy on Internal Governance in SKB Group;
- changes in the credit policy;
- limits proposals within the Group;
- other matters in accordance with the Statute of the bank and resolutions passed by the Board of Directors.



Attila Kovács
President of the Risks Committee

Report on the work of the Remuneration Committee in 2021

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

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

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

The Remuneration Committee has three (3) members and met four (4) times in 2021. The quorum was met at all sessions. The presence of individual members is evident from the minutes of the Committee sessions. In addition, several direct interviews were held between the members of the Committee and the Bank's General Management.

At its sessions in 2021, the Remuneration Committee discussed above all:

- a report on the work of the Remuneration Committee in 2020;
- work plan of the Remuneration Committee for 2021;
- reports on the balance of loans and the total exposure of employees in SKB Group;
- SKB Group's Remuneration policy;
- credit exposures of Executive directors;
- distribution and deferred payments of the variable part of the remuneration (annual performance bonus) for 2020;
- the internal audit report on the review of the adequacy and application of the rules of the Remuneration System for 2020;
- changes in FURS practice regarding social security contributions;
- confirmation of the personal scope for 2021;
- change in the remuneration of identified staff;
- approval of the KPI library for 2021;
- Rules of Performance Measurement and assessment system.

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



Dr. Miklós Németh
President of the Remuneration Committee

Report on the work of the Nomination Committee in 2021

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

In 2021 the Nomination Committee, with three (3) members, had two (2) sessions where all the Committee members were present and at which they discussed:

- the report on work of the Nomination Committee in 2020;
- work plan of the Nomination Committee in 2021;
- the annual assessment of the members of the Board of Directors in accordance with the Policy for assessment and selection of suitable candidates for appointment of members of the Board of Directors of SKB banka d.d. Ljubljana and Rules of SKB banka d.d. Ljubljana on assessment of suitability of members of the Board of Directors;
- training plan for the year 2021 for the members of the Board of Directors;
- the assessment of the proposed candidate for the member of the Board of Directors in accordance with the Policy for assessment and selection of suitable candidates for appointment of members of the Board of Directors of SKB banka d.d. Ljubljana and Rules of SKB banka d.d. Ljubljana on assessment of suitability of members of the Board of Directors.

The members of the Committee also had several interviews with the Bank's General Management, which also made a positive contribution to the work of both the Committee and the Board of Directors.

The Board of Directors, has seven (7) members, four (4) women and three (3) men, consists of members of different ages, different profiles of education and work experience, which enables and ensures constructive and critical assessment of the Bank's General Management decisions and effective supervision.

In 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 separately and separately for the newly proposed member of the Board of Directors. In addition, the assessment was made separately for the Executive members 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 Committee found that the structure of the members of the Board of Directors, in terms of education, age, gender, experience, professionalism and ability to work in areas within the competence of the Board of Directors, is appropriate and ensures successful work and fulfilment of set objectives, which are above all, the safe, stable and successful operations of the bank and maintaining its reputation in the environment in which it operates.

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

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

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

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



Anna Mitkova Florova
President of the Nomination Committee

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

The Board of Directors received in January 2022 draft report on the work of the Board of Directors and its Committees in 2021. 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 17th session, held on 20th January 2022 and approved them.

On 24th March 2022 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 2021.

The report on operations in 2021 shows that both SKB Group and SKB Bank performed well, as SKB Group registered a net profit of EUR 46,008,320.92 and SKB Bank a net profit of EUR 50,733,282.74, whereby the distributable net profit of SKB Bank amounts to EUR 226,817,750.24.

The report on operations of SKB d.d. and SKB Group in 2021 with financial statements and attachments was examined by the auditing company Ernst & Young d.o.o., which performed the audit in accordance with international accounting and audit standards. The auditor issued a positive opinion on financial statements and on the Annual Report.

On 29th March 2022, 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 2021.

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

At its 18th regular session held on 31st March 2022, the Board of Directors discussed the audited Annual Report which was audited by the auditing company Ernst & Young d.o.o. The Board of Directors has established that the Annual Report of SKB Group shows comprehensive contents of operations of SKB Bank and SKB Group in 2021 and thus completes all previous information already submitted to the Board of Directors during the business year and had no remarks. The Board of Directors believes that the General Management of the SKB Bank and the Board of Directors met all the legal requirements in the Annual Report for 2021 and has adopted Annual Report of SKB Group for 2021.

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 37th session of the General Meeting of Shareholders that will be held on 12th May 2022. Distributable net profit for the year 2021 is in the total amount EUR 226,817,750.24, with a net profit for the year 2021 in amount EUR 50,733,282.74. Distributable net profit will not be distributed to shareholders and remains till further notice unallocated. With the date of shareholders meeting net profit is transferred from net profit of business year 2021 into retained earnings. The Board of Directors fully agrees with the proposal of the General Management and proposes to the General Meeting not to distribute the net profit of SKB Bank generated in 2021.

The Board of Directors establishes that in 2021 the economic situation was rather strained and complex also due to COVID-19. The liquidity in the SKB Bank, as well as in the entire banking system, was high and demand and investment rather limited, what caused a strong competition among the banks and consequently a decrease of interest rate and interest margin, too.

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

In 2021, the SKB Group has therefore intensified even more its activities leading to restructuring and optimization of operational processes, digitalization, reduction of costs and at the same time the activities for the growth of the volume of operations, increase of income and reduction of all types of risks in the bank. Due to the Covid situation, SKB Group took preventive measures for the protection and safety of employees and customers.

The quick response to the mentioned conditions in the economy and on the market and management of operational costs of the SKB Bank in 2021 have led to a good business result, whereby the main contribution consisted above all in a successful commercial activity, consistent implementation of risk management policy and adequate formation of provisions and impairments, operating costs management and endeavour of the employees to achieve the set goals.

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

The Board of Directors expresses it's thanks to the General Management and to all the employees of SKB Bank and SKB Group for the achieved results.

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



Imre Bertalan
President of the Board of Directors

IV. SKB Group strategy

At SKB Bank, we have set the strategy that will continue to lead us in the direction of achieving the set goals on several pillars which provide support to the Slovenian economy and the environment in which we operate. SKB Bank thus has a clear strategy of development projects that accelerate digitalization and continuously improve the user experience in all segments.

We are aware that we will continue to be successful only with committed employees who have a positive attitude towards their work and the company and are results-oriented and willing to do an extra mile for the common good. To this end, we regularly invest in the training and education of employees, and we have also launched a new strategic project "Employer's Brand", which will include many activities in the field of employee development.

Through its products, its own operations, and the promotion of financing environmentally and socially sustainable projects, SKB Bank also has goals in its strategy in the field of long-term sustainable orientation. We are aware that banks can make an important contribution to the green transformation of the economy.

Given the stable and carefully selected portfolio of clients, we expect extremely successful performance in the future. By cautiously accepting risks, we support the right individuals, companies, and projects. We are facing several challenges brought by further consolidation within the Slovenian banking system. We look forward to the challenges, as we believe that through challenges we are only getting better, sharpened with even more experience and know-how.

Following development dynamics, trends, and changes in banking

For several years now, banking has been accompanied by constant changes, the dynamics of development and growing and diverse clients' needs. We are aware of how important it is that as a bank, we are available to our clients anytime, anywhere and in an easy and fast way. Our strategy of following development is thus focused on accepting ever new challenges and ensuring that we offer our clients state-of-the-art solutions and follow trends, but at the same time ensure a high level of business security.

Digitalization as a response to the bank of the future

At SKB Bank, we continue to develop and upgrade digital channels. We carry out the development of our digital channels in accordance with laws, regulations, and directives, and we also place great emphasis on the security aspect of digital business. We provide our clients with a high level of security and discretion in the management of personal and corporate finances, as well as the constant availability of all the SKB Bank's channels, whenever and wherever the client needs us. We thus pursue our goal – to remain or become the first choice of every client.

Balanced business model and goal orientation

SKB Bank's balanced business model means finding and operating synergies between SKB Bank, SKB Leasing and SKB Leasing Select, as well as selected insurance companies and other business partners of the SKB Bank. With products and services located in a wide range of banking and insurance products of the SKB Group, we can meet all the financing and investment needs of our clients. For each segment of our clients, we have specially designed sales approaches and appropriate sales staff, and we are also strengthening our range of various development and commercial projects, which further expand our offer to more and more diverse segments. As a result, in 2021 we expanded our offer of products and service to a completely new field for us, the agri segment and the financing of real estate projects.

At SKB Leasing, we also keep pace with the swiftly changing market conditions and provide our customers with new financing solutions. At the end of 2021, we developed a new form of financing, Instant Credit, which enables quick purchases of smaller values at the dealer's point of sale, where the contract documentation is signed. With favourable financing terms, customers can obtain up to EUR 8,000 in credit for the purchase of new or used vehicles, motorcycles and bicycles, servicing and tyres, vehicle accessories, tools and small machinery. The conditions for credit approval are simple and less demanding, and the approval process with selected business partners is simplified, with the minimum documentation required. The instant credit is intended for natural persons over 18 years of age.

Profitable growth

A client-centric approach puts clients at the heart of our world. We want to bring our solutions and opportunities closer to our clients for many financial situations - from everyday banking needs to investment advisory services. The development of digital technologies that will enable the growth of clients and revenues will continue to significantly strengthen our capital position and sustainable capital creation in the coming years. We will continue to succeed in achieving long-term return on capital by generating adequate revenues and by strictly controlling general administrative and other operating costs and by continuing prudent risk management. Our ambition is to offer clients the best digital solutions on the market and to be a role model as a bank with high quality and innovative products and services, which in addition to its operation and strengthening its profits also cares about the environment in which it operates.

Quality of service comes first

Clients recognize us as a stable and trustworthy brand, which is largely influenced by our diverse range of products and services based on providing quality to our clients. At the same time, we are aware of the paramount importance of professional training and advice to clients provided by our employees. Despite digitalization and the growing volume of remote operations, our clients will meet highly qualified, professional and responsive employees in SKB branches throughout Slovenia who will always try to find the best financial solution and opportunity.

Development of technology for even more efficient business

SKB Bank is a development-oriented universal bank that provides comprehensive and diverse banking services through various sales channels, including 48 branches across Slovenia, and through modern banking channels – online and mobile banking, a network of 82 state-of-the-art ATMs in the country, payment and credit cards. The Bank's further development is based on the accelerated and complete digitalization and optimization of most business processes.

In a world of constantly increasing client expectations regarding the digitalisation of traditional banking, SKB Bank has responded to the rapidly changing banking environment and the growing needs of clients by improving its digital and other banking products and services. SKB has improved its operational efficiency by gradually transforming and digitizing processes by implementing the BPM (Business Process Management) tool together with the Document Management System (DMS):

- to establish a business relationship with a client and open accounts for individuals;
- implementation of KYC knowledge and regular client reviews;
- and the procedure for granting retail loans and loans to micro and small enterprises.

SKB Bank is tackling development projects according to an agile methodology, which will enable efficient and as quick implementation. For the SKB Group, the technological development represents a new opportunity to respond to changes regarding the use of banking services and building the bank of the future. We will thus offer modern services to clients looking for simple, fast and high-quality banking products.

Risk awareness and compliance of operations

The SKB Group has always been conservative in its prudent risk-taking, which has proven to be extremely effective and strategic during the COVID-19 crisis. In the future, SKB Bank will continue to be careful in monitoring all types of risks, especially operational and in terms of responsiveness to possible deterioration of clients' financial position through appropriate provisioning or impairments.

Prudent risk management is one of the main functions of the SKB Bank, so the changed strategies of banks and trends in the environment are strongly reflected in the adjustment of investment decisions, investment monitoring and the structure of the investment portfolio. Creating a classification of investments according to environmental impacts represents the initial stage of the approach to supporting financing and transforming investments into more environmentally friendly projects.

However, the SKB Group remains firmly committed to meeting strict regulatory requirements, in particular in the protection of client data and all other aspects of security, as well as in the areas of various reports, stress testing and risk and capital management.

High level of capital adequacy

Our high priority is also to ensure long-term and sustainable profitability, as we operate in an environment of very low interest rates, strong competition, and current liquidity is at a high level. With the prevailing universal business model of banking, in a relatively small market, despite the gradual consolidation of the banking system, the long-term sustainability of profitability is being tested. At SKB Bank, we will continue to strive and pay attention to capital management in order to carefully manage and comply with capital requirements.

Professionalism, dedication, and commitment of employees

With the Employee Development Strategy Program, we want to enable our employees to exceed their own goals and boundaries and contribute to their expertise, thus ensuring a high level of sustainable quality management of our services. We will also ensure that the conduct of our employees in the future will be socially responsible, ethical and professional. We are aware that ambitious goals can be achieved through teamwork and committed employees who have a positive attitude towards their work and the company, who are results-oriented and willing to do the extra mile for the common good. We want to continue to build on the attitude towards employees who are satisfied with their work and work environment. We will all contribute to the strong employer brand, as we believe that everything we feel and do together within the company is perceived and seen by the outside public. In 2021, a survey of employee engagement was conducted at the level of the OTP Group, where we identified a number of good starting points for further development. Entire staff will participate in strengthening of the SKB Bank brand as we believe that all what we feel and do is recognised by the external public.

Care for local environment

In the coming years, SKB Bank is setting ambitious goals in the field of relations: primarily to clients and employees, and also to the entire environment, to which it wants to return a part of what it selflessly always gives us. Thus, one of the pillars of our business strategy in the future is the strengthening of social responsibility and sustainable development. We are aware of how important it is that the environment in which we work and do business successfully is also successful and pleasant, so we set goals to be even more sustainably oriented in the future. With customized products, our own actions, and the promotion of financing environmentally and socially sustainable projects, we will achieve a positive response from clients, with a high level of awareness of the importance of long-term sustainable orientation in transforming business models and ensuring long-term survival and success in new circumstances. We continue to believe that with our support we can motivate and encourage our employees, clients, business partners, Olympians and also entire social environment.

V. Business report

1. Economic trends in the year 2021⁶

After a sharp decline in economic activity in 2020, its recovery is expected in 2021. In Autumn Forecast, the Institute of macroeconomic analysis and development of the Republic of Slovenia (IMAD) forecasts a 6.1 % growth in gross domestic product (GDP) for 2021 and estimates that the economic growth will focus mainly on activities related to international trade, investments and imports and exports. With the gradual release of containment measures and the redemption of tourist vouchers, the growth of service activities is also expected. Economic activity is expected to exceed 2019 pre-crisis levels already in 2021, in part due to the retention of certain measures to mitigate the consequences of the epidemic. The economic recovery is expected to remain differentiated across sectors. With the gradual recovery in foreign demand in 2021, IMAD expects high growth in export (10.9 %) and import (12.6 %). The high forecast of growth in 2021 is related to the recovery in economic activity in Slovenia's main trading partners. However, the recovery of vehicle exports is expected to be slower. It is significantly affected by supply chain disruptions and structural changes, mainly related to climate change adaptation. The recovery in exports of services was gradual in 2021, and most major groups of activities, with the exception of travel, is expected to exceed pre-epidemic levels. Imports of goods and services is expected to grow slightly faster than exports, which is linked to increased domestic consumption, especially investment growth, and also to its sharp decline last year.

Private consumption growth is expected to be relatively high this year (5.5 %), beside still high level of savings, but it is expected to not be fully compensated for the last year's decline.

Growth in government consumption is expected to gradually slow down (1.8 %). Government consumption in 2021 continued to increase under the influence of expenditure to contain the epidemic, especially in the health sector (equipment, tests, vaccines, etc.). This leads to an increase in the expenditure on goods and services. Social transfers in kind, which fell in 2020 due to cuts in some epidemic related expenditure (school meals, travel subsidies, etc.), also increased in 2021.

Investment activity increased in 2021 (10.0 %). Growth was stronger in investment in equipment and machinery, mainly in private investment, as firms expanded their production capacity following the recovery in demand. On the other hand, construction investment is stagnating, which IMAD attributes to high prices and material supply disruptions, but an increase in construction investment is expected anyway, as the state is expected to significantly increase investment in railway infrastructure and environmental projects. Government – but also private sector – investments are expected, at the same time, also to be supported by resources from the Recovery and Resilience Facility. In the private sector, stimulating investment activity is also affected by low indebtedness. IMAD also expects growth in residential investment as demand for residential property remains at a high level.

The labour market situation has improved in 2021, while limitations related to labour shortage are becoming an even more pressing problem. The negative effects of the coronavirus crisis on the labour market continue to be mitigated by government measures. The number of registered unemployed is expected to reach 75.4 thousand at the end of 2021, which is 11.3 % less than at the end of the previous year. Estimated real unemployment rate according to ILO amounted to 4.7 %.

The growth in the statistically recorded average gross wage (estimated real growth rate of 4.3 %) in 2021 was marked significantly by intervention job-retention measures in connection with the methodology for calculating the average wage and by the payment of various allowances related to the declaration of the epidemic. Growth in the private sector was, in addition to a higher minimum wage and labour shortage pressures, mainly a consequence of the dynamics of the return to employment of workers participating in the job-retention measures. In the public sector, the trend was affected by the dynamics of payment of allowances.

Inflation at the annual level reached 4.9 % in 2021. The largest upward impact (1.3 percentage points; p.p.) on the annual inflation in 2021 was made by higher prices of petroleum products (diesel prices increased by 34.5 %, petrol prices by 31.8 % and liquid fuels prices by 13.7 %). Prices of food went up by 4.0 % and had an impact of 0.6 p.p. on annual inflation, while 0.5 p.p. was added by higher prices of heat energy (by 70.9 %). 0.4 p.p. of upward impact on inflation was the result of higher prices of services in restaurants and hotels (by 6.1 %), clothing and footwear (by 5.9 %), and furnishings, household equipment and routine household maintenance (by 5.7 %). 0.3 p.p. was contributed by each higher prices of new motor cars (by 8.0 %), and products and services in the group recreation and culture (by 3.4 %). The largest downward impacts (by 0.2 p.p. in each group) were that of lower prices of private insurance connected with health (by 12.7 %), and of telephone and telefax services (by 3.9 %).

According to the estimation of the Ministry of Finance, the government deficit in the year 2021 amounted to EUR -3,754 million or -7.5 % GDP and the consolidated government debt to EUR 39,538 million or 78.5 % GDP.

⁶ Source: IMAD (Autumn forecast of economic trends 2021, September 2021), SORS (October Excessive Deficit Procedure Report, 2017–2020, forecast 2021, October 2021; Consumer price indices, Slovenia, December 2021)

Important macroeconomic indicators for Slovenia in the period from 2019 - 2021

Real growth rates in %, unless otherwise indicated	2021*	2020	2019
GDP	6.1	-4.2	3.3
GDP per capita in EUR	23,897	22,312	23,167
Inflation (end of year)	4.9	-1.1	1.8
Final consumption	4.5	-3.8	4.1
Investments	10.0	-8.2	5.5
Unemployment rate (ILO)	4.7	5.0	4.5
Export	10.9	-8.2	4.5
Import	12.6	-9.6	4.7
Gross wage per employee	4.3	5.9	2.7
Government deficit (% GDP)	-7.5	-7.7	0.4
Government debt (% GDP)	78.5	79.8	65.6

* estimated data, except inflation

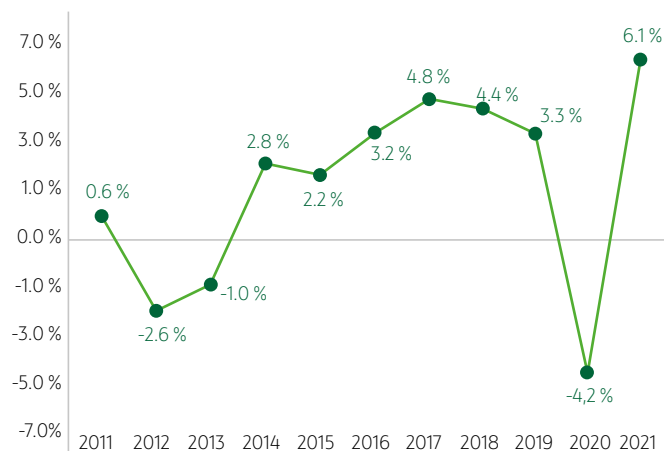
Source: IMAD, SORS

At the end of December 2021, the total assets of the entire banking system in Slovenia based on preliminary data amounted to EUR 48.3 billion (95.8 % GDP), being EUR 3.6 billion (8.1 %) higher than at the end of December 2020. On the assets side, the balances on accounts with central bank increased significantly, a part as consequence of high liquidity of banking sector, the lending to the non-banking sector increase as well. The revival of economy influenced the increase in corporate lending, while individuals increased investments into housing loans, on the other side the volume of consumer loans continues to decrease. The volume of local government loans also decreased. The evolution of loans in 2021 was still marked by pandemic, but market was more vibrant than in 2020. On the liabilities side, deposits of non-banking sector increased significantly, followed by liabilities toward ECB, and debt securities. Loan to deposit ratio in 2021 decreased to 67.3 % from 68.7 % at the end of 2020.

Net release of impairments and provisions in 2021 had positive effect on financial results of Slovenian banks, due to more favourable market conditions than in 2020. On the revenue side, non-interest income increased in 2021 while net interest income decreased in second consecutive year, and net income from financial instruments as well in 2021. Operating expenses remained on the level of 2020. Despite operating in difficult situation, operating profit of banking system increased in 2021 and based on preliminary data the banking system recorded a net profit in the amount of EUR⁷ 527.3 million, which is for EUR 76.9 million higher compared to previous year.

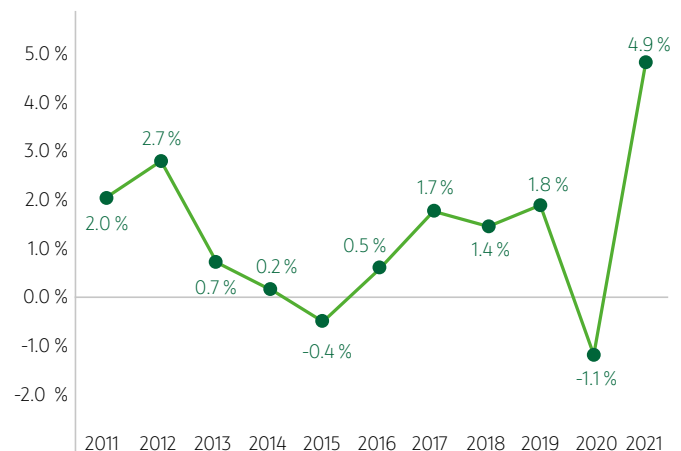
Strong recovery of economic activity in 2021

Real GDP growth



High inflation in 2021

Inflation (annual growth rate)



⁷Unaudited financial results

2. Financial review of the SKB Group

2.1. Business results of the SKB Group

SKB Group, composed of SKB Bank, SKB Leasing and SKB Leasing Select, owned by the Hungarian OTP Group, successfully concluded the financial year 2021. It achieved a net profit of EUR 46 million, by EUR 11.2 million higher than in the year before. The return on equity reached 10.9 %, presenting 181 basis points more compared to 2020. The achieved return on equity places SKB Group among the most profitable in its business in Slovenia. Better business results are largely due to the general economic recovery following the COVID-19 epidemic, which favourably affected the reduction of costs of risk as well as the increased volume of business with customers.

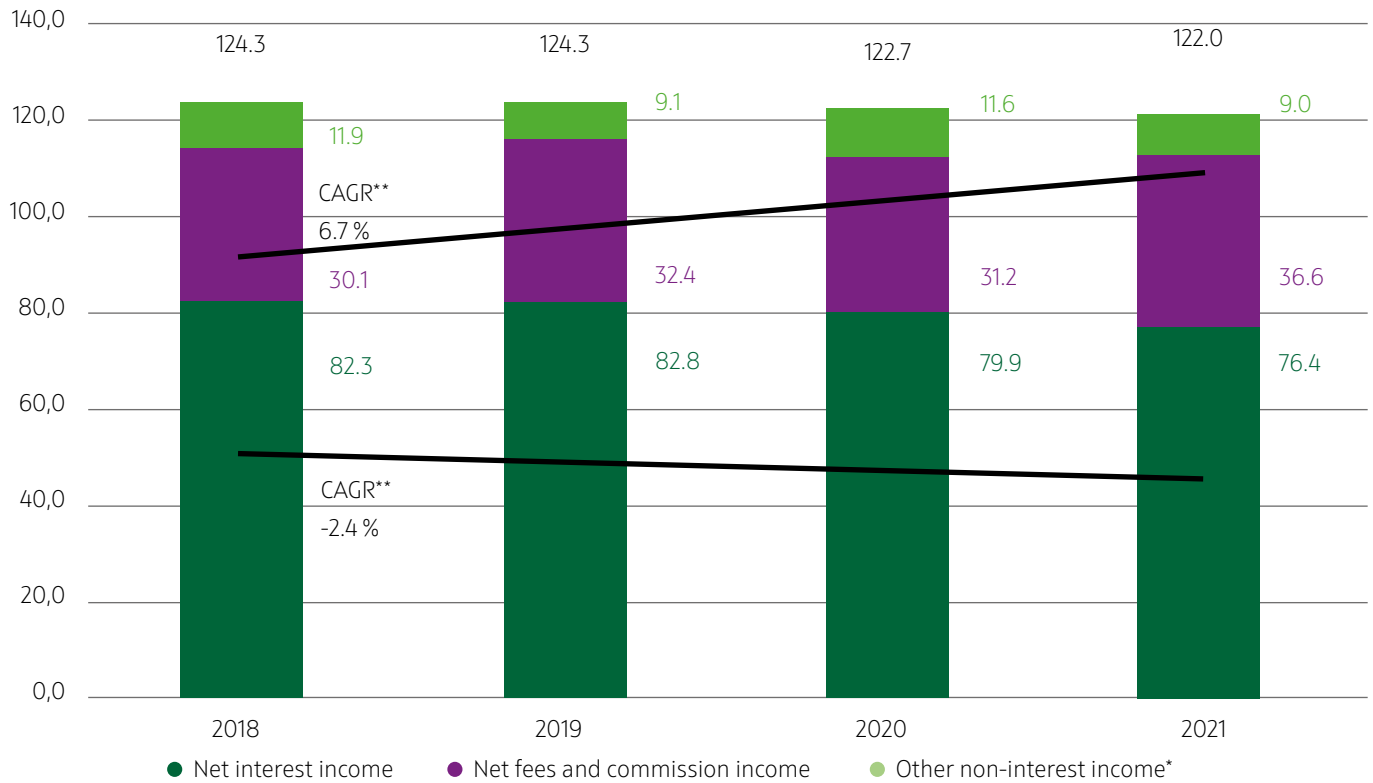
EUR 000	2021	2020	Difference	Change (%)
Net interest income	76,416	79,895	(3,479)	(4.4)
Net non-interest income	45,575	42,782	2,793	6.5
Net banking income	121,991	122,677	(686)	(0.6)
Overhead expenses	(66,365)	(62,216)	(4,149)	6.7
Operating profit	55,626	60,461	(4,835)	(8.0)
Provisions and impairments	1,134	(18,509)	19,643	
Other	(41)	(12)	(29)	241.7
Profit before tax	56,719	41,940	14,779	35.2
Tax	(10,711)	(7,090)	(3,621)	51.1
Net profit	46,008	34,850	11,158	32.0

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



The Slovenian banking sector continues to be affected by high excess liquidity, which burdens banks' business results. At the same time, the economic conditions are relatively favourable, reflecting in increased lending activity of banks. Therefore, on the one hand banks face high costs of excess liquid assets, while on the other hand the competitive pressure on loan interest rates is increasing. Net fees and commissions income strengthened with the revival of the economy. In such circumstances SKB Group generated EUR 122 million of net banking income, a comparable result with one achieved in the year before (minimal decrease of 0.6 %).

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



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

**CAGR: Compound Annual Growth Rate

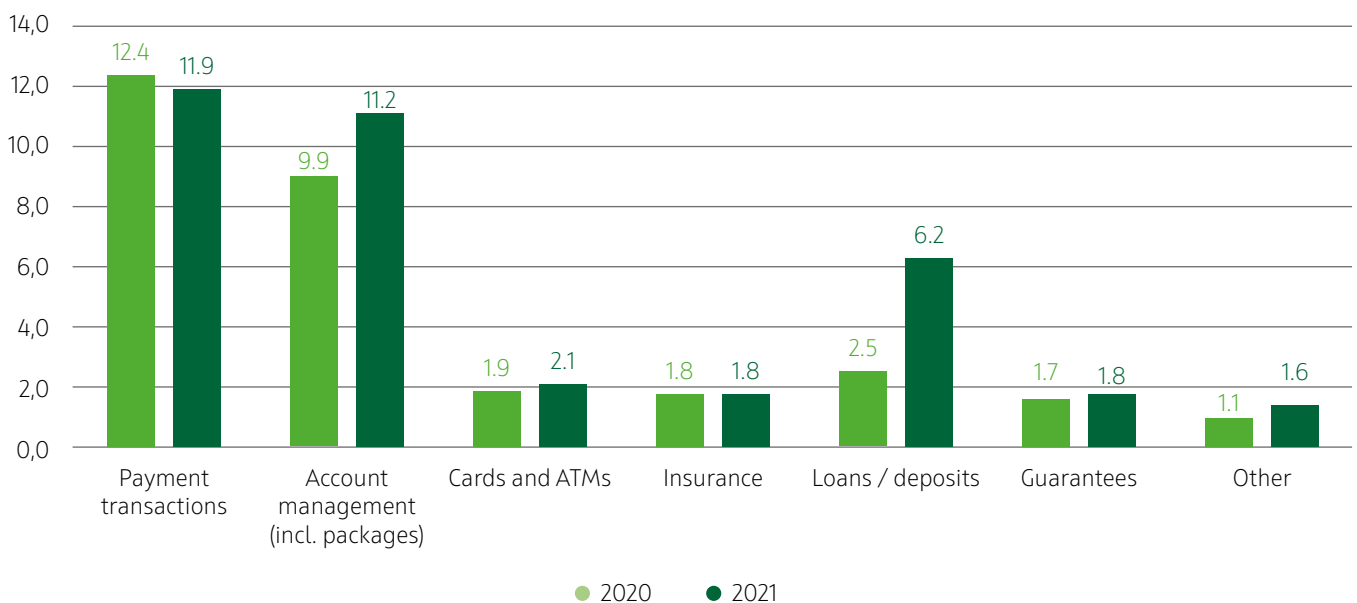
Despite increased lending, net interest income decreased for a second consecutive year (lower by 4.4 %). Loan growth favourably influenced the movement of net interest income, however, the negative effect of decreasing interest rates prevailed. At the same time, SKB Group optimized its assets and sources of funding by redirecting part of excess liquidity to short-term placements with the parent OTP Group, while early repaying almost all interbank loans. Nevertheless, the interest margin decreased by 20 basis points to 2.05 %. Despite this decrease, the interest margin of SKB Bank remained above the average of the Slovenian banking sector.

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



SKB Group managed to compensate the decrease of net interest income by increasing fees and commissions net income by 17.2 %. With the aim of even greater customer satisfaction and easier access to banking services SKB Group upgraded some of its existing products and sales channels with new functionalities and expanded its offer in 2021. The Group placed great emphasis on increasing the security of digital banking. It updated its entire ATM network and expanded Flik, a novelty for payments at the point of sale introduced last year, to most SKB POS-terminals. The Group also introduced a specialized offer for customers of the AGRO segment. By introducing safekeeping fees for deposits, it tried to redirect increased customer savings, especially households' savings, to alternative investments in Amundi and Moorea funds.

Elements of SKB Group's net fees and commission income (in million EUR)

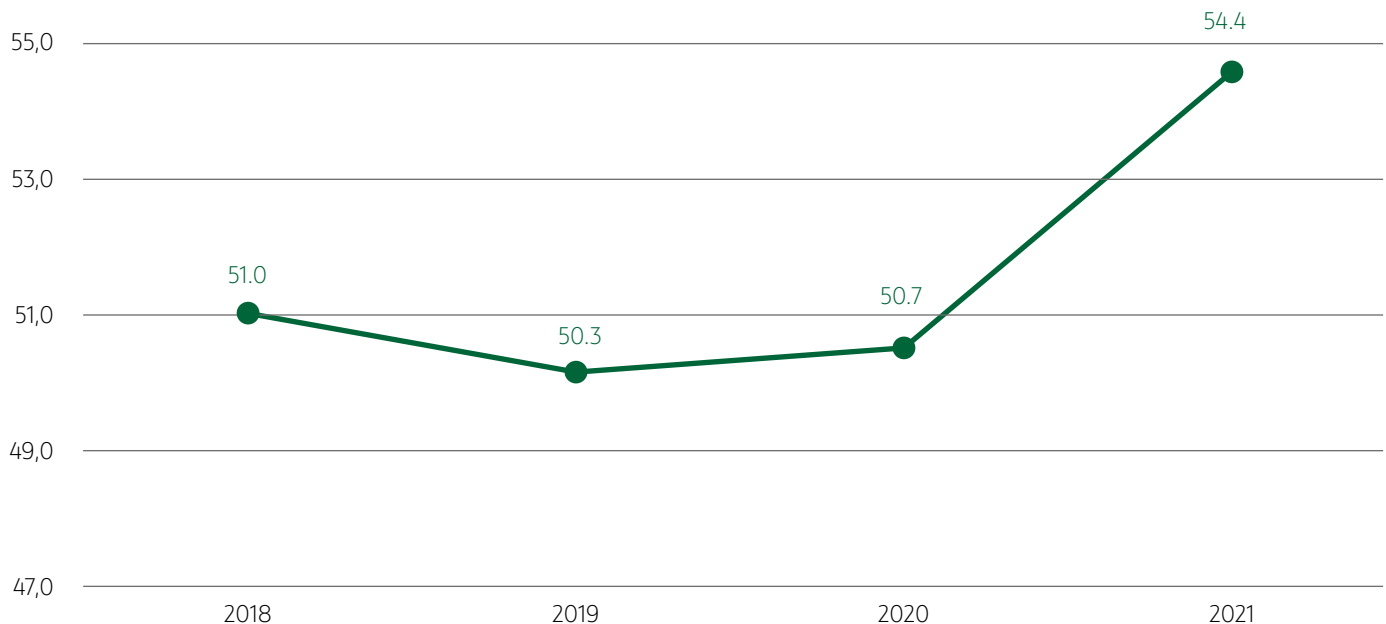


Payment transactions and bank account management remain the largest generators of net fees and commissions income. Because SKB Group is gradually transferring to package account management, which, in addition to the account management, includes also other banking services under one price, SKB Group recorded in 2021 a decline in revenues from payment transactions, but in reality, this is only a redistribution of revenues between products. Lending activity increased significantly in 2021. Due to low interest rates early repayments of old loans also took place. All this, together with the introduction of safekeeping fees for deposits, increased net fees from loan/deposit operations.

Other net non-interest income from financial and non-financial assets and liabilities and other activities has been very volatile in the past few years. It is significantly affected by valuations of equity investments and loans measured at fair value held for sale; in 2021 SKB Group generated EUR 2.6 million income less from this account than a year ago.

Overhead expenses of SKB Group increased by EUR 4.1 million (6.7 %) in 2021. Higher staff costs and higher costs of services, a result of increased workload on very important projects for SKB Group in the field of digitalisation and business automation, contributed most to higher overhead expenses. Each year overhead expenses are additionally burdened by significantly higher costs of regulators and legislatures.

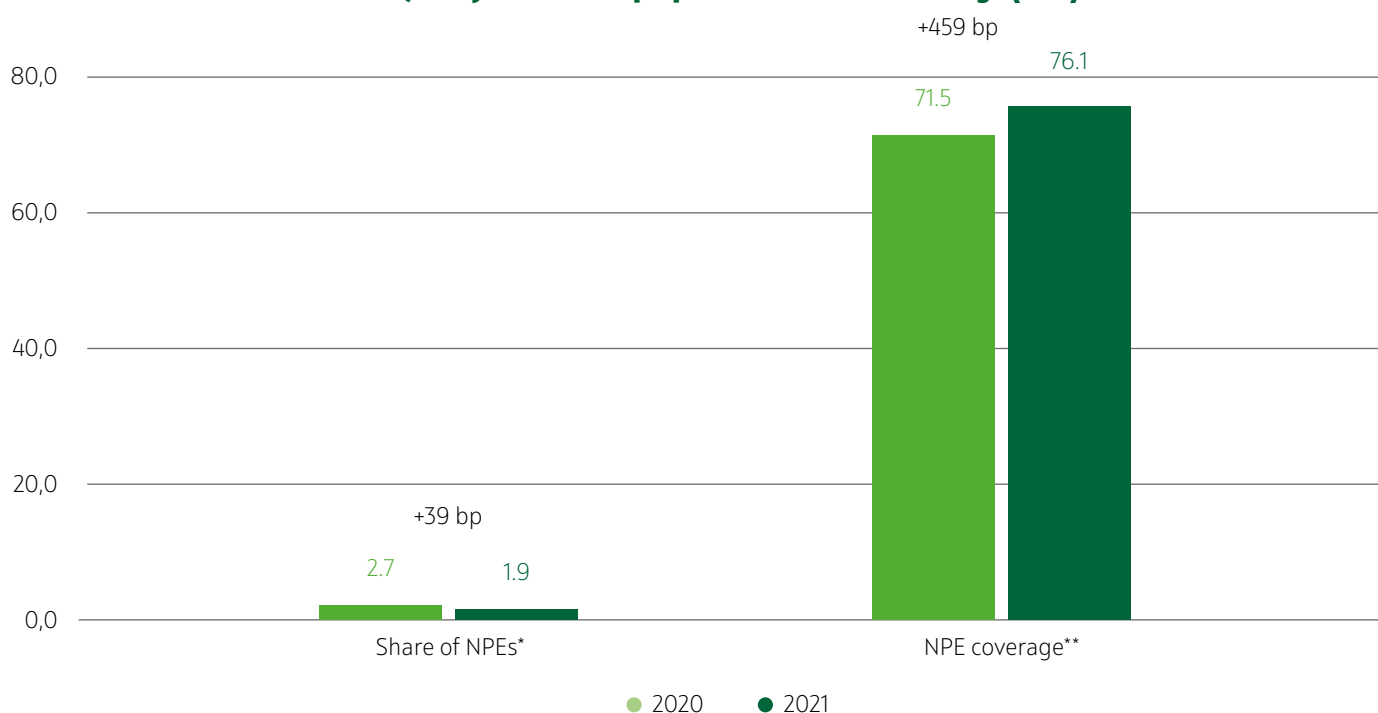
Cost to income ratio of SKB Group (in %)



Cost efficiency of SKB Group slightly deteriorated in 2021, since the cost to income ratio increased from 50.7 % to 54.4 % in 2021. Nevertheless, compared to the average of the Slovenian banks in 2021, SKB Bank remained more cost efficient.

Like the year before, in 2021 the volume of impairments and provisions significantly, but this time positively, affected the result of SKB Group. Favourable economic developments, signifying a gradual economic recovery after an uncertain period of the epidemic, affected the release of impairments and provisions. Last year's expected deterioration of the loan portfolio did not materialize in 2021. SKB Group's share of non-performing exposures was 1.9 % in 2021 and decreased by 76 basis points. In 2021, SKB Group increased the provision coverage of non-performing exposures by 459 basis points (from 71.5 % in 2020 to 76.1 % in 2021). The quality of SKB Group's portfolio remains good.

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



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

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

2.2. Financial position of SKB Group: revival of lending activity

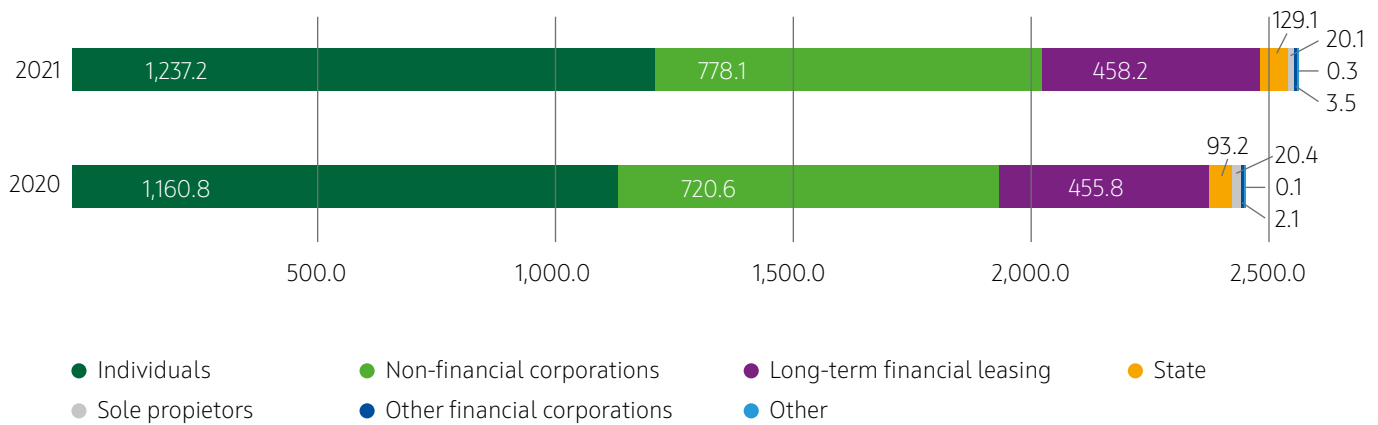
SKB Group	EUR 000	2021	2020	Change	Change (%)
Cash, cash balances at central banks and other demand deposits at banks		448,435	518,211	(69,776)	(13.5)
Financial assets - securities		660,235	587,188	73,047	12.4
Financial assets at amortised cost - excluding securities		2,631,605	2,456,131	175,474	7.1
• Loans to banks		60	99	(39)	(39.4)
• Loans to customers ⁸		2,626,570	2,453,076	173,494	7.1
• Other financial assets		4,975	2,956	2,019	68.3
TOTAL ASSETS		3,837,940	3,656,175	181,765	5.0
Financial liabilities measured at amortised cost		3,356,691	3,204,107	152,584	4.8
• Banks and central banks' deposits and loans		42,973	76,466	(33,493)	(43.8)
• Customer deposits		3,287,246	3,109,643	177,603	5.7
• Other financial liabilities		26,472	17,998	8,474	47.1
TOTAL LIABILITIES		3,395,354	3,250,193	145,161	4.5
TOTAL EQUITY		442,586	405,982	36,604	9.0
TOTAL LIABILITIES AND EQUITY		3,837,940	3,656,175	181,765	5.0

In 2021 SKB Group achieved total assets in the amount of EUR 3,837.9 million, by 5.0 % higher than at the end of the year before. The increase of total assets was significantly influenced by the increased volume of customer deposits on the liabilities side, which the Group successfully placed into loans to customers and securities on the assets side. After several years of high customer deposits' growth, in 2021 SKB Group managed to place this growth entirely in increased lending activities. Loans to customers present 68 % of total assets, securities 17 % and cash and due from banks 12 %. On the liabilities side customer deposits present 86 % and equity 12 %.

⁸ Includes loans measured at amortised cost, at fair value and financial leasing.

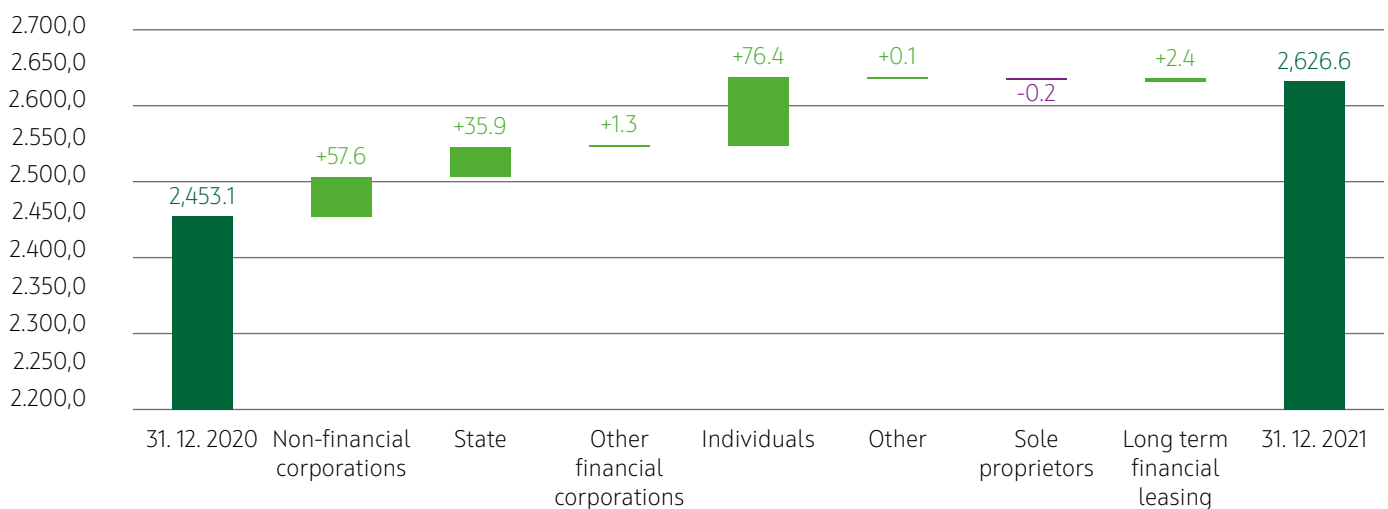
In order to optimize interest-bearing assets and mitigate interest rate risk SKB Group decreased its cash and due from banks by 13 % in 2021 and at the same time increased its investments in securities by 12 %. At the end of 2021 SKB Group held bonds of the Republic of Slovenia, France, Hungary, Croatia, Romania and Serbia, in the total amount of EUR 660.2 million.

Customer loans (in EUR million)



Due to increased economic activity a higher demand for loans was present in the market, reflecting in 7.1% or EUR 173.5 million higher loan portfolio⁹ of SKB Group than at the end of the year before, which amounted to EUR 2,626.6 million at the end of 2021. Increased demand of individuals for housing loans and economic revival which led to higher corporate lending, contributed most to the growth. In 2021, loans to individuals¹⁰ increased by 6.6% (EUR 76.4 million), mostly due to higher housing loans (8.3% or EUR 75.4 million), while the volume of consumer loans decreased by 3.1% (EUR 6.7 million), which is less than the average in the banking sector. SKB Bank increased its consumer loans market share by 13 basis points to 8.41% in 2021. Loans to non-financial corporations increased by 8.0% (EUR 57.6 million) and loans to state by 38.5% (EUR 35.9 million). Loans to other financial corporations, sole proprietors and other loans did not significantly change in 2021. Due to the ongoing crisis in supply chains, which is reflected in the segment of new vehicles financing, in 2021 the financial leasing portfolio remained at a similar level as the year before (higher by 0.5% or EUR 2.4 million).

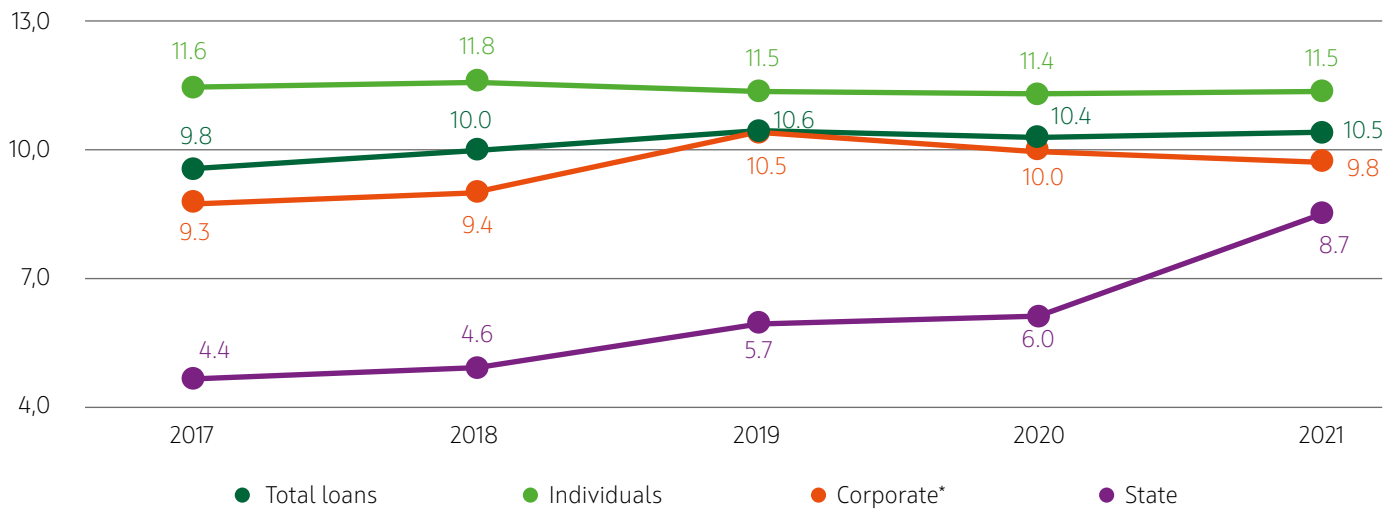
Evolution of customer loans (in EUR million)



⁹ Includes loans measured at amortised cost, at fair value and financial leasing.

¹⁰ Includes loans to individuals conducting business activities.

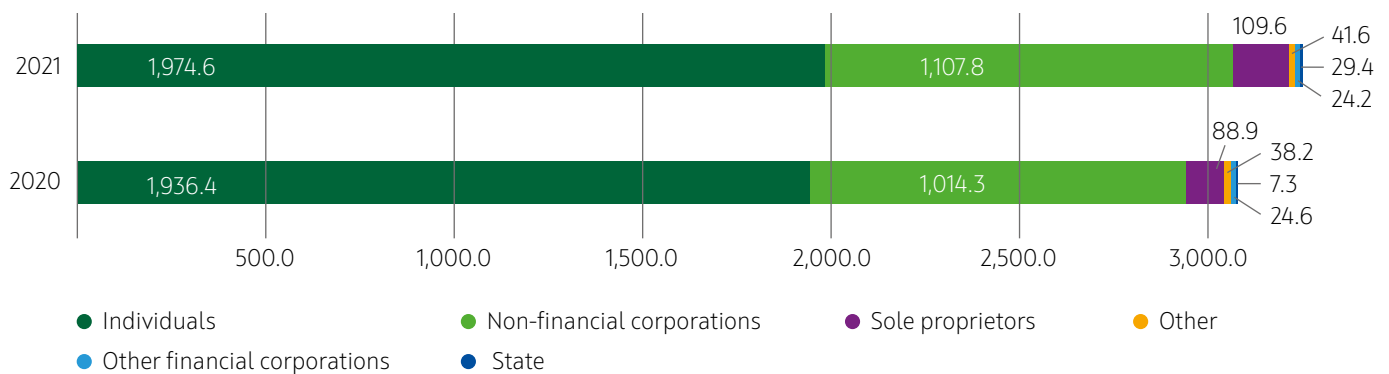
Customer loans market shares (%)



*Corporate includes non-financial corporations and sole proprietors.

Due to the optimization of financing received from international financial institutions and early repayment of TLTRO financing, SKB Group's financing decreased by 43.8 % or EUR 33.5 million in 2021 to EUR 43.0 million at the end of 2021.

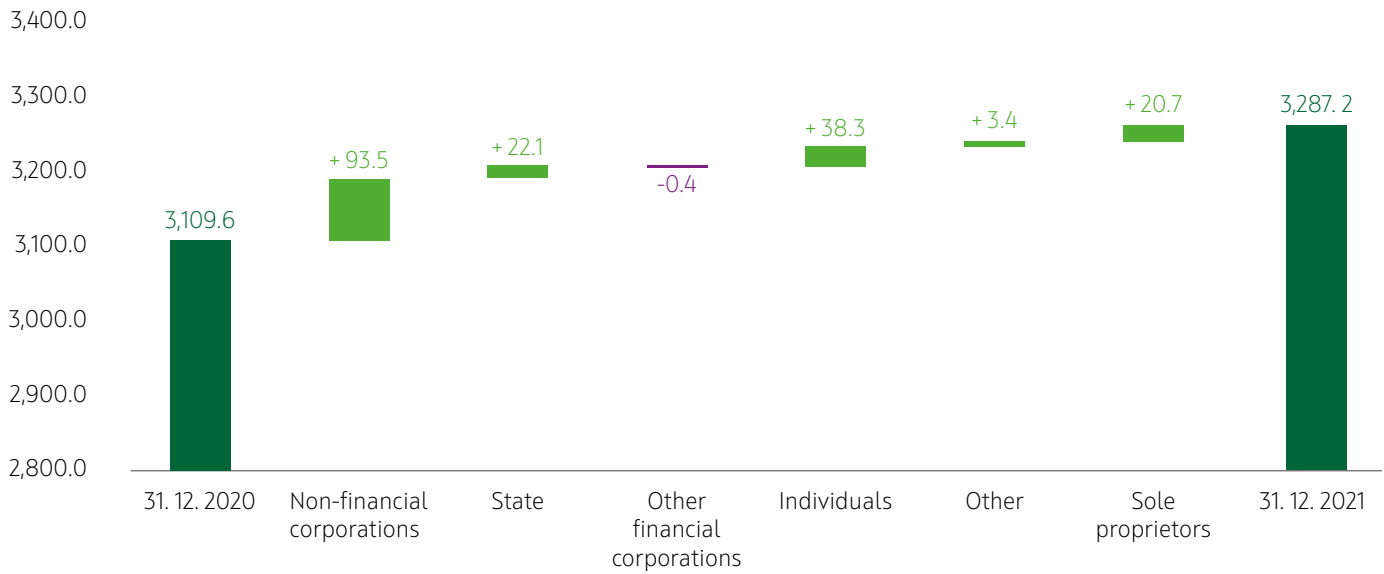
Customer deposits (in EUR million)



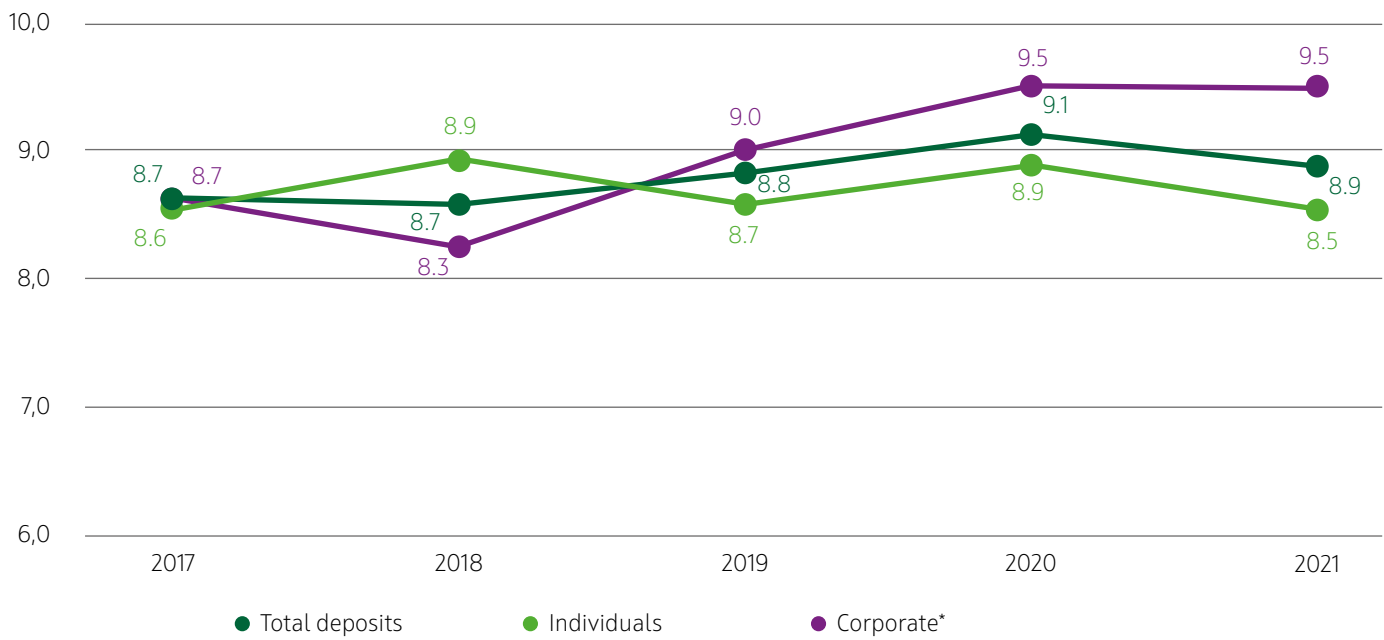
Customer deposits increased by 5.7 % or EUR 177.6 million to EUR 3,287.2 million in 2021. Compared to the year before the growth of customer deposits was lower in 2021, as the improved economic situation increased household consumption and corporate investment. Additionally, the growth of deposits was negatively affected by the introduction of safekeeping fees for individuals' deposits and decreased threshold for safekeeping fees of corporate deposits. Higher deposits of non-financial corporations (9.2 % or EUR 93.5 million), individuals¹¹ (2.0 % or EUR 38.3 million) and state (303.0 % or EUR 22.1 million) contributed most to the growth of customer deposits in 2021. Due to low deposit interest rates and maturity spread mostly sight deposits increased in 2021.

¹¹ Includes deposits of individuals conducting business activities.

Evolution of customer deposits (in EUR million)

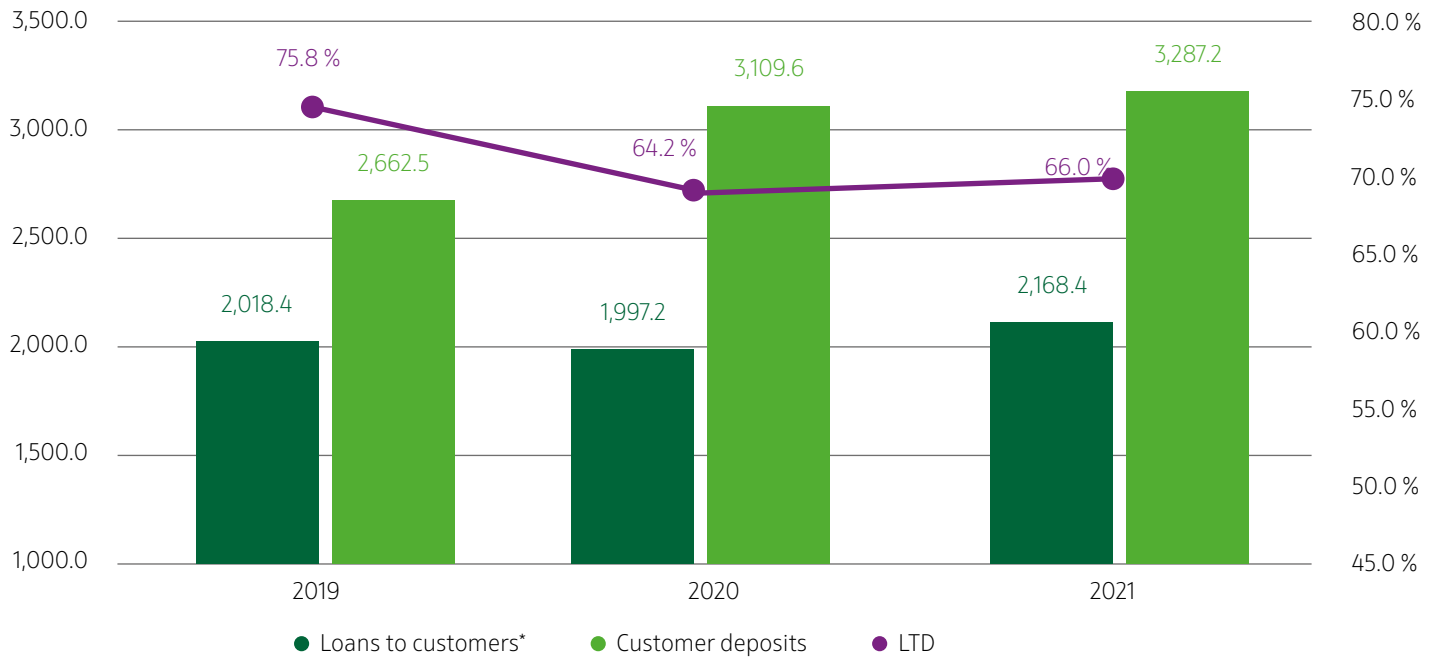


Customer deposits market shares (%)



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

Loans to deposits ratio

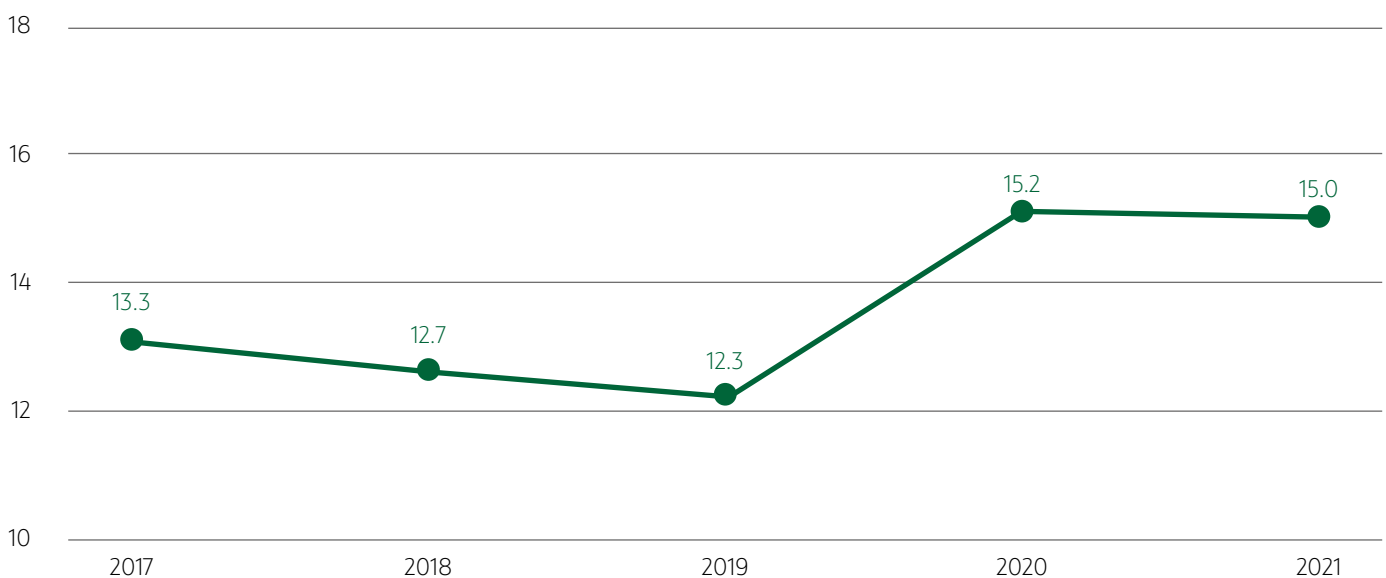


* Includes loans measured at amortised cost and at fair value, excludes financial leasing.

At the end of 2021, loans¹² to deposits ratio (LTD) was 66.0 % (174 basis points higher than at the end of 2020) and increased due to higher growth of loans compared to deposits. Liquidity position of SKB Group remains strong and the Group continues with measures aiming at optimizing excess liquidity, in order to reduce financing costs and optimize interest-bearing assets (increased investments in loans and debt securities).

SKB Group's capital base consists entirely of core capital and ensures quality foundations for its operations. The capital adequacy ratio amounted to 15.0 % in 2021.

Evolution of Capital adequacy ratio (%)



¹²Includes loans measured at amortised cost and at fair value, excludes financial leasing.

2.3. Important events after the closing of a business year

The SKB Group emphasizes the development, digitalisation, and search for the best digital solutions on the market as the key pillars of the strategy. The SKB Bank will also pay great attention to the development of employees. Within the project "Employer's Brand", we expect to develop many activities that will further strengthen the knowledge and skills of employees in the SKB Group, which is one of the important pillars of the Group. SKB Bank wants to continue to be a role model, as a bank with high quality and innovative products and services, while at the same time focusing on a sustainable future and environmental management, so an important pillar of the Bank's development is to focus on increasingly sustainable operations and awareness raising.

On 2 February 2022, the Slovenian Parliament passed the "Law on limitation and distribution of foreign exchange risk between creditors and borrowers concerning loan agreements in Swiss francs" (the "Law").

The Law affects all loan agreements denominated in Swiss francs between 28 June 2004 and 31 December 2010. The law sets a currency cap that is activated by more than 10 % change of the exchange rate between the CHF and EUR from the day of drawing of the loan. During the period of validity of the currency cap, the value of installments and other payments is equal to the amount at which the currency cap limit was established. The law requires creditors to calculate the remaining debt, prepare a new annuity plan and prepare a draft contract on the regulation of mutual relations. In the event of overpayment, the lender is obliged to reimburse the borrower the default interest, which runs from the date of occurrence of the overpayment to the date of payment of the overpayment.

The effect of adoption of Law is disclosed in disclosure of events after the date of the statement of financial position in part VI of Annual report.

3. Human resources

Human resources policy followed the SKB Group values and business guidelines based on teamwork, innovation, responsibility and commitment. New recruitments were carefully planned and subordinated to the Bank's development objectives, standardization and optimization of work processes.

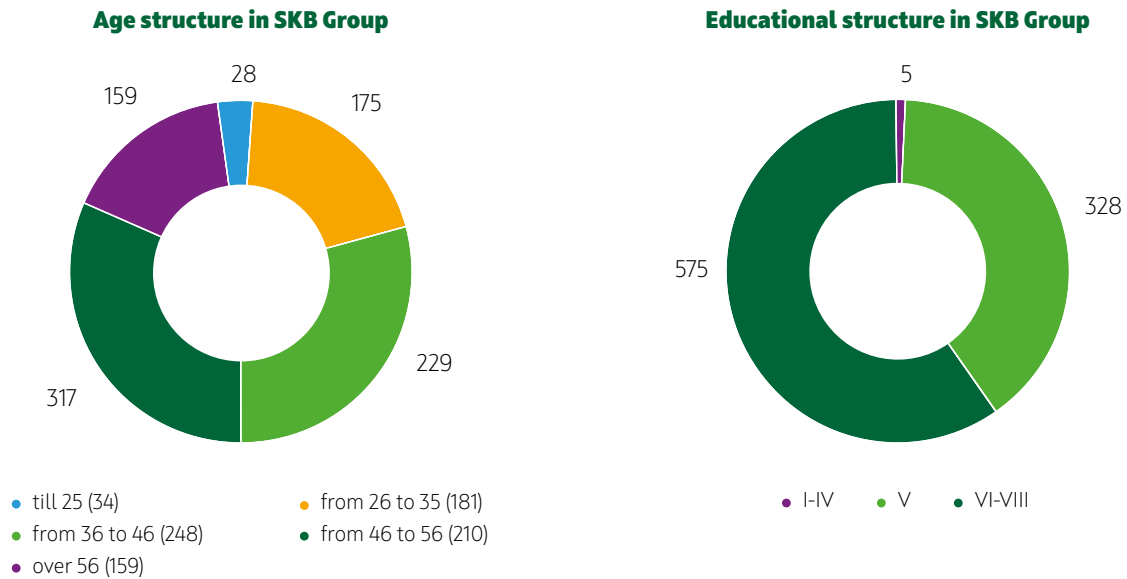
The gaps created by the new needs of the work process were filled by recruiting new employees as well as mobility of employees within the bank, thus allowing employees to become acquainted with work processes in other areas of work and so contribute to the growth of bank operations. As the situation on the labor market was not favorable, we decided to cooperate with employment agencies and purchase a LinkedIn Recruiter License when searching for new employees.

The 2021 human resources structure

At the end of 2021 the SKB Group employed 908 people, of which 823 are bank employees (2020: 848), remaining 85 employees are employed in SKB Leasing and SKB Leasing Select (2020: 84). During the year 2021 we hired 74 new employees, their average age was 33.2 years, whereas 104 employees left the Group. Compared to the previous year the number of employees decreased by 2.6 %.

Employees SKB Group	2021	2020	2019
All (31. 12.)	908	932	910
FTE (31. 12.)	867	893	856

In 2021, the average age of employees was 44.8 years, which is slightly higher than in 2020 (44.4 years). The share of employees with post-secondary or third-level education increased by 0.7 %. Thus, the Bank employed as many as 575 employees with post-secondary or third level education at the end of the year.



Remuneration in 2021

In 2021 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 2021.

Employee training in 2021

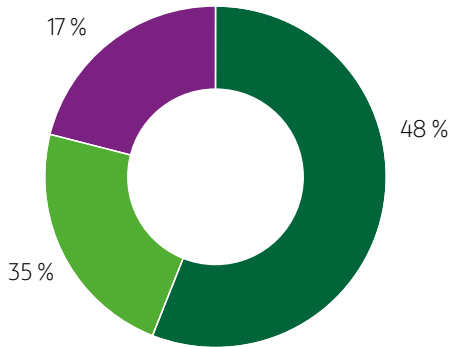
Investments in learning, training and continuous development of employees are great investments in the future success of the Bank.

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

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

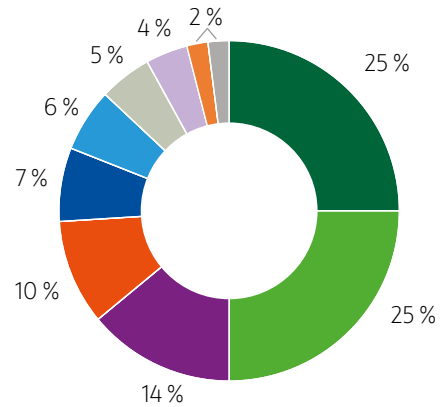
Also, in 2021, the COVID-19 pandemic left its mark in company's employee learning and training process. Therefore, has the organization and performance of education and training for the most part in 2021 took place under the influence of the situation of the COVID-19 pandemic, namely on-line. Despite the ordered measures to limit infections in order to protect the health of employees, customers and other stakeholders, which made it impossible to organize and carry out the planned live trainings, we managed to realize almost 23 thousand training hours. We are very proud that in 2021 we successfully performed the employee trainings and therefore increased the number of training hours and almost equalized it to the level achieved before the pandemic. In 2021, compared to 2020, the extent of on-line trainings, carried out through webinars in meetings using applications such as MS Teams, ZOOM, Adobe Connect, Vimeo and others, increased.

Employee training methods in 2021



- E-LEARNING
- ON-LINE (MS Teams, Zoom, AdobeConnect, Webex)
- Face to face

Employee trainings in 2021 by content



- Risk management
- Products, services and business support
- Compliance themes
- Soft skills (leadership, sale)
- Sustainability
- Other themes
- General banking and financial knowledge
- Informational technology
- Lincensing training
- Introductory seminar for new employees

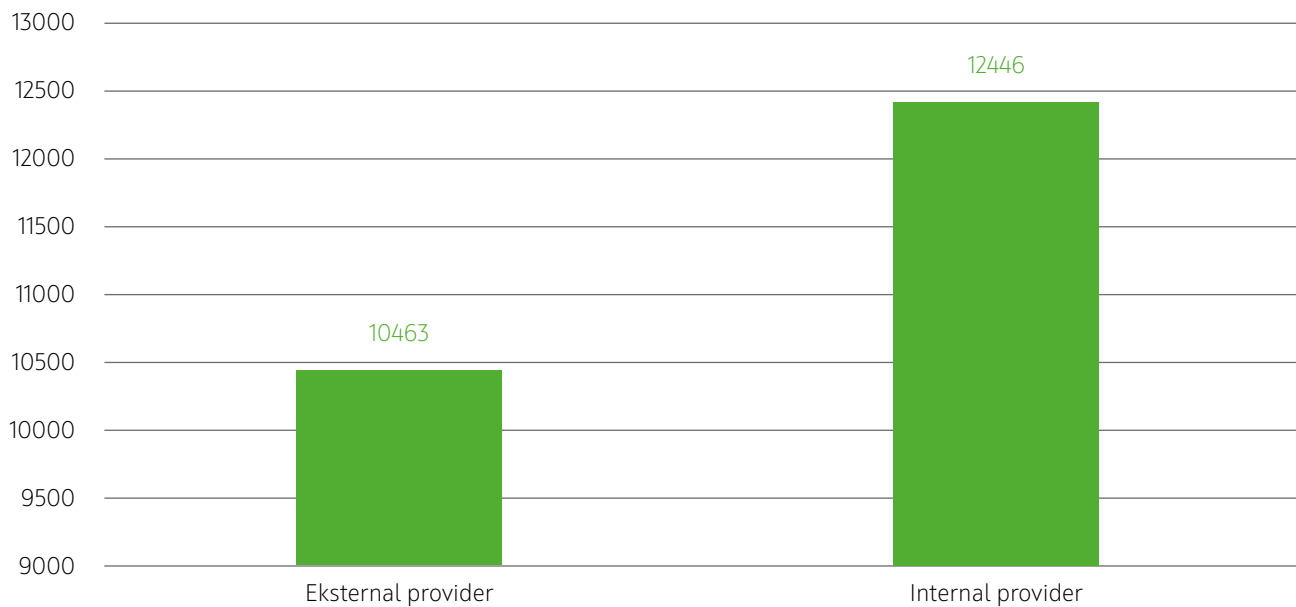
In 2021, we continued with using our online application eCampus, designed to implement e-learnings and online learning. It is a modern, rational and efficient way of providing and acquiring relevant banking and insurance training content, learning of compliance themes and other regulatory banking content. The materials for e-learning were mostly prepared by employees, which cover this content.

In addition to mandatory themes, the employees had the opportunity to strengthen also their computer skills, such as MS Excel and MS Teams. In 2021, the employees were able to participate and train in over than 20 e-classrooms on eCampus.

The new e-learning platform is very well excepted by the employees. This is reflected in the high share of completed e-learnings. Mandatory e-learning themes are completed in almost 90 percent.

Learning and training to which our employees were referred were provided by both, internal educators, as part of internal trainings, as well as external training providers. The share of in-house trainings, taking into account self-developed e-trainings, was as much as 54 percent in 2021 (49 percent in 2020).

Number of training hours in 2021 according to the internal / external provider



In 2021, employees were provided with 22,909 training hours (in 2020, 17,350 training hours provided), which represents an average of 27.84 hours per employee (in 2020, 20 hours per employee).

Half of all trainings are represented by topics in the field of risk management (25 percent) and in the field of products, services and business support (also 25 percent). The number of training hours is followed by trainings in the field of compliance themes (14 percent) and training in the field of soft skills (10 percent). In 2021, we trained our employees intensively to acquire knowledge and competencies for effective leadership, both in classic programs and in the light of psychological safety and agile leadership. Soft skills trainings were also aimed at enhancing personal effectiveness and encouraging teamwork.

In 2021, SKB Bank began to systematically train our employees in the field of sustainable development. The OTP Bank and all its subsidiaries, including SKB Group, are involved in the so-called ESG transformation. This topic represents 7 % of the total educational work in 2021.

In the year 2021, 7 employees obtained a license for insurance distribution (as insurance agent) and 12 employees a license for marketing of investment fund units.

We ended this year with the successful implementation of the Introductory Seminar for New Employees in the SKB Group, which was entirely conducted on-line for the first time.

In 2020, employees from all organizational units of the SKB Bank were trained.

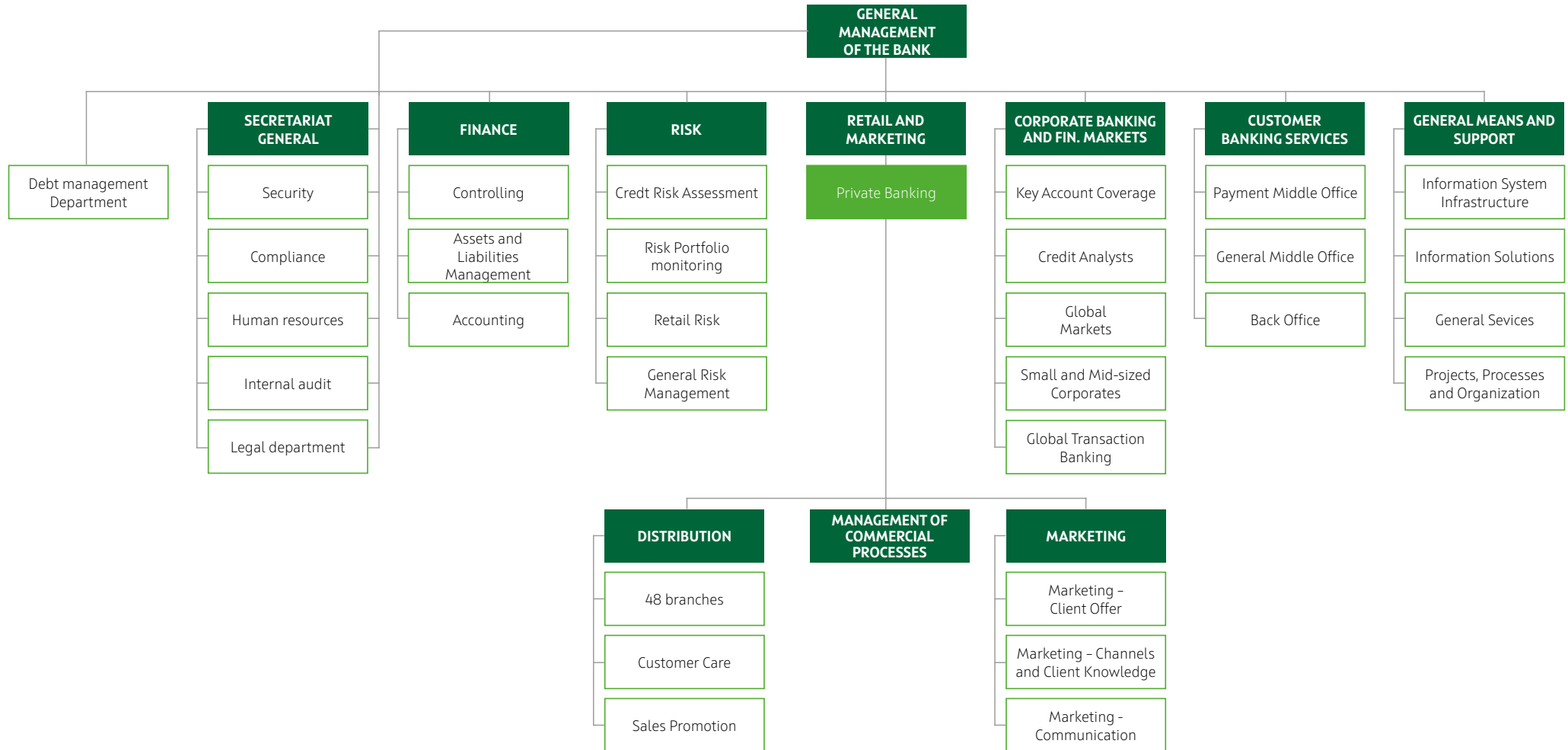
In the future, SKB Bank will continue to provide training and take care of development of its employees. This is the way to provide conditions in order to achieve desired strategic and business bank's objectives.

Health and safety at work

In 2021 we referred a total of 200 employees to periodical medical examinations in accordance with Health risk assessment for typical jobs in the SKB 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 152 trainings and tests of our employees' knowledge in the field of workplace safety. We also organized 152 fire safety training courses and 38 training courses for persons responsible for evacuation and firefighting. Employees are also regularly referred to periodic first aid courses for companies.

3.1. Organisation chart of the SKB Bank



4. Statement about non-finance operations

4.1. Organisational governance

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

4.2. Environmental and social policy (ESG)

4.2.1. ESG in SKB Group

In April 2021 we started sharing environmental sustainability initiatives and information among employees in SKB Group for raising everyone's' mindset. S and G element of ESG (E- environmental, S - social and G - governance) have already been quite a busy and therefore developed topics in the previous years. Their outcomes are presented in separate paragraphs of this Annual Report.

In May and June 2021, for E - environmental part we organized a presentation and a workshop with top and medium management whereas for all employees in the SKB Bank and in the leasing subsidiaries we prepared e-learning program with exam to be passed.

To speed up intra group information flow of all ESG relevant news, novelties, regulation requirements and OTP guidelines we formed ESG coordination group consisted from representative of almost all SKB Group organizational units. A digital ESG library with all relevant documents was also established.

SKB Bank CEO, Ms. Anita Stojčevska was nominated as an ESG responsible member at BoD.

At end of 2021 we have launched ESG project to carry out operational execution of tasks, primarily focused on E- environmental part of ESG. Within the project we will finalize our ESG strategy with particular focus of developing a green loan book. We have a plan to start developing green products for all segments of clients prioritizing those at corporate segment as there is already a demand on the market. Our risk policy has started to adapt to the new environmental expectations and the strategy of our mother bank. The process of implementing ESG views on bank processes will gradually comply with EU taxonomy regulatory requirements including the increased transparency of reporting and disclosures. We will also strengthen our walk the talk activities with efforts to decrease our own CO2 footprint.

The SKB Bank also started a membership in some environmental related communities which is intended to be extended in 2022, including a membership in UNEP FI.

With our mother bank OTP, we established regular communication, status check point meetings and information sharing. OTP is serving us with guidelines and best practices sharing as they have formed a special organizational unit ESG Directorate with staff specifically devoted to particular ESG topics.

SKB Bank representatives are actively participating in Slovene Banking Association ESG related workshops with the purpose to exchange regulatory requirements and to align various guidelines and standpoints.



The table below shows the disclosures of the SKB Group as per 31. 12. 2021 in accordance with Regulation (EU) 2020/852 (Taxonomy Regulation) - Disclosure under Article 8.

Article 8 of the Taxonomy Regulation requires undertakings that are subject to the Non-Financial Reporting Directive (NFRD) to disclose information on how and to what extent their activities are associated with economic activities that may qualify as environmentally sustainable under the Taxonomy Regulation.

The main KPI is the green asset ratio (GAR), which is defined as the proportion of a bank's assets invested in environmentally sustainable economic activities as a share of total relevant assets. The GAR is calculated based on the on-balance-sheet exposures (assets) based on SKB Group consolidated figures.

	In MEUR	
1	Taxonomy eligible assets	0
2	Taxonomy non-eligible assets*	2,691
3	Exposures to central governments, central banks and supranational issuers	1,113
4	Exposures to non-NFRD undertakings	8
5	Financial assets held for trading (debt securities and equity holdings)	6
6	On-demand inter-bank loans	15
7	Total assets	2,725
8	Eligible proportion	0.00 %
9	Non-eligible proportion	98.75 %
10	Proportion to central gov., etc.	40.84 %
11	Proportion of non-NFRD undertakings	0.29 %
12	Proportion of trading portfolio	0.22 %
13	Proportion of on-demand inter-bank loans	0.55 %
14	Proportion of cash + cash related + other assets	3.54 %

Disclosure on green asset ratio (GAR) in corporate lending:

In relation to the mitigation and adaptation objectives of the taxonomy regulation, we have examined the corporate portfolio based on the NACE¹³ codes that can be attributed to activities in the Delegated act. Exposures to taxonomy-eligible activities were examined among non-financial corporations, companies covered by the NFRD (listed companies with more than 500 employees).

*SKB Group as a retail bank is focused to SMEs (small and medium size enterprises) and individuals' loans which according to NFRD represent Taxonomy non-eligible assets as well as loans to local governments.

4.2.2. Prevention of pollution

In SKB Group, we are aware of our responsibility towards environment and we are following environmental policy defined in Republic of Slovenia. We continued with activities related to supervision and improvements in area of our energy consumption and environmental effects from our operations also in 2021:

- Monitoring energy consumption, which includes energy consumption decrease and implementation of renewable and environmentally 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 environmentally friendly (recycled) paper;
- Waste management for proper handling of waste produced in SKB Group.

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

¹³ Nomenclature of Economic Activities

4.2.3. Sustainable resource use

SKB is constantly decreasing energy consumption in KWH/occupant. In 2021 our energy consumption increased in comparison to 2020. Main reason was increased execution of our activities in comparison to 2020, when in spring lockdown number of branches were closed and majority of employees worked from home. Second reason is also improved collection of data for energy consumption from heating, which unfortunately statistically raised a bit quantities of energy consumption for heating. Nevertheless, long term trend is still decreasing from basic year 2014 for approx. 5 % (from 5,520 to 5,270 KWH/occupant).

In 2021 we executed replacement of existing ATM's with new modern ones (less energy consumptive and environmental friendlier). There were no large renovations of branches in 2021, just few small refurbishments were executed. We intend to continue our efforts in next years by additional investments in more energy efficient IT equipment and other equipment, with which we constantly decrease consumption of electrical energy and also energy for heating. For future years renovation of Head Quarter premises is forecasted, where we plan to implement environmentally friendly materials, less consumptive HVAC devices and LED lighting. Important contribution to energy consumption decrease represents also awareness of our employees for environmentally friendly behaviour. We are introducing regularly our environmental activities to them.

4.2.4. Climate change mitigation and adaptation

By decreasing energy and paper consumption we are decreasing also our CO2 emissions. We intend to increase the share of energy produced from renewable sources in our energy mix and to decrease our CO2 emissions even further. We are introducing alternative ways of business communication (tele conferences, videoconferences, e-learning) with the goal to reduce number of business trips and consequently also CO2 emissions from transport.

4.2.5. Environmental protection

SKB Group actively manage waste produced by our business operations. All activities are performed in line with the valid legislation and with intention to preserve our environment for the future generations. Paper documentation is destroyed according to prescribed procedure and, in agreement with our partners 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 Group 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 proportion of waste separated correctly is also increasing year on year.

4.3. Client relation

Fair marketing, factual and unbiased information, and fair contracts

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

Protecting consumers' health and safety

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

Consumer services, support and resolution of complaints and disputes

Knowing that customers are always at the center of our attention, we also facilitate and manage the complaints management system. Taking these into account helps us to build good customer relations and ensure a good user experience for our clients. We perform quarterly reviews of the Client Complaints Report, in which the Client Experience Committee participates in the presence of the Bank's Management. By preparing short weekly reports, we also try to regularly monitor clients' satisfaction. The client's experience is regularly monitored and measured by a survey after the contact with the SKB Bank in the branch or through Contact Center.

Consumer data protection and privacy

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

Access to basic services

The goal of SKB Bank is to enable clients to operate at a cost-effective and efficient way with banking products tailored to their needs, while also ensuring that our offer includes opportunities for as many different client segments as possible. To this end, we offer our customers a wide range of banking package offers, which include a range of banking products depending on the customer's expected volume of business with the bank. We also offer clients a free personal account without management fees for the purpose of receiving regular inflows, while all other banking services can be added according to the Bank's regular price list. Clients with special social status also have access to a basic personal payment account, which includes basic daily banking services. We also encourage our clients to remote banking, which we are developing in the direction of making it as client-friendly, easy, fast and efficient as possible. With constant upgrading of our digital banking channels, we enable our clients advanced digital operations with a remote bank, which – through its updated versions – is always in step with the times.



4.4. Labour practice

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

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

Support to changing banking environment

The banking environment is changing considerably; along with these there are changes in the expectations of our customers, the technology that goes towards the digitization of business and the legal frameworks. All these changes affect the operations of SKB Group and the skills of employees that are necessary for successful performance. In SKB Group, various training was conducted, which were attended by almost all employees. SKB Bank organized 257 different training themes which represents 22,909 training hours. Training programs were focused on the area of banking regulation, risk management, compliance, sales and customer relations, management of employees and development of personal and behavioural competencies of employees. In recent period, the training methods were updated: the remote methods (on-line and e-learning) predominate, although we also perform face to face trainings, especially conducted by our internal trainers.

Developing a banking culture based on common values

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

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

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

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

Care for of employees' commitment

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

SKB Group continued to follow guidelines established in the past for the remuneration of employees. The guidelines are based on employees' achievement and the promotion of individual progress. Since we wish to reward our best employees for their successfully performed work and motivate them for the future we continued to allocate a significant amount of funds for these kind of incentives in 2020.

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

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

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

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

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

At the end of 2021, there were four women out of seven members in the SKB Board of Directors, two women in the SKB Bank's Management Board, 64 % in middle management, and approximately 70 % among all employees.

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

4.5. Human rights

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

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

Employees have the right to use the whistleblowing channel with non-disclosure of whistle-blower's identity and measures for protection of whistleblower from potential retaliation.

4.6. Fight against corruption and bribery

The SKB Group has internal rules in place to prevent corruption and potential conflicts of interest, as well as to ensure the ethical business operations, following the strict anti-corruption principles of international banking group OTP.

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

4.7. Inclusion and development of society

Integration into society

SKB Bank is integrated in the society in a variety of ways, which all have in common the contribution to the society through something more that is necessary for the environment in which we operate to be just as successful and in constant development. We are aware that we are leaving this planet to our descendants, so we support sustainable development and integration and commitment to the environment. We regularly demonstrate our support through sponsorships, donations, and other forms of involvement in cultural, sports, educational, charity and philanthropic organizations and their projects.



*Zveza Prijateljev
Mladine Slovenije®*

Education and culture

At SKB, we believe in the power of continuous education in various fields. We provide our employees with various trainings in the field of personal and corporate finance, as well as other expert topics. Within the Sports Association, we give our employees the opportunity to relax, and with the urban beekeeping project, which contributes to the preservation of Carniolan honey bee (in Slovenian: Kranjska sivka), which is an indigenous species of bees in the Slovenian environment, we continue with the Nature in the City project. We also regularly support the Slovenian cultural activity, through the sponsorship of the 2020/2021 season at the SNG Opera and Ballet Ljubljana and with the support of the Manager's Concert, which usually takes place at the end of the year and presents exceptional young musical talents.



Job creation and skills development

We are aware that our employees are the core of our success, the knowledge and the mirror of our company, and therefore, as part of the SKB Bank's future business strategy, we place great emphasis on the development of the SKB Group's human resources and employees. With job advertisements, we appear on many platforms where we reach a large and diverse circle of potential new colleagues. In 2021, we hired more than 60 new employees, and as a company we went a step further and began to actively seek and address candidates with the help of external agencies. We also operate with a LinkedIn Recruiter License within the LinkedIn social network. SKB Bank has also adopted the Rules on work from home, which makes it easier for employees to organize their business and private life.

The year 2021 was also marked by the Engagement Survey, which was conducted for the first time within the OTP Group. The project was successfully implemented, and based on the adopted action plan, certain activities have already been completed, including the establishment of the Employer Brand project.

Development and accessibility of technology

The future of banking lies in the constant search for innovative solutions and in digitalisation. The vision, mission and fundamental values of progress define the digital strategy of the SKB Group. The strategy, which will influence further development, is looking for ways in rapid changes in the market and ever faster technological development. Within the aim of continuously responding quickly and efficiently to market needs, SKB Group is constantly striving to offer new, innovative solutions and to seize the opportunities offered by business. Our goal is to ensure extremely successful banking operations within clear frameworks, goals and values.

Wealth and income generation

The SKB Group strives to cooperate and involve local suppliers in the projects and challenges we face. With this we want to work together in supporting the development and growth of the Slovenian experts and companies. With the desire to cooperate and integrate into the environment in which we operate and do business, we follow and support local projects and initiatives of local communities.

Health

Year after year, we are increasingly aware that health is most important. Therefore, we constantly encourage our employees and clients as well as all those who follow us on our social networks, towards sports activities which we also organize as part of various #persist (#vztrajam) challenges. We believe that with our #persist (#vztrajam) movement, we go beyond the boundaries of sport, as it motivates us in all life projects and goals. We reach a wide range of people through different communication channels, giving them the opportunity to share their challenges, victories, and experiences, and we encourage them to activate and achieve set goals through motivational videos and messages.

For the 28th year in a row, SKB Bank has also been a supporter of the Slovenian sport and a proud main sponsor of the Olympic Committee of Slovenia (OKS). With the Summer Olympics in Tokyo, the year 2021 was particularly Olympic-flavoured, and another outstanding Olympic story is behind us.



GLAVNI SPONZOR



For several years now, we have also been showing support through the personal sponsorship to the top Slovenian athlete, Maruša Mišmaš, who is also the ambassador of the SKB+s #persist movement, which encourage people for sports and a healthy lifestyle.

#VZTRAJAM



We also continue to support the SKB Sports Association, of which more than a third of employees are members. The offer for employees includes regular weekly activities, and when the situation allows, sports events for employees are also organized.



Socially beneficial investment

SKB Bank has been the main sponsor of the Olympic Committee of Slovenia (OKS) since the very beginning of its establishment, which dates back more than a quarter of a century. The commitment to Slovenian sports with the main sponsorship of the Slovenian Olympians further emphasizes one of the main corporate values – team spirit. In cooperation with the Olympic Committee of Slovenia, we encourage our employees to get moving, especially by supporting the project Sports for All.

Also, in 2021, we decided to use a donation to support the work of the charity organization Slovenian Association of Friends of Youth, whose basic goal is to raise the quality of life of children, adolescents and families.

5. Corporate governance

5.1. System of internal controls

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

The internal lines of defence of SKB Group is comprised of internal governance and internal control functions. Internal governance is achieved by SKB Group by formulating and operating an appropriate structure, organisation, bodies and committees, and by exercising the management and supervision functions. Management functions are exercised by fulfilling administrative and representative duties, whereas supervisory functions are exercised by way of monitoring, control and supervision tasks.

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

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

The system of internal controls includes, among others:

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

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

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

System of internal controls in SKB d.d. is further divided into the following levels (model of three lines of defence):

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

As the part of the permanent supervision in functional terms, the SKB Bank also has in place continuous supervision of the following risks or conditions of the SKB Bank's operation as a second level of permanent control: credit risks, market risks, operational risks, interest rate risks, liquidity risks and strategic risks, profitability risks, risks with respect to the introduction of new products or services, risks with respect to outsourcing, and risks related to the assessment of the Board of Directors and the holders of key function.

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

5.1.1. Permanent control

Permanent supervision as task of the management of the SKB Bank is a first level of verification which consists of the following:

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

5.1.2. Periodical forms of controls

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

Tasks of Internal audit are mainly as follows:

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

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

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

5.2. Report on Internal Audit for 2021

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 SKB Bank management, Board of Directors and its Audit Committee. Such set up has also been defined in the Internal Audit Charter and supplemented by Internal Audit Procedure, both aligned within the OTP IAD group organization. The independent set up and efficient governance have been successfully kept unchanged also within the year 2021.

The Department is independent and objective, oriented towards a systematic and professional approach at monitoring the decision-making process on all SKB Bank's areas, also at-risk management, control environment and corporate governance assessment. It gives assurance if risks related to the key areas of the bank have been adequately managed. Criteria in assessing the system of internal controls and efficient risk management are valid legislation and connected guidelines, best practices and guidelines of the mother banking group. Additionally, with issued recommendations, the Department strives for improved overall effectiveness of the bank. The Department verifies the adequacy of risk management and control system, recommends improvements and best practices, gives advice to the bank management and to other areas of the bank, as well as takes care for increasing risks awareness, fraud prevention and internal controls awareness at all organizational levels. Moreover, the Department regularly reviews the remuneration policy of the bank and reports the findings to the Compensation Committee of the Board of Directors. In line with the OTP Group approach, the Department also performs group coordinated audit missions according to the defined OTP IAD audit program, common for all subsidiaries.

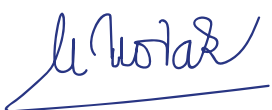
The Department is in charge of carrying out all types of audit engagements of all units, functions and processes, by covering primarily all the major risks and the most important operations, including the fulfilment of all regulatory requested missions. In addition, it also provides coverage for both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

The Department's engagements are driven by the Annual Internal Audit Plan, prepared mainly on the basis of own internal risk assessment of the bank's risks and business areas priorities. The Annual Plan is also aligned with the Strategic Audit Plan, both are approved by the SKB Bank management and confirmed by the Board of Directors, on the proposal of the Audit Committee. Nevertheless, the Department also keeps flexibility and assures agile approach with on time respond to immediate needs of the bank as well, by performing special and unplanned audit missions (upon special demand of the SKB Bank management or when internal frauds are suspected; when major irregularities are discovered or when higher risks arise).

During the year 2021, the Audit Plan was successfully completed by performing 34 planned engagements. At the end of December 2021, 5 reports were in status "draft report issued" and were finalized within the month of January 2022. Two audit missions, foreseen in the Annual Audit Plan, were cancelled with the consent of the Board of Directors, due to the fact that the activities envisaged within the audits were on one side covered by the mission performed by the regulator and, on the other side, the activities were done on the group level and therefore the local audit mission would not give any added value. The scope of both missions shall be included in the Audit plan for the year 2022. One audit mission was added to the audit plan due to changed risk assessment, while there were also few special investigations performed due to fraud suspicions. Internal Auditors were also involved in two audit engagements led by audit team of the mother banking group. In addition, Internal Auditors devoted significant time to assure strict and regular follow up of open recommendations, including recommendations issued by the ECB/Bank of Slovenia, gave advice, while constantly assuring enriched expertise within the team of 8, resulting in fulfilling also the mandatory requirements of appropriate knowledge, experiences and licenses.

On a regular basis, the Department prepared exhaustive reports for the Audit Committee and Board of Directors, highlighting the main findings and recommendations issued. During 2021 internal auditing, the Department did not encounter any critical risks or importantly deficient control environment that would endanger the stability of the SKB Bank. Based on audit missions' conclusions, the Department can confirm adequate management of the most important risks, adequate control environment and corporate governance, with some additional activities foreseen in some areas (IT risk management, as also confirmed by the regulator's inspection). Moreover, within its review of remuneration policy set up and implementation, the Department also assessed these activities as adequate. Following up on the realization of issued recommendations, the Department ascertains that the recommendations have been in major part implemented in line with the initially set deadlines, with very few exceptions related to the bank projects activities, where new action plans have been proposed and agreed.

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



Manica Novak
Internal Audit Department director

5.3. Risk Management

5.3.1. Introduction

At SKB Group, the Risk Management business area, which includes several professional areas, is responsible for formulating and reviewing the Group's policies in the field of risk management, setting limits and regularly monitoring risk exposure. The Group places great emphasis on the culture of risk management and awareness of it throughout the Group. The Group's risk management framework is future-oriented, adapted to its business model and the correspondingly defined risk profile. The main principles and limitations are set out in the Group's risk acceptance and risk management strategy, which is designed in accordance with the business strategy.

Risk management and control is carried out through a clear organizational structure with defined roles and responsibilities. The organization and delimitation of responsibilities are designed to prevent conflicts of interest and to ensure a transparent and documented decision-making process with an appropriate flow of information up and down.

Risk management is focused on risk management and mitigation in accordance with the definition of Risk Appetite and the Group's Risk management strategy, which form the basis of the Group's risk management framework. In this context, the Group monitors various risk indicators to ensure that the Group's risk profile is consistent with its willingness to take risks. In addition, the Group is constantly upgrading its risk management system, with the key being the integration of ICAAP and ILAAP processes and other internal stress testing into the risk management system.

Particular emphasis is placed on including risk analysis in the decision-making process at strategic and operational levels, diversification to avoid large concentrations, optimal use and allocation of capital, appropriate pricing policy that includes assumed risks, and ensuring overall compliance with internal acts and regulations.

The uniform framework for stress testing, which includes internally developed models, stress scenarios and sensitivity analyses, has been further upgraded. Such a stress testing framework is subject to a regular cycle of internal validation and related procedures. The group also established an integrated framework for model management and validation. Namely, the Group supports a robust process of validation and verification of the selected approaches and internal models for risk assessment used.

The business and operational environment relevant to the Group's operations is changing along with trends such as changes in customer behaviour, the development of new technologies and competitors, and an increasing range of regulatory requirements. Accordingly, the risk management system is constantly being adjusted and upgraded, primarily with the aim of detecting and managing new potential risks.

5.3.2. Proactive risk management (ICAAP process)

One of the key objectives of risk management is to maintain the Group's adequate capital position. The Group monitors capital adequacy at the Group level in accordance with the readiness to take risks, and includes the normative and economic aspects as part of the established ICAAP process. As at 31 December 2021, the Group had a very solid capital position, which reflects the total capital ratio of 15.0 %.

5.3.3. Credit risk

Business with companies

The credit limit approval process and individual decision-making powers are delegated to the Credit Risk Assessment department, which operates within the Risk Division and is independent of the commercial sectors. The procedure is based on the approval of proposals for a credit limit to a company submitted by commercial sectors. Any credit risk approval must be based on a good knowledge of the client and an in-depth understanding of the nature and nature of its business, the structure and purpose of the transaction, as well as the sources of repayment.

Sensitive customers are included in the watch list for regular and systematic monitoring. In 2021, SKB Bank further upgraded the system for the establishment and monitoring of early warning signs (EWS). The most important triggering events that contribute to the inclusion of customers in the list for regular monitoring are, in particular, deterioration of creditworthiness, difficulties in settling credit obligations, breach of contractual obligations, blocked accounts, movement of account turnover, monitoring of the use of approved short-term investments, negative events reported in SIZBIZ, etc.

Retail Banking

For the retail segment, the credit policy is implemented in the approval tool (application) itself, which enables the precise setting of the appropriate level of risk in accordance with the bank's risk strategy. The approval decision-making process, which includes credit scoring and only the customer's credit rating, is based on good customer knowledge, which is also regularly monitored.

In the Retail MSE segment (sole proprietors, associations and micro-enterprises), similarly to the corporate credit risk assessment process, the final customer risk profile is defined by credit ratings, which is the basis for the credit decision-making process. An important contribution to the efficiency of the approval process was the implementation of a new approval tool for the Retail MSE segment (Prozon).

Both segments are monitored with automated algorithms through regular monthly reports of portfolio monitoring, which consists of various portfolio quality measurements, such as vintages (HR curves), unpaid instalments, demographic data and others. We use various additional analyses for the purpose of detecting changes in the portfolio or when changing patterns of customer behaviour.

5.3.4. Market risks

The SKB Group and the companies in the SKB Group are exposed to foreign exchange and interest rate risk. The SKB Group has established an independent market risk management function that monitors market risks in accordance with legal requirements and methodologies that reflect their activities and scope of operations.

Currency risk represents the potential loss resulting from foreign exchange mismatches and changes in foreign exchange rates. It shows the change in the fair value or future cash flows of financial instruments due to changes in foreign exchange rates. The SKB Group monitored currency risk in accordance with the requirements of the OTP Group. The main objective of the Group is to reduce the exposure of foreign exchange positions by individual currencies by observing internal limits.

The daily foreign exchange position is regulated by the Global Markets department. The Market risk management department monitors the daily and daily foreign exchange position. The monitoring process is supported by the OTP Group's market risk information system, which enables constant monitoring of the compliance of positions with limits. The limit system includes position limits by currency, global limit, maximum allowable loss (P&L) limits and risk value limits (VaR). The SKB Bank's structural foreign exchange position is monitored by the ALM department on a monthly basis, which is regulated within the prescribed limits.

Structural interest rate risk arises from interest rate mismatches of on-balance sheet and off-balance sheet items of the SKB Group and instability of market interest rates, which consequently affect net interest income and the economic value of the SKB Group's capital. The main purpose of structural interest rate risk management is to keep interest rate risk within limits and to limit the volatility of the SKB Group's financial results in the long run.

For the purpose of appropriate structural interest rate risk management, the SKB Group follows the procedures, responsibilities and methods of controlling, measuring, analysing and reporting interest rate risk, which are defined in the Interest Rate Risk Management Policy. The management of structural interest rate risk in the banking book is in the domain of the ALM department within the Finance Division. Interest rate risk management activities are performed on a monthly or quarterly basis at the Group level, which includes SKB Bank, SKB Leasing and SKB leasing Select and are regularly reported to the ALCO Committee.

5.3.5. Operational risks

The SKB Group accepts operational risk as an integral part of prudent operations and has set the framework for operational risk management in order to ensure consistent and comprehensive identification, assessment and control and management of operational risk. Our framework defines the management model, monitoring and control system and reporting of information related to operational risk.

Operational risk management has a major impact on the SKB Bank's costs, its competitiveness, business compliance and its reputation. Therefore, the SKB Group works preventively and identifies and manages risks before losses occur, thus improving our results and reducing the possibility of errors and losses. We place great emphasis on collecting and monitoring operational losses related to credit risk, monitoring the implementation of action plans to reduce operational risk and identifying and preventing fraud.

In the SKB Group, we are aware that good operational risk management, greater awareness and better understanding of operational risks are important and we are aware of the potential impact of the concrete manifestation of these risks. Therefore, we pay a lot of attention to improving and strengthening the internal control system, educating SKB Group employees on operational risk and on the preventive measures needed to reduce this risk.

5.3.6. ESG - environmental, social and management aspects of risks

Since 2015, when the Paris Agreement on Climate Change and the European Green Agreement, which set the goal of making Europe the first climate-neutral continent by 2050, were adopted, banks are increasingly expected to contribute to the transition to low-carbon and more circular economy.

For the economy and financial institutions, this transition brings both risks and opportunities. According to banking regulators, climate and environmental risks are so important that banks need to address them strategically, holistically and forward-looking.

In 2021, SKB Bank actively approached the treatment of ESG risks with special emphasis on the E-environmental aspect, as we believe that the sustainability aspect in the S-social aspect and the G-governance aspect is already well established:

- In the list of all types of risks, we added the attribute of climate and environmental impacts (on credit risk, liquidity risk, operational risk, reputation risk, etc. Namely, ESG risk is not considered as an independent risk, but one that changes existing risk exposures.
- Based on the strategic workshop with the SKB Bank's top management, we prepared strategic guidelines, which will be defined in more detail in all individual elements, and selected key indicators for monitoring progress.
- In order to raise awareness of the importance of the accelerated transition to a low-carbon economy, we organized training for all employees, and additionally informs all employees in the internal newsletters about innovations and progress in the bank.
- The professional exchange of information is conducted within the coordination group, which includes representatives of almost all organizational units of the SKB Group.
- For the operational implementation of individual tasks (formulation of strategic documents and policies, preparation of green products and green portfolio in accordance with the Taxonomy, risk policy formulation and investment portfolio control related to environmental and climate risk exposure, provision of necessary data for monitoring, reporting and preparation of disclosures and own assessment and reduction of the carbon footprint) we have started a project with which we will gradually contribute to the sustainable growth of our economy together with the parent OTP Bank.

Our goal is to redirect financial flows into sustainable investments, consolidate the role of sustainable approaches in risk management, improve transparency and strengthen long-term thinking.

5.4. Corporate governance statement of SKB bank

In order to achieve a high level of transparency in the management, SKB d.d. issues management declaration as a part of the business part of the Annual Report. SKB d.d. implements internal governance arrangements in accordance with the legislation and regulations in force in the Republic of Slovenia, while respecting internal acts and, the guidelines of parent company. SKB d.d. fully takes into account the acts referred to in the second paragraph of Article 9 of the Banking Act¹⁴.

To strengthen the internal governance arrangements in our operations, we take into account, in particular:

- 1) The provisions of the applicable Banking Act, which define the internal governance arrangements, in particular the provisions of Chapter 3.4 (Bank Management System), and Chapter 6 (Internal management arrangements and adequacy of internal capital), in the part of the requirements applicable to a bank / savings bank or to members of the management body;
- 2) Regulation on Internal Governance Arrangements, the management body and the Internal Capital Adequacy Assessment Process for banks and savings banks¹⁵ and
- 3) EBA guidelines regulating internal governance, assessment of suitability of members of the management body and holders of key functions, and remuneration policies and practices, on the basis of relevant decisions of the Bank of Slovenia on implementation of these guidelines¹⁶.

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

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

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

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

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

The SKB Bank has an effective risk management system in the field of prevention of money laundering and terrorist financing in line with the law¹⁷ which includes the function of prevention of money laundering and terrorist financing.

¹⁴ Banking Act (ZBan-3), Official Gazette of RS, št. 92/21;

¹⁵ 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. 115/21;

¹⁶ <https://www.bsi.si/en/financial-stability/regulation>

¹⁷ Prevention of Money Laundering and Terrorist Financing Act (ZPPDFT-1), Official Gazette of RS, št. 68/16,81/19, 91/20 and 2/21.

The SKB 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 SKB Bank is assessed annually by an external audit that reviews the SKB Bank's annual report.

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

Shareholders equity and SKB shares

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

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

The share capital of the SKB Bank as at 31. 12. 2021 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 SKB Bank and the number of shares remained unchanged in 2021. The OTP Bank Nyrt is the only shareholder with a 100-percent stake in the SKB Bank.

Shareholders' Equity structure	SKB Group		SKB Bank		SKB Lesing		
	EUR 000	2021	2020	2021	2020	2021	2020
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		15,165	24,719	15,315	24,875	(149)	(155)
Reserves from profit		29,106	29,106	29,106	29,106	2,181	2,181
Retained earnings		195,462	160,462	178,987	143,462	2,021	2,021
Income from current year		46,008	34,850	50,733	35,379	9,305	12,326
Total Shareholders' Equity		442,588	405,982	430,987	389,667	35,425	38,441

SKB Share – in EUR	2021	2020
Net assets per share as at 31 December on a consolidated basis	34.99	32.1
Earnings per share on a consolidated basis	3.64	2.76
Net assets per share as at 31 December – the SKB Bank	34.07	30.81
Earnings per share – the SKB Bank	4.01	2.8

Shareholder's structure

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

As at 31 December 2021, the SKB Bank had no treasury stock.

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

Each share provides one vote at the General Meeting of Shareholders. A quorum of the General Meeting of Shareholders is attained when twenty (20) percent of the share capital represented with a voting right is present at the session. The General Meeting of Shareholders of the SKB 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 SKB 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 SKB Bank has a Board of Directors which consists of at least five (5) members. The number of members of the Board of directors is determined by the General Meeting of Shareholders with a resolution on appointment. The term of office of a particular member of the Board of Directors lasts four years. The members of the Board of Directors may be re-elected. In case of resignation of a member or termination of a member's membership, the term of office of a new member is lasts four years. Candidates for the members of the Management Board are proposed by the adequate foundation within the controlling company and/or invited to their candidature by the Nomination Committee.

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

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

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

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

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

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

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

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

The General Meeting shall decide on:

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

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

In accordance with the Articles of Association of SKB d.d. and the Companies Act, the General Meeting has to be convened at least once per calendar year. In 2021 one General Meetings of Shareholders was convened.

At its 36th session the General Meeting, held on 4. May 2021, the General Meeting adopted eight resolutions, by which: the General Meeting:

- adopted the Report on internal auditing in 2020;
- established that distributable net profit for the year 2020 is amounted 176,805,038.40 EUR, with a net profit for the year 2020 representing 35,379,294.09 EUR and decided that distributable net profit will not be distributed and remains till further notice unallocated and that net profit is transferred from net profit of business year 2020 to retained earnings;
- granted discharge to the members of the Board of Directors of the SKB Bank for their work in the business year 2020;
- took notice of and accepted the resignation letter by Zsolt Barna, effective as of 3 May 2020 and the resignation letter by Tamás Kamarási subject to and effective from the date when the term of office of the newly appointed member of Board of Directors takes effect;
- established that the Board of Directors consist of seven members, without prejudice to the right of workers to elect workers' representatives for the members of the Board of Directors in accordance with the regulations on workers' participation in management;
- on the day of the meeting appointed Attila Kovács as the new member of the Board of Directors, whose mandate lasts four years from the day of nomination and established that the newly appointed members of the Board of Directors have been appointed in compliance with the applicable Banking Act and the Companies Act and regulation of the Bank of Slovenia on Internal Governance Arrangements, the Management body and the Internal Capital Adequacy Assessment Process for Banks and Savings banks;
- appointed Ernst&Young d.o.o. with its registered seat at Dunajska cesta 111, 1000 Ljubljana as the bank's auditor for the financial years 2021, 2022 and 2023;
- adopted the changes and amendments to the Articles 2, 8, 9 to 11, 13 to 15 and 17 to 34 of the Statute of SKB banka d.d. Ljubljana of 29 May 2018 ;
- adopted the changes and amendments in Articles 18, 35, 36, 37, 44, 48 and 54 of the Rules of Procedure of the General Meeting of Shareholders of SKB banka d.d. Ljubljana of 29 May 2018.

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

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

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

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

Board of Directors of SKB d.d.

In the period 1 January 2021 – 4 May 2021 the Board of Directors was composed of seven (7) members, namely:

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

In the period 4 May 2021 – 31 December 2021, the Board of Directors was composed of seven (7) members, namely:

- Imre Bertalan, President
- Anna Mitkova Florova, member till 31.05.2021 then Deputy President
- Draga Cukjati, member
- Attila Kovács, member
- Dr. Miklós Németh, member
- Anita Stojčevska, member, Chief Executive Officer
- Vojka Ravbar, member, Deputy Chief Executive Officer

In the period 1 January 2021 – 4 May 2021 the members of the Committees of the Board of Directors were:

Audit Committee:

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

Risks Committee:

- Tamás Kamarási, President
- Draga Cukjati, member
- Dr. Miklós Németh, member

Remuneration Committee:

- Dr. Miklós Németh, President
- Draga Cukjati, member
- Anna Mitkova Florova, member

Nomination Committee:

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

In the period 4 May 2021 – 31 May 2021 the members of the Committees of the Board of Directors were:

Audit Committee:

- Draga Cukjati, President
- Anna Mitkova Florova, member

Risks Committee:

- Draga Cukjati, member
- Dr. Miklós Németh, member

Remuneration Committee:

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

Nomination Committee:

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

In the period 31 May 2021 – 31 December 2021 the members of the Committees of the Board of Directors were:

Audit Committee:

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

Risks Committee:

- Attila Kovács, President
- Draga Cukjati, member
- Dr. Miklós Németh, member

Remuneration Committee:

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

Nomination Committee:

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

Information on participation of the members of the Board of Directors in the function of members of the governing body as at 31 December 2021:

- Imre Bertalan is
 - non-executive member, President of the Board of Directors of SKB banka d.d. Ljubljana
- Draga Cukjati is
 - non-executive member of the Board of Directors of SKB banka d.d. Ljubljana
 - executive member of the Management Board of Poslovni sistem Mercator, Ljubljana
- Attila Kovács is
 - non-executive member of the Board of Directors of SKB banka d.d. Ljubljana
 - non-executive member of the Board of Directors of OTP Jelzalogbank Zrt
 - non-executive member of the Board of Directors of OTP Lakastakarek Zrt
- Dr. Németh Miklós is
 - non-executive member of the Board of Directors of SKB banka d.d. Ljubljana
 - non-executive member, Chairman of the Board of Directors of Crnogorska komercijalna banka a.d. Montenegro
 - non-executive member, Chairman of the Board of Directors of OTP Real Estate Investment Fund Plc.
 - non-executive member, Charman of the Board of Directors of PortfoLion Plc
 - non-executive member of the Board of Directors of OTP Real Estate Plc.
 - non-executive member of the Board of Directors of HAGE-NAGISZ Plc.
 - OTP Bank Pls. – Senior Managing Director
 - Air-Invest Ltd. – Managing Director
- Anna Mitkova Florova is
 - non-executive member of the Board of Directors of SKB banka d.d. Ljubljana
 - non-executive member of the Board of Directors of OTP Building Society
 - non-executive member of the Board of Directors of OTP Mortgage Bank Ltd.
 - non-executive member, Chairperson of the Board of Directors of OTP Penzugyi Pont Ltd.
 - non-executive member, Chairperson of the Board of Directors of OTP Ingatlanpont Ltd.
- Anita Stojčevska is
 - executive member of the Board of Directors of SKB d.d. only
- Vojka Ravbar is
 - executive member of the Board of Directors of SKB d.d. only

General Management of SKB d.d. in the period 1 January 2021 – 31 December 2021

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

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

The Nomination Committee which works in line with Rules of SKB banka d.d. Ljubljana on assessment of suitability of members of the Board of Directors is actively involved in the selection and assessment of members of the Board of Directors (BoD).

These rules apply to the proposed and appointed members of the Board of Directors (non-executive and executive directors).

In case of the procedure for appointment of a new member of the Board of Directors of SKB d.d., the candidate(s) is (are) proposed by the relevant function within major shareholder as parent bank and/or the Nomination Committee. In SKB d.d., the assessment of the candidate or reassessment of the members of the Board of Directors is prepared and carried out by the Nomination Committee. Members of the Board of Directors, being under assessment, are excluded from the assessment procedure and from decision-making procedure.

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

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

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

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

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

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

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

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

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

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

When assessing the suitability of the members of the Board of Directors, the Nomination Committee respected the adopted criteria and re-assessed, also in 2021 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 2021, the Board of Directors is composed of seven (7) members - four (4) women and three (3) men, of various age, various education profiles and experience, which enables them to ensure a constructive and critical judgement of decisions made by the General Management as well as an efficient control over the latter.

Ljubljana, 29. 3. 2022



Vojka Ravbar
Deputy Chief Executive Officer



Anita Stojčevska
Chief Executive Officer

General management's responsibility statement and scope of impact

SKB banka d.d. Ljubljana

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 2021 there was no disadvantage for SKB d.d., which would have to be replaced.

Ljubljana, 29. 3. 2022



Vojka Ravbar
Deputy Chief Executive Officer



Anita Stojčevska
Chief Executive Officer

SKB Leasing d.o.o.

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

Also SKB Leasing d.o.o. has not committed or abandoned any act on the initiative or in the interests of the controlling undertaking or its related undertakings. In the year 2021 there was no disadvantage for SKB Leasing d.o.o., which would have to be replaced.

Ljubljana, 29. 3. 2022



Don Schoeffmann

SKB Leasing d.o.o.
Chief Executive Officer

SKB Leasing Select d.o.o.

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

Also SKB Leasing Select d.o.o. has not committed or abandoned any act on the initiative or in the interests of the controlling undertaking or its related undertakings. In the year 2021 there was no disadvantage for SKB Leasing Select d.o.o., which would have to be replaced.

Ljubljana, 29. 3. 2022



Don Schoeffmann

SKB Leasing Select d.o.o.
Chief Executive Officer

Directors of Divisions on high-level managerial positions, but not being members of the Board of Directors as at 31 December 2021:

Finance:

- Spyridon Ntallas, Director of Finance Division

Risk:

- Csaba Csikos, Director of Risk Division

Retail and Marketing:

- Miroslav Vidaković, Director of Retail and Marketing Division

Corporate Banking and Financial Markets

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

Customers Banking Services:

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

General Means and Support:

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

Important information and business performance indicators¹⁸ – SKB Group

Important information and indicators related to the Group business operations

SKB Group	12.2021		12.2020		12.2019	
	amount in EUR 000 ratios in %	index	amount in EUR 000 ratios in %	index	amount in EUR 000 ratios in %	index
I. STATEMENT OF FINANCIAL POSITION						
1. Balance sheet total	3,837,940	105	3,656,175	108	3,385,551	102
2. Deposits from non-bank clients	3,287,246	106	3,109,643	114	2,732,541	109
a) from legal and other persons	1,313,024	112	1,173,462	116	1,014,906	132
b) from citizens	1,974,222	102	1,936,181	113	1,717,635	99
3. Loans to non-bank clients	2,626,570	107	2,453,075	98	2,505,789	103
a) to legal and other persons	1,159,580	110	1,055,788	97	1,087,768	109
b) to citizens	1,466,990	105	1,397,288	99	1,418,022	98
4. Overall equity capital	442,586	109	405,982	111	365,454	103
5. Provisions and impairments	83,994	86	97,456	142	68,504	70
6. The volume of off-balance sheet business	1,553,524	114	1,361,517	98	1,387,888	92
II. PROFIT AND LOSS ACCOUNT						
1. Net interest	76,416	96	79,895	96	82,843	101
2. Net non-interest income	45,533	106	42,771	103	41,358	98
3. Costs of labour, materials and services	60,469	108	56,115	100	56,146	97
4. Depreciation/amortization	5,896	97	6,101	95	6,413	117
5. Net cost of risk and provisions	(1,134)	(6)	18,509	(915)	(2,023)	21
6. Profit or loss before taxation	56,720	135	41,940	63	66,551	95
7. Tax on profit	(10,711)	151	(7,090)	57	(12,446)	97
Other comprehensive income before tax	(11,796)		7,014		2,211	
Income tax relating to components of other comprehensive income	2,242		(1,344)		(444)	
Number of branches	48		51		53	
III. EMPLOYEES						
Number of employees	908		932		910	
IV. SHARES						
1. Number of shareholders	1		1		98	
2. Number of shares	12,649,200		12,649,200		12,649,200	
3. Belonging amount in the share capital per nominal par-value share (in EUR)	4.1729		4.1729		4.1729	
4. Book value per share (in EUR)	34.99		32.10		28.89	

¹⁸ Indicators are prepared in accordance with the prescribed methodology for the calculation of business indicators by Banka Slovenije

SKB Group	12.2021		12.2020		12.2019	
	amount in EUR 000 ratios in %	index	amount in EUR 000 ratios in %	index	amount in EUR 000 ratios in %	index
V. SELECTED RATIOS						
a) Equity capital						
1. CET1 capital ratio	15.03		15.16		12.32	
2. T1 capital ratio	15.03		15.16		12.32	
3. Total capital ratio	15.03		15.16		12.32	
b) Quality of assets						
1. Non performing (balance and off balance sheet) exposure / all balance and off balance sheet exposure	1.49		2.05		1.89	
2.a Non performing (balance sheet) exposure / all balance sheet exposure (with out cash balances at central banks and other demand deposits)	1.91		2.67		2.28	
2.b Non performing (balance sheet) exposure / all balance sheet exposure (with cash balances at central banks and other demand deposits)	1.70		2.31		2.13	
3.a All impairment and provisions / non performing impairment and provisions (with out cash balances at central banks and other demand deposits)	76.07		71.48		65.12	
3.b All impairment and provisions / non performing impairment and provisions (with cash balances at central banks and other demand deposits)	76.07		71.48		65.12	
4. received collaterals / non performing exposure	3.84		4.37		8.56	
c) Profitability						
1. Interest margin	2.05		2.25		2.41	
2. Financial margin	3.27		3.45		3.62	
3. Return on assets before taxation	1.52		1.18		1.94	
4. Return on assets	1.23		0.98		1.58	
5. Return on equity before taxation	13.41		10.91		18.18	
6. Return on equity after taxation	10.87		9.07		14.78	
d) Operating costs						
1. Operating costs / assets	1.78		1.75		1.82	
e) Liquidity						
1.- Liquidity coverage ratio	306		245		274	
2.- Net stable funding Ratio	153		154		139	
3.- Leverage Ratio	9.23		9.13		8.15	

Important information and indicators related to the SKB Bank business operations

SKB Bank	12.2021		12.2020		12.2019	
	amount in EUR 000 ratios in %	index	amount in EUR 000 ratios in %	index	amount in EUR 000 ratios in %	index
I. STATEMENT OF FINANCIAL POSITION						
1. Balance sheet total	3,828,111	105	3,645,440	108	3,365,175	109
2. Deposits from non-bank clients	3,301,210	106	3,124,672	114	2,743,983	109
a) from legal and other persons	1,326,988	112	1,188,491	116	1,026,348	132
b) from citizens	1,974,222	102	1,936,181	113	1,717,635	99
3. Loans to non-bank clients	2,621,892	107	2,441,920	98	2,491,260	112
a) to legal and other persons	1,391,572	108	1,283,224	97	1,327,029	122
b) to citizens	1,230,320	106	1,158,696	100	1,164,231	102
4. Overall equity capital	430,987	111	389,667	112	348,614	102
5. Provisions and impairments	75,820	84	90,421	154	58,659	68
6. The volume of off-balance sheet business	1,553,547	114	1,361,540	98	1,387,910	92
II. PROFIT AND LOSS ACCOUNT						
1. Net interest	61,727	98	63,298	102	61,812	101
2. Net non-interest income	53,930	100	54,018	105	51,363	106
3. Costs of labour, materials and services	55,006	107	51,280	100	51,144	96
4. Depreciation/amortization	4,694	99	4,721	98	4,797	130
5. Net cost of risk and provisions	(2,960)	(14)	21,769	(2.766)	(787)	7
6. Profit or loss before taxation	58,917	149	39,545	65	60,871	95
7. Tax on profit	(8,184)	196	(4,166)	47	(8,787)	87
Other comprehensive income before tax	(11,803)		7,017		2,238	
Income tax relating to components of other comprehensive income	2,242		(1,343)		(446)	
Number of branches	48		51		53	
III. EMPLOYEES						
Number of employees	823		848		826	
IV. SHARES						
1. Number of shareholders	1		1		98	
2. Number of shares	12,649,200		12,649,200		12,649,200	
3. Belonging amount in the share capital per nominal par-value share (in EUR)	4.1729		4.1729		4.1729	
4. Book value per share (in EUR)	34.07		30.81		27.56	

SKB Bank	12.2021		12.2020		12.2019	
	amount in EUR 000 ratios in %	index	amount in EUR 000 ratios in %	index	amount in EUR 000 ratios in %	index
V. SELECTED RATIOS						
a) Equity capital						
1. CET1 capital ratio	13.71		13.75		11.22	
2. T1 capital ratio	13.71		13.75		11.22	
3. Total capital ratio	13.71		13.75		11.22	
b) Quality of assets						
1. Non performing (balance and off balance sheet) exposure / all balance and off balance sheet exposure	1.17		1.79		1.66	
2.a Non performing (balance sheet) exposure / all balance sheet exposure (with out cash balances at central banks and other demand deposits)	1.48		2.32		1.99	
2.b Non performing (balance sheet) exposure / all balance sheet exposure (with cash balances at central banks and other demand deposits)	1.31		2.00		1.86	
3.a All impairment and provisions / non performing impairment and provisions (with out cash balances at central banks and other demand deposits)	81.32		72.76		65.54	
3.b All impairment and provisions / non performing impairment and provisions (with cash balances at central banks and other demand deposits)	81.32		72.76		65.54	
4. received collaterals / non performing exposure	4.89		5.01		9.77	
c) Profitability						
1. Interest margin	1.66		1.78		1.91	
2. Financial margin	3.11		3.31		3.50	
3. Return on assets before taxation	1.59		1.11		1.88	
4. Return on assets	1.37		1.00		1.61	
5. Return on equity before taxation	14.52		10.61		17.39	
6. Return on equity after taxation	12.50		9.49		14.88	
d) Operating costs						
1. Operating costs / assets	1.61		1.58		1.73	
e) Liquidity						
1.- Liquidity coverage ratio	306		245		274	
2.- Net stable funding Ratio	153		154		139	
3.- Leverage Ratio	8.87		8.74		7.83	

VI. Financial report for SKB Group and SKB Bank

Statement of General Management's responsibilities

The General Management of the bank has approved the financial statements of SKB Group and SKB Bank for the year ended 31 December 2021, 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 SKB Group and the SKB Bank as at 31 December 2021, 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 SKB Group and the SKB Bank and in compliance with the relevant legislation and International Financial Reporting Standards adopted by the EU.

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

Ljubljana, 29. 3. 2022



Vojka Ravbar
Deputy Chief Executive Officer



Anita Stojčevska
Chief Executive Officer

Independent auditor's report



This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of SKB Banka, d.d.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the separate financial statements of SKB Banka, d.d. ("the Bank") and the consolidated financial statements of the SKB Group ("the Group"), which comprise the statement of financial position and consolidated statement of financial position as at 31 December 2021, the income statement and consolidated income statement, the statement of other comprehensive income and consolidated statement of other comprehensive income, the statement of changes in equity and consolidated statement of changes in equity, the statement of cash flows and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements and consolidated financial statements present fairly, in all material respects, the financial position of the Bank and the Group as at 31 December 2021 and its separate and consolidated financial performance and its separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) and Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No. 537/2014 of the European Parliament and the Council"). Our responsibilities under those rules are further described in the *Auditor's responsibilities for the audit of the separate and consolidated financial statements* section of our report. We are independent of the Bank and Group in accordance with the International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole and in forming our opinion thereon and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the separate and consolidated financial statements section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate and consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate and consolidated financial statements.

Credit risk and impairment of loans and advances to customers including impact of COVID-19 pandemic

The carrying amount of loans and advances to customers at amortized cost amounts to EUR 2,621 million (or 69% of total assets) at the Bank and EUR 2,626 million (or 68% of total assets) at the Group as of 31 December 2021. As of 31 December 2021, total

We understood and evaluated the impairment assessment processes for loans as well as the processes for identifying default events within the loan portfolios, including design and operating effectiveness of controls relevant to our audit.



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provisions of the Bank amounted to EUR 64.9 million and of the Group to EUR 73.1 million.

Impairment allowances on Loans and advances to customers represent Executive directors' best estimate of the expected credit losses within the loan portfolios at the reporting date.

For defaulted loans that are considered to be individually significant the impairment assessment is based on the knowledge of each individual debtor, taking into consideration the fair value of the related collateral as well as expected recovery based on going concern principle. Related impairment allowances are determined on an individual basis by means of a discounted cash flows forecasts based on scenarios and their likelihood of happening. Scenarios are based on 'going' and 'gone' assumption of debt repayment containing high level of complexity and subjectivity.

The Bank's Stage 3 gross balance of loans and advances to customers was EUR 50 million as of 31 December 2021 (Group: EUR 64 million) and total provisions EUR 40 million (Group: EUR 49 million).

Provisions for loans and advances to customers in Stage 1 and Stage 2 are determined based on complex models and parameters used in those models (i.e. life time probability of default ("PD") and loss given default ("LGD")), identification of significant changes in credit risk, inclusion of forward-looking elements and segmentation of exposures, which all involve significant Executive directors assumptions and estimates. The Bank's Stage 1 and Stage 2 combined gross balance of loans and advances to customers was EUR 2,637 million (Group: EUR 2,635 million) as of 31 December 2021 and total provisions EUR 25 million (Group: EUR 24 million).

The Bank and the Group during 2020 performed IFRS 9 model overlays related to the COVID-19 related pandemic with a significant impact on the staging model. As the COVID 19 related effects are still unknown, there was no change in the overlays related to staging from year 2020. Additional overlay related to increasing energy prices affecting the staging was applied in 2021.

As provisions for loans and advances to customers are significant to understanding the financial statements as a whole and bear significant judgements, we conclude this to be a significant item for our audit and a key auditing matter. For further information, refer to Note 6.3. Credit risk of the separate and consolidated financial statements.

In addition to analytical procedures, we tested a sample of performing loans with characteristics that might imply a default event had occurred to assess whether default event had been identified by Executive directors and therefore whether there was a requirement to calculate an impairment provision using Stage 3 methodology.

For a selected sample of non-performing loans where impairment allowance is assessed on individual basis, we assessed the models, assumptions related to debt repayment based on going or gone principle and data underlying the impairment identification and quantification. We understood the latest developments at the borrower and considered whether key judgments were appropriate given the borrowers' circumstances. We also re-performed Executive directors' impairment calculation for mathematical accuracy. In addition, we tested key inputs to the impairment calculation including the expected future cash flows and valuation of collateral held and discussed with Executive directors as to whether valuations were up to date, consistent with the strategy being followed in respect of the particular borrower and appropriate for the purpose. We engaged EY internal specialists to review a sample of valuations of underlying collateral.

In respect of statistical models that are used for the estimation of credit risk related impairment losses of Stage 1 and Stage 2 exposures, we involved EY internal credit risk specialists in evaluation of the model documentation and other related evidence such as models' governance, segmentation policy, expected credit loss estimation process and assessment of their compliance with IFRS 9. We also reviewed changes in risk models implemented in the current period. We evaluated the application of the models through the recalculation for mathematical accuracy of credit risk related impairment losses, allowances and provisions defined by IFRS 9. We tested the days past due counter and consistent application of staging criteria in relation to the effect on the staging classification of the exposures.

In connection with the COVID-19 pandemic and energy price overlay approach we evaluated the Bank's and the Group's argumentation behind the specific additional criteria for staging and assessed specific disclosure included in the separate and consolidated financial statements.

Furthermore we reviewed how the Bank and Group incorporated Covid 19 impacts on parameters used for the calculation of collective provisions. Credit risk specialists reviewed forward looking information ("FLI") and input parameters used and assess if COVID-19 impact was adequately reflected on the PD and the FLI.

We have assessed the adequacy of the Bank's and the Group's disclosures included in Note 6.3. Credit risk,



1.3.4.5. Impairment of financial instruments, 1.4.25. Financial assets measured at amortised cost and 1.4.17. Impairment of the separate and consolidated financial statements.

Other matter

The separate and consolidated financial statements for the financial year ending 31 December 2020 were audited by another auditor who issued an unmodified opinion on those statements on 29 March 2021.

Other information

Other information comprises the information included in the Annual Report other than the separate and consolidated financial statements and auditor's report thereon. Executive directors are responsible for the other information.

Our opinion on the separate and consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the separate and consolidated financial statements is, in all material respects, consistent with the separate and consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Bank and the Group obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of Executive directors, Board of directors and the audit committee for the separate and consolidated financial statements

Executive directors are responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as Executive directors determine is necessary to enable the preparation of the separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, Executive directors are responsible for assessing the Bank's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Executive directors either intend to liquidate the Bank and Group or to cease operations, or has no realistic alternative but to do so.

The audit committee and Board of directors are responsible for overseeing the Bank's and the Group's financial reporting process. The Board of directors is responsible to approve the annual report.

Auditor's responsibilities for the audit of the separate and consolidated financial statements

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



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can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

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

- identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Executive directors;
- conclude on the appropriateness of Executive directors' 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 Bank's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the audit committee and the Board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the audit committee and the Board of directors, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council

Appointment and Approval of Auditor

We were appointed as auditors of the Bank and the Group at the general meeting of shareholders on 4 May 2021, the president of the Board of directors has signed the audit agreement on 4 October 2021. The agreement was signed for the period of 3 years.



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Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for one year. Janez Uranič and Nena Cvetkovska are certified auditors, responsible for the audit in the name of Ernst & Young d.o.o.

Consistence with Additional Report to Audit Committee

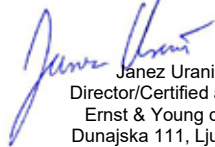
Our audit opinion on the separate and consolidated financial statements expressed herein is consistent with the additional report to the audit committee of the Bank, which we issued on 30 March 2022.

Non-audit Services


No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Bank and its controlled undertakings and we remain independent from the Bank and its controlled undertakings in conducting the audit.

In addition to statutory audit services and services disclosed in the Annual Report and in the separate and consolidated financial statements, there are no other services which were provided by us to the Bank and its controlled undertakings.

Ljubljana, 30 March 2022


Janez Uranič
Director/Certified auditor
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 1


Nena Cvetkovska
Certified auditor

Income statement for the year ended 31 December 2021

	EUR 000	Notes	SKB Group		SKB Bank	
			2021	2020	2021	2020
Interest income			78,154	82,276	63,464	65,680
Interest expenses			(1,738)	(2,381)	(1,738)	(2,383)
Net interest income		1.4.1.	76,416	79,895	61,726	63,297
Dividend income		1.4.2.	163	231	9,413	12,888
Fee and commission income			46,061	40,589	45,577	39,860
Fee and commission expenses			(9,476)	(9,367)	(8,727)	(8,639)
Net fee and commission income		1.4.3.	36,585	31,222	36,850	31,221
Gains and losses on financial assets and liabilities not measured at fair value through profit or loss		1.4.4.	(84)	1,363	(17)	1,260
Gains and losses on financial assets and liabilities held for trading		1.4.5.	2,109	2,061	2,109	2,061
Gains and losses on non-trading financial assets mandatorily at fair value through profit or loss		1.4.6.	2,228	4,457	2,228	4,457
Gains and losses on financial assets and liabilities designated at fair value through profit or loss		1.4.7.	0	0	0	0
Gains and losses from hedge accounting		1.4.8.	567	307	567	307
Exchange differences		1.4.9.	27	(206)	24	(206)
Gains and losses on derecognition of non-financial assets		1.4.10.	32	(62)	(1)	(181)
Other operating income		1.4.11.	3,948	3,409	2,799	2,224
Financial and operating income and expenses			121,991	122,677	115,698	117,328
Administrative expenses		1.4.12.	(56,658)	(52,892)	(51,195)	(48,058)
• staff expenses			(37,683)	(35,157)	(34,219)	(31,967)
• other administrative expenses			(18,975)	(17,735)	(16,976)	(16,091)
Cash contributions to resolution funds and deposit guarantee schemes		1.4.13.	(3,811)	(3,223)	(3,811)	(3,223)
Depreciation		1.4.14.	(5,896)	(6,101)	(4,694)	(4,721)
Modification gains or losses		1.4.15.	(39)	(56)	(39)	(56)
Provisions		1.4.16.	(1,156)	(3,706)	(735)	(3,690)
Impairment		1.4.17.	2,290	(14,803)	3,695	(18,079)
Profit or loss from non-current assets and disposal groups classified as held for sale		1.4.18.	(2)	44	(2)	44
TOTAL PROFIT BEFORE TAX FROM CONTINUING OPERATIONS			56,719	41,940	58,917	39,545
Tax expense or income related to profit or loss from continuing operations		1.4.19.	(10,711)	(7,090)	(8,184)	(4,166)
TOTAL PROFIT AFTER TAX FROM CONTINUING OPERATIONS			46,008	34,850	50,733	35,379
Net profit for the financial year			46,008	34,850	50,733	35,379
Profit or loss attributable to owners of the parent			46,008	34,850	50,733	35,379

* All changes are described in point 1.2.3. Comparative data.

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

Statement of other comprehensive income for the year ended 31 December 2021

	SKB Group		SKB Bank		
	EUR 000	2021	2020	2021	2020
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAX		46,008	34,850	50,733	35,379
OTHER COMPREHENSIVE INCOME AFTER TAX		(9,554)	5,670	(9,560)	5,674
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS		6	(100)	0	(97)
Actuarial gains or losses on defined benefit pension plans		6	(110)	0	(107)
Income tax relating to items that will not be reclassified to profit or loss		0	10	0	10
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS		(9,560)	5,770	(9,560)	5,771
Debt instruments at fair value through other comprehensive income		(11,802)	7,124	(11,802)	7,124
• Valuation gains or losses taken to equity		(11,802)	7,124	(11,802)	7,124
Income tax relating to items that may be reclassified to profit or loss		2,242	(1,354)	2,242	(1,353)
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX		36,454	40,520	41,173	41,053
Attributable to owners of the parent		36,454	40,520	41,173	41,053

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

Statement of financial position at 31 December 2021

	EUR 000	Notes	SKB Group		SKB Bank	
			31.12.2021	31.12.2020	31.12.2021	31.12.2020
ASSETS						
Cash, cash balances at central banks and other demand deposits at banks		1.4.20.	448,435	518,211	448,435	518,211
Financial assets held for trading		1.4.21.	5,707	8,942	5,707	8,942
Non-trading financial assets mandatorily at fair value through profit or loss		1.4.22.	20,890	27,881	20,890	27,881
Financial assets designated at fair value through profit or loss		1.4.23.	0	6,120	0	6,120
Financial assets at fair value through other comprehensive income		1.4.24.	464,796	366,307	464,796	366,307
Financial assets at amortised cost		1.4.25.	2,827,044	2,663,948	2,821,964	2,652,331
• debt securities			195,439	214,761	195,439	214,761
• loans to banks			60	99	60	99
• loans to non-bank customers			2,626,570	2,446,132	2,621,892	2,434,976
• other financial assets			4,975	2,956	4,573	2,495
Investments in subsidiaries, associates and joint ventures		1.4.27.	0	0	20,454	20,454
Tangible assets			38,648	36,556	30,962	30,564
• property, plant and equipment		1.4.28.a)	37,577	35,176	28,669	27,920
• investment property		1.4.28.b)	1,071	1,380	2,293	2,644
Intangible assets		1.4.29.	12,465	10,680	10,645	8,958
Tax assets		1.4.19.	626	3,557	0	3,557
• current tax assets			626	3,557	0	3,557
Other assets		1.4.30.	19,325	13,910	4,254	2,052
Non-current assets and disposal groups classified as held for sale		1.4.31.	4	63	4	63
Total assets			3,837,940	3,656,175	3,828,111	3,645,440
LIABILITIES						
Financial liabilities held for trading		1.4.21.	5,677	9,160	5,677	9,160
Financial liabilities designated at fair value through profit or loss		1.4.23.	0	6,120	0	6,120
Financial liabilities measured at amortised cost		1.4.32.	3,356,691	3,204,107	3,364,146	3,215,634
• deposits from banks and central banks			36,970	4,590	36,970	4,590
• deposits from non-bank customers			3,287,246	3,109,643	3,301,210	3,124,672
• loans from banks and central banks			6,003	71,876	6,003	71,876
• other financial liabilities			26,472	17,998	19,963	14,496
Fair value changes of the hedged items in portfolio hedge of interest rate risk		1.4.26.	1,165	1,732	1,165	1,732
Provisions		1.4.33.	15,616	14,554	14,918	14,264
Tax liabilities		1.4.19.	4,782	3,311	6,770	4,907
• current tax liabilities			4,088	504	4,088	0
• deferred tax liabilities			694	2,807	2,682	4,907
Other liabilities		1.4.34.	11,423	11,209	4,449	3,956
Total liabilities			3,395,354	3,250,193	3,397,125	3,255,773

	EUR 000	Notes	SKB Group		SKB Bank	
			31.12.2021	31.12.2020	31.12.2021	31.12.2020
SHAREHOLDERS' EQUITY						
Capital		1.4.35.	52,784	52,784	52,784	52,784
Share premium		1.4.35.	104,061	104,061	104,061	104,061
Accumulated other comprehensive income		1.4.35.	15,165	24,719	15,315	24,875
Reserves from profit		1.4.35.	29,106	29,106	29,106	29,106
Retained earnings		1.4.35.	195,462	160,462	178,987	143,462
Income from current year		1.4.35.	46,008	34,850	50,733	35,379
Total shareholders' equity			442,586	405,982	430,986	389,667
Shareholder's equity attributable to owners of the parent			442,586	405,982	430,986	389,667
Total equity and liabilities			3,837,940	3,656,175	3,828,111	3,645,440

* All changes are described in point 1.2.3. Comparative data.

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

Consolidated statement of changes in equity for the year ended 31 December 2021

EUR 000	Capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including income from current year)	Total equity
Balance at 1 January 2021	52,784	104,061	24,719	29,106	195,312	405,982
Comprehensive income for the financial year after tax	0	0	(9,554)	0	46,008	36,454
Other	0	0	0	0	150	150
Balance at 31 December 2021	52,784	104,061	15,165	29,106	241,470	442,586
Balance at 1 January 2020	52,784	104,061	19,049	29,106	160,454	365,454
Comprehensive income for the financial year after tax	0	0	5,670	0	34,850	40,520
Other	0	0	0	0	8	8
Balance at 31 December 2020	52,784	104,061	24,719	29,106	195,312	405,982

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

Bank statement of changes in equity for the year ended 31 December 2021

EUR 000	Capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including income from current year)	Total equity
Balance at 1 January 2021	52,784	104,061	24,875	29,106	178,841	389,667
Comprehensive income for the financial year after tax	0	0	(9,560)	0	50,733	41,173
Other	0	0	0	0	146	146
Balance at 31 December 2021	52,784	104,061	15,315	29,106	229,720	430,986
Balance at 1 January 2020	52,784	104,061	19,201	29,106	143,462	348,614
Comprehensive income for the financial year after tax	0	0	5,674	0	35,379	41,053
Balance at 31 December 2020	52,784	104,061	24,875	29,106	178,841	389,667

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

Cash flow statement for the year ended 31 December 2021

	SKB Group		SKB Bank		
	EUR 000	2021	2020	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES					
Total profit or loss before tax		56,719	41,940	58,917	39,545
Depreciation		5,896	6,101	4,694	4,721
Impairments / (reversal of impairments) of investments in debt financial instruments at fair value through other comprehensive income		531	271	531	271
Impairments / (reversal of impairments) of loans and other financial assets at amortised costs		(1,910)	14,532	(3,736)	17,808
Net (gains) / losses from exchange differences		(28)	206	(25)	206
Modification (gains) / losses		0	56	0	56
Net (gains) / losses from sale of tangible assets		(1)	(111)	(1)	8
Net (gains) / losses from sale of intangible assets		0	173	0	173
Net unrealised (gains) / losses from non-current assets held for sale and discontinuing operations and liabilities associated therewith		0	(44)	0	(44)
Other adjustments to total profit or loss before tax		172	3,706	185	3,690
Cash flow from operating activities before changes in operating assets and liabilities		61,379	66,830	60,565	66,434
(Increases) / decreases in operating assets		(153,878)	(12,049)	(170,314)	(22,344)
Net (increase) / decrease in financial assets held for trading		3,242	(293)	3,242	(293)
Net (increase) / decrease in non-trading financial assets mandatorily at fair value through profit or loss		6,992	(3,299)	6,992	(3,299)
Net (increase) / decrease in financial assets designated at fair value through profit or loss		6,120	(67)	6,120	(67)
Net (increase) / decrease in financial assets at fair value through other comprehensive income		2,316	(92,520)	2,198	(92,520)
Net (increase) / decrease in loans and other financial assets at amortised cost		(180,409)	74,774	(185,540)	68,067
Net (increase) / decrease in other assets		7,861	9,356	(3,326)	5,768
Increases / (decreases) in operating liabilities		147,374	233,935	143,690	241,068
Net increase / (decrease) in financial liabilities held for trading		(3,898)	53	(3,898)	53
Net increase / (decrease) in financial liabilities designated at fair value through profit or loss		(6,120)	66	(6,120)	66
Net increase / (decrease) in deposits, loans and other financial liabilities measured at amortised cost		157,775	236,408	153,703	240,920
Net increase / (decrease) in derivative financial liabilities intended for hedging		(567)	0	(567)	0
Net increase / (decrease) in other liabilities		184	(2,592)	572	29
Cash flow from operating activities		54,875	288,716	33,941	285,158
Income taxes (paid) / refunded		(4,067)	(9,910)	(521)	(6,967)
Net cash flow from operating activities		50,808	278,806	33,420	278,191

	EUR 000	Notes	SKB Group		SKB Bank	
			2021	2020	2021	2020
CASH FLOWS FROM INVESTING ACTIVITIES						
Receipts from investing activities			21,619	7,551	29,259	342
Receipts from the sale of tangible assets			(7,298)	7,218	342	9
Receipts from the sale of intangible assets			0	48	0	48
Receipts from the sale of investments in debt securities measured at amortized cost			19,013	0	19,013	0
Receipts from non-current assets held for sale and liabilities associated therewith			9,904	285	9,904	285
Cash payments on investing activities			(138,445)	(14,300)	(128,696)	(6,476)
(Cash payments to acquire tangible assets)			(12,630)	(10,087)	(3,121)	(2,384)
(Cash payments to acquire intangible assets)			(2,839)	(4,213)	(2,599)	(4,092)
(Cash payments to acquire non-current assets held for sale and liabilities associated therewith)			(122,976)	0	(122,976)	0
Net cash flow from investing activities			(116,826)	(6,749)	(99,437)	(6,134)
CASH FLOWS FROM FINANCING ACTIVITIES						
Cash receipts from financing activities			0	0	0	0
Cash payments on financing activities			0	0	0	0
Net cash flow from financing activities			0	0	0	0
Effects of change in exchange rates on cash and cash equivalents			(3,755)	(4,095)	(3,755)	(4,095)
Net increase / (decrease) in cash and cash equivalents			(66,018)	272,057	(66,018)	272,057
Opening balance of cash and cash equivalents	1.4.39.		518,211	250,249	518,211	250,249
Closing balance of cash and cash equivalents	1.4.39.		448,438	518,211	448,438	518,211

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

	EUR 000	SKB Group		SKB Bank	
		2021	2020	2021	2020
Cash flows from interest and dividends		80,403	79,940	65,957	63,115
Interest paid		(1,330)	(2,162)	(1,317)	(2,164)
Interest received		81,733	82,102	67,274	65,279
Dividend paid		0	0	0	0
Dividend received		163	231	9,413	12,888
Cash flows from lease liabilities paid		(1,121)	(1,121)	(1,094)	(1,094)

1. Notes to the consolidated financial statements and the SKB Bank's financial statements

1.1. General information

Official seat, legal form, activities

SKB banka d.d. Ljubljana 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 2021:

Name of the company: SKB banka d.d. Ljubljana
Abbreviated name of the company: SKB d.d.
Official seat of the company: Ljubljana
Business address: Ajdovščina 4, 1000 Ljubljana
Organization: Joint stock company
Amount of capital stock: 52,784,176.26 EUR

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

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

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

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

SKB Bank provides additional financial services, in particular:

- mediation in sales of insurance policies, in accordance with the law governing the insurance sector;
- services of managing payment systems in accordance with the law, regulating payment services;
- pension fund management in accordance with the law governing pension and disability insurance;
- custodial services, for which other law defines that they are provided by the bank and services in connection with custodial securities;
- credit agency by consumer and other credits;
- other services and transactions that has similar characteristic regarding performance and risk to which the bank is exposed as mutually recognized financial services or services from 1.to 5.item of this section.

The SKB Bank provides the above banking and financial services on the assumption that it has obtained the appropriate license or permit for the provision of services by the competent authority for each service. SKB Bank has obtained a license or permit from the Bank of Slovenia for all the above service that are actually provided by the SKB Bank. For services such as issuing of electronic money, advising to undertakings on capital structure, business strategy and related questions, portfolio management and advice services, services related to the managing of means of payments, services of managing of pension funds according to the Law of pension and health insurance and performing of custody and related services, SKB Bank has not applied for license.

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

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

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

Consolidated financial statements include:

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

As at 31 December 2021 SKB Leasing and its subsidiary SKB Leasing Select have total assets in the amount of EUR 532,200 thousand (2020: EUR 535,744 thousand), equity in the amount of EUR 35,425 thousand (2020: EUR 38,441 thousand) and a profit for the year in the amount of EUR 9,305 thousand (2020: EUR 12,326 thousand).

SKB Bank is part of Group OTP. The ultimate parent is OTP Bank, Nádor Street 16., Budapest, Hungary. SKB Bank is from 31 December 2019 consolidated into OTP Group. Consolidated Annual Report of OTP Group is located at the web address: <https://www.otpbank.hu/porta/en/IR/Reports/Annual>.

At the end of 2021, a total of 908 (2020: 932) staff were employed in SKB Group; of which by SKB Bank 823 (2020: 848) at the head office in Ljubljana at Ajdovščina 4, and in the 48 branches (2020: 51) spread across Slovenia, and 85 staff were employed by SKB Leasing and SKB Leasing Select (2020: 84). The average number of employees in year 2021 was in SKB Bank 841.3 (2020: 839.4) and in SKB Group 924.1 (2020: 921.6).

1.2. Basis for preparation of financial statements

1.2.1. Basis of preparation

The consolidated financial statements and the separate financial statements at 31 December 2021, and for the year then ended, were authorized for issue by the General Management of SKB Bank on 29 March 2022.

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

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

SKB Group's and SKB Bank's functional currency in 2021 is the Euro ("EUR"). The consolidated financial statements and separate financial statements are prepared in EUR and all values are rounded to the nearest thousand (EUR 000) except when otherwise indicated.

1.2.2. Changes in accounting policies

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

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

- **Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)**

In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. While application is retrospective, an entity is not required to restate prior periods.

- **Amendments to IFRS 4 – Insurance Contracts** – deferral of IFRS 9, adopted by the EU on 16 December 2020 (effective for annual periods beginning on or after 1 January 2021) – the fixed expiry date for the temporary exemption in IFRS 4 from applying IFRS 9 has been deferred to 1 January 2023.
- **Amendments to IFRS 16 – Leases** – COVID-19-Related Rent Concessions beyond 30 June 2021, adopted by the EU on 31 August 2021 (effective for annual periods beginning on or after 1 April 2021 and mandatory if the amendments to IFRS 16 published in May 2020 have been applied (i.e. the exemption for lessees has been retained)).

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

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

The following amendments to the existing standards issued by the International Accounting Standards Board (IASB):

- **IFRS 17 – Insurance Contracts**, including amendments to IFRS 17, adopted by the eu on 23. November 2021 (effective for annual periods beginning on or after 1 January 2023) – the European Union introduces an option to exempt intergenerationally-mutualised and cash flow matched contracts from the annual cohort requirement.
- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

- **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
- **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
- **Annual Improvements 2018-2020** make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases.

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

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

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

- **IFRS 14 – Regulatory Deferral Accounts** (effective for annual periods starting on or after 1 January 2016) – the European Commission has decided not to launch the approval process for this interim standard and to wait for the final standard.
- **Amendment in 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**
The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU.
- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**
The amendments were initially effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. However, in response to the COVID-19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. In November 2021, the Board issued an exposure draft (ED), which clarifies how to treat liabilities that are subject to covenants to be complied with, at a date subsequent to the reporting period. In particular, the Board proposes narrow scope amendments to IAS 1 which effectively reverse the 2020 amendments requiring entities to classify as current, liabilities subject to covenants that must only be complied with within the next twelve months after the reporting period, if those covenants are not met at the end of the reporting period. Instead, the proposals would require entities to present separately all non-current liabilities subject to covenants to be complied with only within twelve months after the reporting period. Furthermore, if entities do not comply with such future covenants at the end of the reporting period, additional disclosures will be required. The proposals will become effective for annual reporting periods beginning on or after 1 January 2024 and will need to be applied retrospectively in accordance with IAS 8, while early adoption is permitted. The Board has also proposed to delay the effective date of the 2020 amendments accordingly, such that entities will not be required to change current practice before the proposed amendments come into effect. These Amendments, including ED proposals, have not yet been endorsed by the EU.
- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)**
The Amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The Amendments have not yet been endorsed by the EU.

- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)**

The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The Amendments have not yet been endorsed by the EU.

- **IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)**

The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12 and specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The Amendments have not yet been endorsed by the EU.

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.

1.2.3. Comparative data

In accordance with the instructions of the Bank of Slovenia, we transferred in 2021 revenues from written-off loans and receivables from item profits upon derecognition of financial assets measured at amortized cost to the item reversal of impairment of financial assets measured at amortized cost (2021: EUR 395 thousand; 2020: EUR 1,284 thousand). In accordance with paragraph 53 of Part 2 of Annex V to Commission Implementing Regulation (EU) No 680/2014, when writing off the exposures that are not measured at fair value through profit or loss, any difference between the book value and value adjustment for credit losses is recognized in the income statement as an impairment expense, and any payments from these write-offs are recognized as income from the elimination of impairments.

In 2021, the margin on the purchase and sale of foreign currency was shifted from the item of commissions from the provision of foreign exchange services to the item of net gains/losses on the purchase and sale of foreign currencies (2021: EUR 1,274 thousand; 2020: EUR 1,342 thousand). According to the instructions of the Bank of Slovenia, the commissions include revenues or expenses from exchange operations at the bank counter when it comes to cash operations. The cash margin for the exchange on the transaction account, which occurs non-cash, belongs to the trading gains / losses.

We changed the calculation of expected credit losses in accordance with IFRS 9. According to the new rules, expected credit losses are being calculated also on nostro accounts, on the exposure to the Bank of Slovenia and on the exposure to banks from deposits. Impairments from this amount amount to EUR 93 thousand.

Based on the EBA's explanation that the costs of the Supervisory Board should be included under labor costs, the costs of meeting fees and bonuses to members of the Supervisory Board were shifted from other services to other labor costs (2021: EUR 76 thousand; 2020: EUR 71 thousand). Social contributions related to these costs were shifted from taxes and other charges to costs related to social security contributions (2021: EUR 8 thousand; 2020: EUR 7 thousand).

In the Statement of Financial Position, liabilities for salaries, salary compensations and contributions and taxes from salaries, as well as liabilities for employee benefits are no longer reported under "Other financial liabilities", which are part of the balance sheet item "Financial liabilities measured at amortized cost" but among "Other liabilities" (2021: EUR 2,402 thousand; 2020: EUR 2,357 thousand).

1.2.4. Significant accounting judgments and estimates

Accounting judgments

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

The most significant judgements relate to classifications of financial instruments into appropriate business model, as well as to assessing whether the contractual cash flows of the financial asset represent an exclusive payment of principal and interest.

Estimates and assumptions

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

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

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

Fair value of financial instruments

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

The input for these models is taken from observable markets where possible. However where this is not feasible, a degree of judgment is required in establishing fair values. The valuation of financial assets and financial liabilities carried at fair value is described in more detail in Notes 1.3.7. to 1.3.9.

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

In year 2021 SKB Bank did not make any sales of financial assets in response to the COVID-19 situation and made no changes in financial asset management business model. The fair value of financial assets is disclosed in Chapter 3. of the accounting part of the Annual report.

Impairment of loans

The SKB Group and SKB Bank regularly review their loans and receivables in order to assess impairment. We perform individual impairments of all loans for which there is individual and objective evidence of impairment due to events that have affected the estimated future cash flows. When estimating the amount of impairment loss in cases where the borrower is in financial difficulties and when little historical data is available for similar cases of borrowers, we use estimates based on their experience, which include estimates of expected cash flows from collateral and other sources.

Similarly, we estimate changes in future cash flows based on significant data indicating that there have been adverse changes in the financial discipline of a particular segment of borrowers or changes in national or local circumstances related to default in that segment.

To calculate impairments on a healthy portfolio, a twelve-month or lifetime expected credit loss is calculated using future cash flows of financial assets and the application of appropriate risk parameters such as default probability and default loss. The group uses statistical models to calculate both parameters.

Future events and their effects cannot be detected with certainty. Therefore, the preparation of financial estimates requires judgment and estimates that are used in the preparation of the financial statements and change as new events arise, in order to gain new experience and additional information.

The SKB Group and SKB Bank check the adequacy of the loss parameter in the event of default and the default rate once a year.

The SKB Group and SKB Bank also closely monitor the potential effects of macroeconomic developments, including the effects of COVID-19, on the Group's portfolio. The key elements of IFRS monitoring are:

- analysis of additional criteria for classifying customers in terms of a significant increase in credit risk for pocket allocation 2,
- adjustment of PD and LGD curves with macroeconomic expectations,
- changes in the selection and weights of scenarios in line with the expected situation in the macroeconomic environment.

Impairment of tangible and intangible assets

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

Impairment of Goodwill

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

Useful lives of tangible and intangible assets

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

SKB Group still has in use intangible assets at a purchase value of EUR 11,522 thousand, which are 100 % depreciated.

SKB Bank still has in use intangible assets at a purchase value of EUR 10,585 thousand, which are 100 % depreciated.

Taxes and tax contingencies

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

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

Provisions for off-balance sheet risks

Provisions for off-balance sheet are made for financial guarantees, letter of credits and credit lines in accordance with IFRS 9. SKB Group and SKB Bank make provisions for off-balance sheet items taking into account the financial condition, payment discipline and collateral if any. Exposure at Default (EAD) for off-balance sheet items is set out in the "Exposure to default" section.

Provisions for liabilities to employees

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

Provisions for legal disputes

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

1.3. Summary of significant accounting policies

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

1.3.1. Consolidation

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

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

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

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

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

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

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

1.3.2. Related parties

Related parties of SKB Bank in the reporting period are:

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

1.3.3. Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the ECB reference rates for the EUR as of 31 December 2021 and 31 December 2020, respectively.

Transactions denominated in foreign currencies are recorded at the ECB reference rate on the date of the transaction. Monetary items in foreign currency are translated at the functional currency rate of exchange ruling at the balance sheet date. Gains and losses from foreign currency (FX) translations are included in the income statement of the respective year in "Gains/Losses from Exchange differences". Fees from exchange services are included in the profit and loss account in "Fee and commission income and fee and commission expenses".

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

1.3.4. Financial instruments

1.3.4.1. Initial recognition and derecognition of financial instruments

1.3.4.1.1. Initial recognition

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

Financial assets in the scope of IFRS 9 are classified as:

- 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.

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

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

1.3.4.1.2. Modification of financial instruments and derecognition

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

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

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

A contractual modification of the initial cash flows due to restructuring should not result in the derecognition of the loan unless the contractual modification is such as to call into question its classification as SPPI. If the modified loan still passes SPPI, then it must be maintained in the statement of financial position. The newly recognised loan must then undergo fresh SPPI testing.

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

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

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

The SKB Group writes off a financial asset (in part or in full), measured at amortized cost, when it finds in the recovery process and in the realization of collateral that there is no realistic possibility of repaying the receivable. In terms of content, a write-off represents the derecognition of a financial asset. Write-offs of funds still under recovery and legal proceedings do not affect rights in enforcement proceedings.

The SKB Group is still striving to fully recover all amounts to which it is legally entitled. A write-down reduces the gross carrying amount of a financial asset and impairment losses. Subsequent recoveries are recorded as a reduction in credit losses. The residual value of financial assets that are fully written-off amounts 47,530 thousand EUR as at 31 December 2021 (31 December 2020: 47,012 thousand EUR).

1.3.4.2. Classification and measurement

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

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

1.3.4.2.1. Business models of SKB Group and SKB Bank

SKB Group and SKB Bank classify the group of financial assets or liabilities in a particular business model taking into account how groups of financial assets or liabilities are managed together to achieve a particular business objective.

The business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or liabilities or both. This assessment is performed on the basis of expected scenarios. When assessing the business model, SKB Group and SKB Bank use the judgement and consider all relevant evidence that is available.

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

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

Business model "Financial assets held for sale"

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

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

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 to the outstanding principal amount. Sales are possible, but should remain marginal. Sales related to increased credit risk, sales close to maturity and sales to ensure liquidity needs are also permitted.

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

Business model "Collecting contractual cash flows and sale"

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

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

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

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

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

1.3.4.2.2. Cash flow characteristics

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

Contractual cash flows are SPPI if:

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

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

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

1.3.4.2.3. Classification of financial instruments

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

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

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

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

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

1.3.4.2.4. Measurement of financial instruments

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

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

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

1.3.4.3. Reclassification of financial instruments

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

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

There were no reclassifications of financial assets in 2021.

1.3.4.4. Recognition of gains and losses

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

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

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

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

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

1.3.4.5. Impairment of financial instruments

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

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

- **Stage 1**

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

- **Stage 2**

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

- **Stage 3**

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

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

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

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

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

- a financial asset is in delay for more than 30 days in a particular time frame;
- it is classified as performing forborne;
- its currency suffered a significant "shock" since the disbursement of the loan;
- in the case household mortgage loans, the loan-to-value ratio (LTV) exceeds a predefined rate (at present 125 %);
- default on another loan of the retail client, if no cross-default exists;
- the monitoring classification of Non retail exposure is Watch-list;
- in case of invalid rating 10+DPD in the last 6 months;
- a relative change in credit risk since initial recognition, excluding customers with low credit risk according to the internal credit rating.

When a concession is granted by SKB Group and SKB Bank to the obligor, experiencing or about to experience financial difficulties, which correspond to the definition of forbearance, SKB Group and SKB Bank classify such exposures as a rule as defaulted, and calculates lifetime expected credit loss. The decision to allocate the investment to the healthy part of the portfolio is made only in the case of an immaterial difference in the net present value of the restructured investment compared to the original investment. In accordance with the EBA guidelines for deferred loans, the Group also allocates individual deferred loans concluded due to the COVID-19 pandemic to a healthy part of the portfolio.

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

Calculation of expected credit loss

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

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

Exposure at Default (EAD)

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

Probability of default (PD)

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

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

Loss Given Default (LGD)

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

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

Forward looking information

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

Assumptions about macroeconomic indicators and sensitivity analyses

The sensitivity contains the impact of different scenarios as at 31 December 2021 assuming each with a weight of 100 %.

Scenario	Scenario weights	2022	2023	2024	ECL sensitivity (100 % weight)
GDP growth					
Forecast	0.5	4.6 %	3.0 %	3.0 %	10,067
W stress	0.3	1.2 %	1.8 %	1.9 %	26,488
Stress	0.2	(7.7 %)	(1.3 %)	4.1 %	87,458
Total	1.0				31,858

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

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

Cash and cash equivalents

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

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

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

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

1.3.6. Financial assets held for trading

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

1.3.6.1. Derivatives

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

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

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

1.3.6.2. Derivatives – hedge accounting

Portfolio hedging against interest rate risks and cash flow changes

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

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

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

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

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

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to net profit or loss for the year. In 2021, we did not have such derivatives.

1.3.6.3. Debt instruments

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

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

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

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

1.3.8. Financial assets designated for measurement at fair value through profit and loss

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

All realised and unrealised gains and losses from debt instruments designated at fair value through profit and loss are reported in "Gains and losses on financial assets and liabilities designated at fair value through profit or loss". Interests earned are reported as interest income. However, interest on these instruments are shown under 'net interest'. Transaction costs are recognized in the income statement at the time of purchase.

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

Financial assets at fair value through other comprehensive income are financial asset held for acquiring contractual cash flows and sale. In this category SKB Group and SKB Bank classify debt instruments.

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

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

1.3.10. Financial assets measured at amortised cost

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

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

Restructured and refinanced loans

SKB Group's and SKB Bank's decision regarding the method of resolving bad investments is based on the review of the causes for debtor's difficulties, that it can no longer repay the debt under the originally agreed terms. Sometimes the realisation of insurance is more rational decision than debt's restructuring. In case of restructuring the most common methods are: extending the payment deadlines, new loan conditions and in some cases the conversion of part of debt to equity.

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

According to EBA and Bank of Slovenia rules, the investments for which the forbore instruments have been used, remain classified in a category non-performing loans. SKB Group and SKB Bank are reviewing the fulfilment of new conditions of restructuring loans and monitor the possibility of future payments.

1.3.11. Tangible assets

1.3.11.1. Property, plant and equipment

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

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

in %	2021	2020
Buildings and their significant parts	1.8 – 10.0	1.8 – 10.0
Furniture and fittings	6.7 – 15.0	6.7 – 15.0
Computers	11.1 – 50.0	11.1 – 50.0
Equipment and other	6.7 – 33.3	6.7 – 33.3

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

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

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

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

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

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

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

1.3.11.2. Investment property

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

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

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

1.3.12. Intangible assets

Intangible assets include computer software and goodwill.

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

1.3.12.1. Computer software

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

in %	2021	2020
Computer software	14.3 - 20.0	14.3 - 20.0

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

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

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

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

1.3.12.2. Goodwill

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

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

1.3.13. Tax assets and liabilities

1.3.13.1. Current tax assets and liabilities

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

1.3.13.2. Deferred tax assets and liabilities

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

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

Deferred tax relating to items recognised in equity in "Accumulated other comprehensive income " is also recognised in that position.

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

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

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

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

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

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

1.3.15. Leases

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

SKB Group and SKB Bank did not receive or grant any concessions related to COVID-19 in 2021, so the amendment to IFRS 16 (Concessions for Rents Related to COVID-19) from 2020 and 2021 don't have an impact on the financial statements.

1.3.15.1. SKB Group and SKB Bank as lessor

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

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

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

1.3.15.2. SKB Group and SKB Bank as lessee

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

Value of right-of-use asset covers: amount of initial measurement of liability from lease, rent payments, which were carried out at the beginning of lease or before, reduced for received lease initiatives, initial direct costs, which incurred at lessor, and an estimate of the costs that will be incurred by the lessee in restoring, returning or removing the leased asset. Value of right-of-use is evenly time depreciated in accordance with period of lease. Lease liability is measured as present value of rents, paid in period time of lease and are discounted at interest rate as stated above.

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

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

Lease duration

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

Interest rate – discount rate

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

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

Leases that do not qualify for recognition

Leases do not qualify for recognition in case of:

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

1.3.16. Financial liabilities held for trading

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

1.3.17. Financial liabilities designated for measurement at fair value through profit or loss

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

1.3.18. Financial liabilities measured at amortised cost

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

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

1.3.19. Provisions

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

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

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

1.3.20. Financial guarantees

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

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

1.3.21. Equity

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

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

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

In accordance with IFRS 2, the calculated amount for shares that will be granted later is recognized as an expense in the income statement and booked to equity - retained earnings. The liability must be measured at fair value.

1.3.22. Interest income and expenses

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

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

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

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

1.3.23. Dividend income

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

1.3.24. Fee and commission income

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

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

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

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

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

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

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

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

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

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

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

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

1.3.29. Gains and losses from hedge accounting

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

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

1.3.30. Gains and losses on exchange differences

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

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

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

1.3.32. Staff expenses

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

SKB Group and SKB Bank create accruals for employee holiday, benefits for the present value of defined employee retirement plans and seniority awards based on actuarial calculations.

Retirement Severance Pay:

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

Seniority awards:

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

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

Termination benefits:

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

Management bonus scheme:

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

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

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

1.3.34. Fiduciary assets

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

1.3.35. Offsetting

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

1.3.36. Operations for the account of third parties

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

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

1.4.1. Net interest income

	SKB Group		SKB Bank		
	EUR 000	2021	2020	2021	2020
Interest income					
Non-trading financial assets mandatorily at fair value through profit or loss		349	342	349	342
Financial assets designated at fair value through profit or loss		56	0	56	0
Financial assets at fair value through other comprehensive income		5,430	5,402	5,430	5,402
Financial assets at amortised cost		71,677	75,465	57,104	59,190
Derivatives - hedge accounting		0	163	0	163
Interest income on impaired financial assets accrued - loans and receivables to customers		451	619	334	298
Financial liabilities arising from negative interest rate		191	285	191	285
		78,154	82,276	63,464	65,680
Interest expense					
Financial liabilities designated at fair value through profit or loss		(56)	0	(56)	0
Financial liabilities measured at amortised cost		(893)	(1,619)	(893)	(1,621)
Other liabilities		(20)	(2)	(20)	(2)
Financial assets arising from negative interest rate		(769)	(760)	(769)	(760)
		(1,738)	(2,381)	(1,738)	(2,383)
Net interest income		76,416	79,895	61,726	63,297

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

EUR 000	SKB Group		SKB Bank	
	2021	2020	2021	2020
Interest income from financial assets at amortised cost				
• corporates	12,084	12,616	11,728	12,041
• government	4,618	4,552	4,618	4,552
• financial organisations	(141)	61	5,363	5,945
• individuals and sole proprietors	35,839	37,073	35,729	36,950
• long term financial leases	19,728	21,782	0	0
	72,128	76,084	57,438	59,488
Interest expense from financial liabilities measured at amortised cost				
• corporates	(153)	(172)	(152)	(172)
• government	(6)	(10)	(6)	(10)
• financial organisations	(28)	(182)	(30)	(184)
• individuals and sole proprietors	(706)	(1,255)	(705)	(1,255)
	(893)	(1,619)	(893)	(1,621)

1.4.2. Dividend income

EUR 000	SKB Group		SKB Bank	
	2021	2020	2021	2020
Dividend income from non-trading financial assets mandatorily at fair value through profit or loss	163	231	163	231
Dividend income from investments in subsidiaries, associates and joint ventures (accounted for using the cost method)	0	0	9,250	12,657
Total	163	231	9,413	12,888

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

1.4.3. Net fee and commission income

SKB Group	2021			2020			
	EUR 000	Households	Legal entity	Total	Households	Legal entity	Total
Fee and commission income related to banking activities							
Credit cards and ATMs		4,525	3,816	8,341	4,697	3,074	7,771
Customer transactions accounts		9,902	1,310	11,212	8,103	1,813	9,916
Payments		4,085	9,125	13,210	4,816	8,820	13,636
Guarantees		48	2,348	2,396	66	2,305	2,371
Loans transactions		2,964	3,724	6,688	2,126	906	3,032
Agency of insurance products		0	1,802	1,802	0	1,782	1,782
Other services		217	507	724	208	647	855
Total		21,741	22,632	44,373	20,016	19,347	39,363
Fee and commission expenses related to banking activities							
Credit cards and ATMs		0	(6,260)	(6,260)	0	(5,878)	(5,878)
Customer transaction accounts		0	0	0	0	0	0
Payments		0	(1,330)	(1,330)	0	(1,277)	(1,277)
Guarantees		0	(645)	(645)	0	(713)	(713)
Loans transactions		0	(456)	(456)	0	(563)	(563)
Agency of insurance products		0	0	0	0	0	0
Other services		0	(48)	(48)	0	(368)	(368)
Total		0	(8,739)	(8,739)	0	(8,799)	(8,799)
Net fee and commission income related to banking activities		21,741	13,893	35,634	20,016	10,548	30,564
Fee and commission income related to customer activities							
Fees from KDD and related organizations		0	0	0	0	0	0
Fees from securities stock market and related organizations		0	0	0	0	0	0
Custody and other related services		0	12	12	0	16	16
Receiving, transmission and executions of orders		124	759	883	120	379	499
Account management of customer's book-entry securities		175	618	793	168	543	711
Total		299	1,389	1,688	288	938	1,226
Fee and commission expenses related to customer activities							
Fees from KDD and related organizations		0	(361)	(361)	0	(320)	(320)
Fees from securities stock market and related organizations		0	(303)	(303)	0	(203)	(203)
Custody and other related services		0	(73)	(73)	0	(45)	(45)
Receiving, transmission and executions of orders		0	0	0	0	0	0
Account management of customer's book-entry securities		0	0	0	0	0	0
Total		0	(737)	(737)	0	(568)	(568)
Net fee and commission income related to customer activities		299	652	951	288	370	658
Fee and commission income		22,040	24,021	46,061	20,304	20,285	40,589
Fee and commission expenses		0	(9,476)	(9,476)	0	(9,367)	(9,367)
Net fee and commission income		22,040	14,545	36,585	20,304	10,918	31,222

SKB Bank	2021			2020			
	EUR 000	Households	Legal entity	Total	Households	Legal entity	Total
Fee and commission income related to banking activities							
Credit cards and ATMs		4,525	3,817	8,342	4,697	3,074	7,771
Customer transactions accounts		9,901	1,310	11,211	8,103	1,814	9,917
Payments		4,085	8,948	13,033	4,816	8,584	13,400
Guarantees		48	2,348	2,396	66	2,305	2,371
Loans transactions		2,964	3,724	6,688	2,126	906	3,032
Agency of insurance products		0	1,802	1,802	0	1,782	1,782
Other services		217	200	417	208	153	361
Total		21,740	22,149	43,889	20,016	18,618	38,634
Fee and commission expenses related to banking activities							
Credit cards and ATMs		0	(6,259)	(6,259)	0	(5,878)	(5,878)
Customer transaction accounts		0	0	0	0	0	0
Payments		0	(1,329)	(1,329)	0	(1,276)	(1,276)
Guarantees		0	(645)	(645)	0	(713)	(713)
Loans transactions		0	0	0	0	(25)	(25)
Agency of insurance products		0	0	0	0	0	0
Other services		0	(48)	(48)	0	(368)	(368)
Total		0	(8,281)	(8,281)	0	(8,260)	(8,260)
Net fee and commission income related to banking activities		21,740	13,868	35,608	20,016	10,358	30,374
Fee and commission income related to customer activities							
Fees from KDD and related organizations		0	0	0	0	0	0
Fees from securities stock market and related organizations		0	0	0	0	0	0
Custody and other related services		0	12	12	0	16	16
Receiving, transmission and executions of orders		124	759	883	120	379	499
Account management of customer's book-entry securities		175	618	793	168	543	711
Total		299	1,389	1,688	288	938	1,226
Fee and commission expenses related to customer activities							
Fees from KDD and related organizations		0	(361)	(361)	0	(320)	(320)
Fees from securities stock market and related organizations		0	(12)	(12)	0	(14)	(14)
Custody and other related services		0	(73)	(73)	0	(45)	(45)
Receiving, transmission and executions of orders		0	0	0	0	0	0
Account management of customer's book-entry securities		0	0	0	0	0	0
Total		0	(446)	(446)	0	(379)	(379)
Net fee and commission income related to customer activities		299	943	1,242	288	559	847
Fee and commission income		22,039	23,538	45,577	20,304	19,556	39,860
Fee and commission expenses		0	(8,727)	(8,727)	0	(8,639)	(8,639)
Net fee and commission income		22,039	14,811	36,850	20,304	10,917	31,221

Tax on financial services decreased revenues from fees in 2021 in the amount of EUR 4,333 thousand (2020: EUR 3,759 thousand).

Fee and commission income and expense relating to foreign exchange transactions are according to new scheme of Income statement included in Gains and losses on financial assets and liabilities held for trading. SKB Group and SKB Bank have adjusted the comparative data for year 2020. We transferred fee and commission income and expense in the amount of EUR 1,342 thousand on financial assets and liabilities held for trading.

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

	SKB Group		SKB Bank	
	2021	2020	2021	2020
EUR 000				
Gains				
Financial assets at amortised cost	342	1,583	0	1,284
Financial liabilities measured at amortized cost	9	2	9	2
	351	1,585	9	1,286
Losses				
Financial assets at amortised cost	(435)	(222)	(26)	(26)
Financial liabilities measured at amortized cost	0	0	0	0
	(435)	(222)	(26)	(26)
	(84)	1,363	(17)	1,260

1.4.5. Realized gains and losses on financial assets and liabilities held for trading

	SKB Group		SKB Bank	
	2021	2020	2021	2020
EUR 000				
Net gains or losses from derivatives	728	434	728	434
Net gains or losses from dealing in loans and other financial assets	1,381	1,627	1,381	1,627
	2,109	2,061	2,109	2,061

Fee and commission income and expense relating to foreign exchange transactions are according to new scheme of Income statement included in Gains and losses on financial assets and liabilities held for trading. SKB Group and SKB Bank have adjusted the comparative data for year 2020. We transferred fee and commission income and expense in the amount of EUR 1,342 thousand on financial assets and liabilities held for trading.

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

	SKB Group		SKB Bank	
	2021	2020	2021	2020
EUR 000				
Gains	4,551	6,742	4,551	6,742
Losses	(2,323)	(2,285)	(2,323)	(2,285)
	2,228	4,457	2,228	4,457

Losses from investments in equity in the amount of EUR 48 thousand (2020: gains in the amount of EUR 4,762 thousand) and gains from loans and other financial assets in the amount of EUR 2,275 thousand (2020: loss in the amount of EUR 305 thousand) are included in this item.

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

	EUR 000	SKB Group		SKB Bank	
		2021	2020	2021	2020
Gains		-	105	-	105
Losses		-	(105)	-	(105)

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

1.4.8. Gains and losses from hedge accounting

	EUR 000	SKB Group		SKB Bank	
		2021	2020	2021	2020
Net gains or losses from derivatives - fair value hedge		-	160	-	160
Net gains or losses from hedged items related to hedged risk - fair value hedge		567	147	567	147
Net gains or losses from ineffective cash flow hedge		-	-	-	-
		567	307	567	307

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

1.4.9. Gains and losses on exchange differences

	EUR 000	SKB Group		SKB Bank	
		2021	2020	2021	2020
Exchange differences		27	(206)	24	(206)
		27	(206)	24	(206)

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

	EUR 000	SKB Group		SKB Bank	
		2021	2020	2021	2020
Gains		84	154	5	1
Losses		(52)	(216)	(6)	(182)
		32	(62)	(1)	(181)

Profit from sale of property, plant and equipment of SKB Group in 2021 amounted to EUR 84 thousand (2020: EUR 154 thousand) and losses from sale of property, plant and equipment amounted to EUR 52 thousand (2020: EUR 43 thousand). In 2021, the SKB Group did not incur any losses from intangible fixed assets (2020: EUR 173 thousand).

Profit from sale of property, plant and equipment of SKB Bank in 2021 amounted to EUR 5 thousand (2020: EUR 1 thousand) and losses from sale of property, plant and equipment amounted to EUR 6 thousand (2020: EUR 9 thousand). In 2021, the SKB Bank did not incur any losses from intangible fixed assets (2020: EUR 173 thousand).

1.4.11. Other operating income and expenses

	SKB Group		SKB Bank		
	EUR 000	2021	2020	2021	2020
Income					
Rental income - investment property		86	104	242	254
Rental income - POS-terminals		347	319	347	319
Rental income - other property, plant and equipment		31	36	76	84
Sale of services - operational leases		951	1,004	0	0
Sale of services - other		544	524	0	0
Other operating income		2,047	1,522	2,156	1,634
		4,006	3,509	2,821	2,291
Expenses					
Taxes		(33)	(33)	0	0
Contributions		0	0	0	0
Rental expense - other property, plant and equipment		(4)	(4)	(4)	(4)
Other operating expenses		(21)	(63)	(18)	(63)
		(58)	(100)	(22)	(67)
		3,948	3,409	2,799	2,224

Other operating income include revenues from charged rents with related costs in the amount of EUR 653 thousand (2020: EUR 625 thousand), various incentives in the amount of EUR 724 thousand (2020: EUR 487 thousand) and internal work on projects in the amount of EUR 1,010 thousand (2020: EUR 890 thousand).

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

	SKB Group		SKB Bank		
	EUR 000	2021	2020	2021	2020
Future minimum income from operating lease - cars and other equipment					
Less than one year		1,129	1,335	347	319
One to five years		2,510	2,614	1,733	1,593
		3,640	3,949	2,080	1,912
Future minimum income from operating lease - real estate					
Less than one year		101	129	288	325
One to five years		68	282	452	853
		169	411	740	1,178

Among the future minimum income, this year we also took into account the income from rents of POS-terminals. We adjusted the data for 2020 accordingly.

1.4.12. Administration costs

	SKB Group		SKB Bank		
	EUR 000	2021	2020	2021	2020
Payroll and other staff costs					
Salaries Gross		(30,755)	(28,890)	(27,871)	(26,215)
Social security costs		(4,198)	(3,929)	(4,188)	(3,922)
Other employee costs		(2,730)	(2,338)	(2,160)	(1,830)
		(37,683)	(35,157)	(34,219)	(31,967)
Administration costs					
Material costs		(686)	(746)	(641)	(712)
Advertising and marketing		(1,787)	(2,081)	(1,490)	(1,906)
Professional services		(2,027)	(1,673)	(1,549)	(1,278)
IT costs		(3,977)	(3,424)	(3,472)	(2,981)
Operating lease rentals		(532)	(473)	(476)	(434)
Business trips		(82)	(65)	(63)	(51)
Maintenance, managing, protection and insurance of premises		(2,993)	(2,894)	(2,866)	(2,782)
Education, training and scholarships		(248)	(210)	(241)	(203)
Postal and telephone charges		(2,550)	(2,684)	(2,273)	(2,406)
Supervision		(1,072)	(722)	(1,072)	(722)
Other costs		(3,021)	(2,763)	(2,833)	(2,616)
		(18,975)	(17,735)	(16,976)	(16,091)
		(56,658)	(52,892)	(51,195)	(48,058)

Other costs of SKB Group include costs of card and electronic operations and maintenance of ATM's in the amount of EUR 498 thousand (2020: EUR 948 thousand), printing costs in the amount of EUR 221 thousand (2020: EUR 256 thousand) and costs of other services.

Other costs of SKB Bank include costs of card and electronic operations and maintenance of ATM's in the amount of EUR 498 thousand (2020: EUR 948 thousand), printing costs in the amount of EUR 221 thousand (2020: EUR 256 thousand) and costs of other services.

In 2021, the costs of meeting fees and bonuses to members of the Supervisory Board were transferred from the costs of other services to other labor costs in the amount of EUR 76 thousand (2020: EUR 71 thousand). Contributions in the amount of EUR 8 thousand were moved from the costs of taxes and other benefits to the costs related to social security contributions (2020: EUR 7 thousand).

Auditor's fee:

	SKB Group		SKB Bank		
	EUR 000	2021	2020	2021	2020
Audit of annual report by contract		(237)	(249)	(172)	(223)
Other services for assurances		(89)	(17)	(60)	(17)
Other services		-	(69)	-	(57)
		(326)	(335)	(232)	(297)

1.4.13. Cash contributions to resolution funds and deposit guarantee schemes

	SKB Group		SKB Bank	
	2021	2020	2021	2020
EUR 000				
Cash contributions to deposit guarantee schemes	(2,280)	(1,978)	(2,280)	(1,978)
Cash contributions to resolution funds	(1,531)	(1,245)	(1,531)	(1,245)
	(3,811)	(3,223)	(3,811)	(3,223)

1.4.14. Depreciation / Amortization

	SKB Group		SKB Bank	
	2021	2020	2021	2020
EUR 000				
Tangible fixed assets	(3,788)	(4,218)	(2,685)	(2,871)
Intangible fixed assets	(2,068)	(1,837)	(1,926)	(1,762)
Investment property	(40)	(46)	(83)	(88)
	(5,896)	(6,101)	(4,694)	(4,721)

1.4.15. Gains / Losses on repayment modifications

	SKB Group		SKB Bank	
	2021	2020	2021	2020
EUR 000				
Gains / Losses on repayment modifications	(39)	(56)	(39)	(56)
	(39)	(56)	(39)	(56)

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

1.4.16. Provisions

	SKB Group		SKB Bank	
	2021	2020	2021	2020
EUR 000				
Pending legal issues	0	0	0	0
Pensions and similar liabilities	(154)	(310)	(132)	(294)
Commitments and contingencies	96	(3,396)	96	(3,396)
Other	(1,098)	0	(699)	0
	(1,156)	(3,706)	(735)	(3,690)

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

Details of movement in provisions are presented in Note 1.4.33.

1.4.17. Impairment

	SKB Group		SKB Bank		
	EUR 000	2021	2020	2021	2020
Financial assets not measured at fair value through profit or loss					
Financial assets at fair value through other comprehensive income		(531)	(271)	(531)	(271)
Financial assets at amortised cost		2,821	(14,532)	4,226	(17,808)
		2,290	(14,803)	3,695	(18,079)
Other non-financial assets					
Property, plant and equipment		0	0	0	0
Investment property		0	0	0	0
Goodwill		0	0	0	0
Other assets		0	0	0	0
		0	0	0	0
		2,290	(14,803)	3,695	(18,079)

Due to the change in the Bank of Slovenia's methodology, in 2021 we transferred revenues from written-off loans and receivables from "Gains on derecognition of financial assets measured at amortized cost" to the item "Elimination of impairment of financial assets measured at amortized cost" in the amount of EUR 395 thousand (2020: EUR 1,284 thousand).

In 2021, in accordance with IFRS 9, the calculation of expected credit losses also included balances on nostro accounts, exposure to the Bank of Slovenia and exposure to banks from deposits. Impairments from this amount amount to EUR 93 thousand.

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

	SKB Group		SKB Bank		
	EUR 000	2021	2020	2021	2020
Profit or loss from non-current assets held for sale		(2)	44	(2)	44
		(2)	44	(2)	44

1.4.19. Tax

	SKB Group		SKB Bank		
	EUR 000	2021	2020	2021	2020
Income statement					
Income tax payable in the year		(10,583)	(7,121)	(8,166)	(4,078)
Deferred tax		(128)	31	(18)	(88)
Total		(10,711)	(7,090)	(8,184)	(4,166)
Reconciliation of effective tax rate					
Profit before tax		56,719	41,940	58,917	39,545
Income tax calculated using the statutory tax rate		13,442	10,411	11,194	7,513
19 % from items increasing tax base		(6,335)	(7,263)	(3,015)	(3,584)
19 % from items decreasing tax base		4,258	4,416	725	556
Tax reliefs		(782)	(443)	(738)	(407)
Income tax payable in the year		10,583	7,121	8,166	4,078

The statutory tax rate is 19 %. The Bank's effective tax rate for 2021 was 14 %, the effective tax rate of the Group for 2021 was 15 %.

Tax assets and tax liabilities:

	SKB Group		SKB Bank		
	EUR 000	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Tax assets					
Current tax assets		626	3,557	0	3,557
Deferred tax assets		0	0	0	0
		626	3,557	0	3,557
Tax liabilities					
Current tax liabilities		4,088	504	4,088	0
Deferred tax liabilities		694	2,807	2,682	4,907
		4,782	3,311	6,770	4,907

Net deferred tax assets and liabilities:

	SKB Group		SKB Bank		
	EUR 000	31. 12. 2021	31. 12. 2020	31. 12. 2021	31. 12. 2020
Deferred tax liabilities					
Mark to market valuation of securities at fair value through other comprehensive income - bonds		3,658	6,002	3,658	6,002
Impairment of securities at fair value through other comprehensive income - bonds		156	55	156	55
		3,814	6,057	3,814	6,057
Deferred tax assets					
Long term provisions		9	9	9	9
Provisions for retirement indemnities		254	253	250	249
Provisions for retirement indemnities - actuarial losses through other comprehensive income		126	125	89	89
Provisions for jubilee benefits		28	30	40	43
Securities at fair value through other comprehensive income		156	55	156	55
Securities at amortised cost		25	14	25	14
Impairment of loans measured at amortized cost		1,876	1,988	0	0
Tangible assets		479	477	396	392
Goodwill		167	299	167	299
		3,120	3,250	1,132	1,150
Net deferred taxes		(694)	(2,807)	(2,682)	(4,907)

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

	SKB Group		SKB Bank		
	EUR 000	31. 12. 2021	31. 12. 2020	31. 12. 2021	31. 12. 2020
Long term provisions		0	0	0	0
Provisions for retirement indemnities and seniority awards		1	6	(1)	5
Securities, measured at fair value through other comprehensive income - bonds		101	51	101	51
Securities, measured at amortized cost		11	12	11	12
Depreciation over maximum tax-allowable rates		1	(40)	2	(25)
Impairment of financial assets at amortized cost - loans		(111)	133	0	0
Impairment of goodwill		(131)	(131)	(131)	(131)
Net income / (loss) from deferred tax		(128)	31	(18)	(88)

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

	SKB Group		SKB Bank		
	EUR 000	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Deferred tax liabilities					
Mark to market valuation of securities at fair value through other comprehensive income - bonds		3,814	6,057	3,814	6,057
		3,814	6,057	3,814	6,057
Deferred tax assets					
Provisions for retirement indemnities - actuarial losses through other comprehensive income		126	102	89	89
		126	102	89	89
Net deferred tax assets/(liabilities)		(3,688)	(5,955)	(3,725)	(5,968)

Tax payable and matured unpaid taxes

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

Movement of deferred taxes

SKB Group											
EUR 000	Balance 31.12.2020	Additional provisions for liabilities and charges	Valuation of financial instruments and capital investments	Depreciation and valuation of non- financial assets	Impairment of financial assets	Tax incen- tives	Adjustments to the fair value of financial assets measured at amortized cost	Other	Valuation of financial instruments and capital investments	Additional provisions	Balance 31.12.2021
Deferred tax liabilities											
Mark to market valuation of securities at fair value through other comprehensive income - bonds	6,002	0	0	0	0	0	0	0	(2,344)	0	3,658
Impairment of securities measured at fair value through other comprehensive income - bonds	55	0	0	0	0	0	0	0	101	0	156
	6,057	0	0	0	0	0	0	0	(2,243)	0	3,814
Deferred tax assets											
Long term provisions	9	0	0	0	0	0	0	0	0	0	9
Provisions for retirement indemnities	253	18	0	0	0	0	0	(17)	0	0	254
Provisions for retirement severance payments - actuarial losses through other comprehensive income"	125	0	0	0	0	0	0	1	0	0	126
Provisions for jubilee benefits	30	4	0	0	0	0	0	(6)	0	0	28
Securities at fair value through other comprehensive income	55	0	0	0	101	0	0	0	0	0	156
Securities at amortised cost	14	0	0	0	11	0	0	0	0	0	25
Tangible assets	477	0	0	2	0	0	0	0	0	0	479
Impairment of loans measured at amortized cost	1,988	2,557	0	0	0	0	0	(2,669)	0	0	1,876
Goodwill	299	0	0	(132)	0	0	0	0	0	0	167
	3,250	2,579	0	(130)	112	0	0	(2,691)	0	0	3,120
Net deferred tax assets/(liabilities)	(2,807)	2,579	0	(130)	112	0	0	(2,691)	2,243	0	(694)

SKB Group											
EUR 000	Balance 31.12.2019	Additional provisions for liabilities and charges	Valuation of financial instruments and capital investments	Depreciation and valuation of non- financial assets	Impairment of financial assets	Tax incentives	Adjustments to the fair value of financial assets measured at amortized cost	Other	Valuation of financial instruments and capital investments	Additional provisions	Balance 31.12.2020
Deferred tax liabilities											
Mark to market valuation of securities at fair value through other comprehensive income - bonds	4,700	0	0	0	0	0	0	0	1,302	0	6,002
Impairment of securities measured at fair value through other comprehensive income - bonds	3	0	0	0	0	0	0	0	52	0	55
	4,703	0	0	0	0	0	0	0	1,354	0	6,057
Deferred tax assets											0
Long term provisions	9	0	0	0	0	0	0	0	0	0	9
Provisions for retirement indemnities	246	17	0	0	0	0	0	(10)	0	0	253
Provisions for retirement severance payments - actuarial losses through other comprehensive income ^a	115	0	0	0	0	0	0	0	0	10	125
Provisions for jubilee benefits	30	3	0	0	0	0	0	(3)	0	0	30
Securities at fair value through other comprehensive income	3	0	0	0	52	0	0	0	0	0	55
Securities at amortised cost	2	0	0	0	12	0	0	0	0	0	14
Tangible assets	518	65	0	(26)	0	0	0	(80)	0	0	477
Impairment of loans measured at amortized cost	1,855	2,858	0	0	0	0	0	(2,725)	0	0	1,988
Goodwill	430	0	0	(131)	0	0	0	0	0	0	299
	3,208	2,943	0	(157)	64	0	0	(2,818)	0	10	3,250
Net deferred tax assets/(liabilities)	(1,495)	2,943	0	(157)	64	0	0	(2,818)	(1,354)	10	(2,807)

SKB Bank											
EUR 000	Balance 31.12.2020	Additional provisions for liabilities and charges	Valuation of financial instruments and capital investments	Depreciation and valuation of non- financial assets	Impairment of financial assets	Tax incen- tives	Adjustments to the fair value of financial assets measured at amortized cost	Other	Valuation of financial instruments and capital investments	Additional provisions	Balance 31.12.2021
Deferred tax liabilities											
Mark to market valuation of securities at fair value through other comprehensive income - bonds	6,002	0	0	0	0	0	0	0	(2,344)	0	3,658
Impairment of securities measured at fair value through other comprehensive income - bonds	55	0	0	0	0	0	0	0	101	0	156
	6,057	0	0	0	0	0	0	0	(2,243)	0	3,814
Deferred tax assets											
Long term provisions	9	0	0	0	0	0	0	0	0	0	9
Provisions for retirement indemnities	249	16	0	0	0	0	0	(15)	0	0	250
Provisions for retirement severance payments - actuarial losses through other comprehensive income"	89	0	0	0	0	0	0	0	0	0	89
Provisions for jubilee benefits	43	4	0	0	0	0	0	(7)	0	0	40
Securities at fair value through other comprehensive income	55	0	0	0	101	0	0	0	0	0	156
Securities at amortised cost	14	0	0	0	11	0	0	0	0	0	25
Tangible assets	392	0	0	4	0	0	0	0	0	0	396
Impairment of loans measured at amortized cost	0	0	0	0	0	0	0	0	0	0	0
Goodwill	299	0	0	(132)	0	0	0	0	0	0	167
	1,150	20	0	(128)	112	0	0	(22)	0	0	1,132
Net deferred tax assets/(liabilities)	(4,907)	20	0	(128)	112	0	0	(22)	2,243	0	(2,682)

SKB Bank											
EUR 000	Balance 31.12.2019	Additional provisions for liabilities and charges	Valuation of financial instruments and capital investments	Depreciation and valuation of non- financial assets	Impairment of financial assets	Tax incen- tives	Adjustments to the fair value of financial assets measured at amortized cost	Other	Valuation of financial instruments and capital investments	Additional provisions	Balance 31.12.2020
Deferred tax liabilities											
Mark to market valuation of securities at fair value through other comprehensive income - bonds	4,700	0	0	0	0	0	0	0	1,302	0	6,002
Impairment of securities measured at fair value through other comprehensive income - bonds	3	0	0	0	0	0	0	0	52	0	55
	4,703	0	0	0	0	0	0	0	1,354	0	6,057
Deferred tax assets											
Long term provisions	9	0	0	0	0	0	0	0	0	0	9
Provisions for retirement indemnities	244	15	0	0	0	0	0	(10)	0	0	249
Provisions for retirement severance payments - actuarial losses through other comprehensive income"	79	0	0	0	0	0	0	0	0	10	89
Provisions for jubilee benefits	43	3	0	0	0	0	0	(3)	0	0	43
Securities at fair value through other comprehensive income	3	0	0	0	52	0	0	0	0	0	55
Securities at amortised cost	2	0	0	0	12	0	0	0	0	0	14
Tangible assets	418	0	0	(26)	0	0	0	0	0	0	392
Impairment of loans measured at amortized cost	0	0	0	0	0	0	0	0	0	0	0
Goodwill	430	0	0	(131)	0	0	0	0	0	0	299
	1,228	18	0	(157)	64	0	0	(13)	0	10	1,150
Net deferred tax assets/(liabilities)	(3,475)	18	0	(157)	64	0	0	(13)	(1,354)	10	(4,907)

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

SKB Group and SKB Bank			
	EUR 000	31.12.2021	31.12.2020
Cash in hand		24,887	22,141
Balances with central banks and other demand deposits at banks		423,641	496,070
Gross exposure		448,528	518,211
Provisions		(93)	0
Net exposure		448,435	518,211

Cash on hand (domestic and foreign) includes cash in branches and ATMs and in the vault, where we keep domestic and foreign cash.

The money in the settlement account with the Bank of Slovenia is the liquid assets we need to provide daily liquidity and perform payment transactions. Other deposits with the central bank represent segregated funds for the SEPA payment settlement guarantee scheme.

Sight deposits with banks represent the balance on the LORO account with another commercial bank, opened for the purpose of performing international payment transactions for clients.

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.

1.4.21. Financial assets and liabilities held for trading

SKB Group and SKB Bank						
EUR 000	31. 12. 2021			31. 12. 2020		
	Nominal value	Fair value assets	Fair value liabilities	Nominal value	Fair value assets	Fair value liabilities
Derivative financial instruments						
Currency forwards	149,180	772	704	65,518	381	807
Currency swaps	83,458	521	542	22,473	457	11
Interest rate swaps	444,282	4,287	4,231	484,889	8,062	8,318
Interest rate options (call option)	11,929	127	0	8,321	2	12
Interest rate options (put option)	11,929	0	127	8,321	8	7
Currency options	0	0	0	0	0	0
Spot	53,248	0	73	37,304	32	5
	754,026	5,707	5,677	626,826	8,942	9,160
Net fair value		30			(218)	

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

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

	SKB Group		SKB Bank	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
EUR 000				
Equity instruments	20,890	20,937	20,890	20,937
Loans and other financial assets	0	6,944	0	6,944
	20,890	27,881	20,890	27,881

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

Financial assets designated at fair value through profit or loss

	SKB Group		SKB Bank	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
EUR 000				
Debt securities				
Debt securities - listed	0	6,120	0	6,120
	0	6,120	0	6,120

Financial liabilities designated at fair value through profit or loss

	SKB Group		SKB Bank	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
EUR 000				
Structured deposit	0	6,120	0	6,120
	0	6,120	0	6,120

The structure of the issued deposits, which matured 4. 3. 2021 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). The maturity interest rate calculated as the average of the 24th quarterly return on the underlying instrument - the Finvex Sustainable & Efficient Europe 30 index was 0.916 %.

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

	SKB Group		SKB Bank		
	EUR 000	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Financial assets - listed					
Government bonds of Republic Slovenia		250,689	272,534	250,689	272,534
Government bonds of Republic France		21,271	22,499	21,271	22,499
Government bonds of Hungary		88,513	53,587	88,513	53,587
Government bonds of Croatia		28,348	17,687	28,348	17,687
Government bonds of Serbia		22,845	0	22,845	0
Government bonds of Romania		53,130	0	53,130	0
		464,796	366,307	464,796	366,307

In 2021, there were no sales of financial assets measured at fair value through other comprehensive income. Therefore, in 2021 SKB Group and SKB Bank did not have any profit or loss from the sale of financial assets measured at fair value through other comprehensive income.

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

	SKB Group		SKB Bank		
	EUR 000	2021	2020	2021	2020
Balance at 1. 1.		366,307	267,205	366,307	267,205
Exchange differences on opening balances of subsidiaries		0	0	0	0
Additions		122,976	113,640	122,976	113,640
Maturity (disposal)		(9,904)	(20,565)	(9,904)	(20,565)
Interest		(2,249)	(827)	(2,249)	(827)
Exchange differences		0	0	0	0
Change in fair value		(12,334)	6,854	(12,334)	6,854
Balance at 31. 12.		464,796	366,307	464,796	366,307

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

	SKB Group		SKB Bank		
	EUR 000	2021	2020	2021	2020
Balance at 1. 1.		25,820	20,050	25,820	20,050
Net gains / losses on fair value changes		(12,333)	6,853	(12,333)	6,853
Impairment		531	271	531	271
Deferred tax		2,242	(1,354)	2,242	(1,354)
Balance at 31. 12.		16,260	25,820	16,260	25,820

1.4.25. Financial assets measured at amortised cost

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

	SKB Group		SKB Bank	
	31. 12. 2021	31. 12. 2020	31. 12. 2021	31. 12. 2020
	EUR 000			
Debt securities				
Debt securities - listed	195,570	214,834	195,570	214,834
Gross exposure	195,570	214,834	195,570	214,834
Provision for impairment	(131)	(73)	(131)	(73)
	195,439	214,761	195,439	214,761
Loans to banks				
Deposits	61	99	61	99
Gross exposure	61	99	61	99
Provision for impairment	(1)	0	(1)	0
	60	99	60	99
Loans to non-bank customers				
• corporates	802,534	745,205	779,150	710,944
• government	129,175	93,245	129,175	93,245
• financial organisations	3,509	2,165	485,305	486,934
• individuals	1,273,681	1,202,317	1,271,319	1,200,164
• other	306	149	306	149
• sole proprietors	21,567	21,468	21,566	21,439
Long term financial leases	468,896	466,504	0	0
Gross exposure	2,699,668	2,531,053	2,686,821	2,512,875
Provision for impairment	(73,098)	(84,921)	(64,929)	(77,899)
	2,626,570	2,446,132	2,621,892	2,434,976
Other financial assets				
Gross exposure	5,016	3,001	4,608	2,529
Provision for impairment	(41)	(45)	(35)	(34)
	4,975	2,956	4,573	2,495
	2,827,044	2,663,948	2,821,964	2,652,331

Due from other banks refers to liquidity reserve of SKB Group and SKB Bank mostly.

SKB Group and SKB Bank received as collateral for loans and advances to customers the real estate at an estimated fair value of EUR 1,815,295 thousand (2020: EUR 1,650,704 thousand), state securities and guarantees at a fair value of EUR 72,070 thousand (2020: EUR 86,148 thousand) and demand deposits at a fair value of EUR 6,484 thousand (2020: EUR 5,877 thousand).

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

As at 31 December 2021, SKB Group had large loans in amount of EUR 371,245 thousand or 13.75 % of the gross loan portfolio. Provisions in the amount of EUR 1,507 thousand were made against these loans in 2021.

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

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

As at 31 December 2021, SKB Group had gross non-performing loans in the amount of EUR 64,284 thousand, net in the amount of EUR 15,506 thousand. As at 31 December 2020, SKB Group had gross non-performing loans in the amount of EUR 74,613 thousand, net in the amount of EUR 17,016 thousand.

As at 31 December 2021, SKB Bank gross had non-performing loans in the amount of EUR 49,590 thousand, net in the amount of EUR 9,222 thousand. As at 31 December 2020, SKB Bank gross had non-performing loans in the amount of EUR 63,203 thousand, net in the amount of EUR 12,752 thousand.

Other financial assets by individual type are presented in the table below:

	SKB Group		SKB Bank	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
	EUR 000			
Receivables from card business	1,524	1,227	1,524	1,227
Trade receivables	0	0	0	0
Fee and commission receivables	1,573	582	1,548	551
Receivables from securities	144	45	144	45
Receivables for financial advances	1,409	954	1,016	500
Other financial assets	366	193	376	206
Gross exposure	5,016	3,001	4,608	2,529
Provision for impairment	(41)	(45)	(35)	(34)
	4,975	2,956	4,573	2,495

Provisions for impairment of loans

	SKB Group		SKB Bank	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
	EUR 000			
Debt securities				
• government	(131)	(73)	(131)	(73)
	(131)	(73)	(131)	(73)
Banks				
Non-bank customers				
• corporates	(24,399)	(31,582)	(24,214)	(30,848)
• government	(105)	(59)	(105)	(59)
• financial organisations	(20)	(20)	(2,793)	(4,497)
• individuals	(36,456)	(41,501)	(36,381)	(41,415)
• other	(17)	(2)	(17)	(2)
• sole proprietors	(1,419)	(1,082)	(1,419)	(1,078)
Long term financial leases	(10,682)	(10,675)	0	0
	(73,098)	(84,921)	(64,929)	(77,899)
Other financial assets	(41)	(45)	(35)	(34)
	(73,270)	(85,039)	(65,095)	(78,006)

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

Financial leases

	SKB Group		SKB Bank		
	EUR 000	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Gross exposure from financial leases					
Less than one year		10,815	8,879	-	-
One to five years		160,811	158,391	-	-
More than five years		297,270	299,233	-	-
		468,896	466,503	-	-
Provisions					
Less than one year		(432)	(725)	-	-
One to five years		(3,862)	(4,704)	-	-
More than five years		(6,388)	(5,246)	-	-
		(10,682)	(10,675)	-	-
Net exposure		458,214	455,828	-	-
Unrecognized future income from financial leases		43,912	45,375	-	-

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

SKB Group and SKB Bank			
	EUR 000	31.12.2021	31.12.2020
Derivatives - fair value hedge - macro hedging (assets)		0	0
Fair value changes of the hedged items in portfolio hedge of interest rate risk (liabilities)		1,165	1,732

SKB Bank closes individual open positions in the time pocket with derivative financial instruments such as interest rate swaps (IRS). In doing so, it uses macro fair value hedging. Macro hedging protects the interest rate of a hedged item from fixed to variable.

Fair value hedging is performed on the liabilities side. The Bank regularly conducts security effectiveness tests. Hedging inefficiencies can only occur in the event of differences in the principal of the hedged item or in the case of incorrect discount interest rates used to value the collateral.

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

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

Accumulated change in fair value from further hedges

SKB Group and SKB Bank EUR 000	31.12.2021		31.12.2020	
	Book value of the hedged item	Accumulated change in the fair value of the hedged item	Book value of the hedged item	Accumulated change in the fair value of the hedged item
Micro fair value protection	0	0	0	0
Loans to companies with a fixed interest rate measured at amortized cost	0	0	0	0
Fixed rate bonds measured at amortized cost	0	0	0	0
Fixed rate bonds measured at fair value through other comprehensive income	0	0	0	0
Macro fair value protection	0	1,165	0	1,732
Deposits on demand	0	1,165	0	1,732

1.4.27. Investments in subsidiaries, associates and joint ventures

EUR 000	SKB Group		SKB Bank	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Other financial institutions	-	-	20,454	20,454
	-	-	20,454	20,454

Bank's investments in subsidiaries

EUR 000	SKB Bank		% of participation in equity	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
SKB Leasing	20,454	20,454	100	100
Investments in financial institutions	20,454	20,454		

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

The equity investment is measured at cost. As part of the medium-term business strategy for the period of the next three years, which was performed in 2021, SKB Leasing's future performance was assessed, The subsidiary's performance is expected to remain stable with stable future cash flows, therefore the value of the equity investment remained unchanged in 2021.

Consolidated subsidiary:	
Name of the company:	SKB Leasing d.o.o.
Address:	Ajdovščina 4, 1000 Ljubljana
Director:	Don Schoeffmann
Business activity:	finance and operating leasing
Basic equity capital:	16,809 EUR thousand
Shareholder's equity:	30,425 EUR thousand
% of share in capital	100 %
Equity investment as of 31 December 2021	20,454 EUR thousand
Profit for the year ended 31 December 2021	9,305 EUR thousand

1.4.28.a) Property, plant and equipment

Movement of property, plant and equipment for SKB Group in 2021 and 2020 is summarised in the tables below:

SKB Group											
EUR 000	Land	Buildings	Computer equipment	Furniture & fittings	Other equipment	Assets in course of construction	Leasehold improvements	Assets leased through operating leases	IFRS 16 - Right of use - real estate	IFRS 16 - Right of use - equipment	Total
Cost											
At 1 January 2021	2,326	48,878	9,168	12,219	71	7	6,413	7,572	5,335	312	92,301
Additions	0	0	2,815	327	0	16	0	9,410	290	90	12,948
Disposals	0	0	(2,542)	(366)	(20)	0	(317)	(8,121)	(284)	(26)	(11,676)
At 31 December 2021	2,326	48,878	9,441	12,180	51	23	6,096	8,861	5,341	376	93,573
Depreciation											
At 1 January 2021	0	(25,082)	(7,789)	(10,974)	(69)	0	(5,856)	(1,887)	(1,908)	(93)	(53,658)
Depreciation charge for the year	0	(836)	(643)	(156)	(2)	0	(107)	(980)	(978)	(88)	(3,790)
Eliminations and disposals	0	0	2,541	364	20	0	317	1,371	284	22	4,919
At 31 December 2021	-	(25,918)	(5,891)	(10,766)	(51)	-	(5,646)	(1,496)	(2,602)	(159)	(52,529)
Impairment											
At 1 January 2021	(489)	(2,978)	0	0	0	0	0	0	0	0	(3,467)
At 31 December 2021	(489)	(2,978)	-	-	-	-	-	-	-	-	(3,467)
Net Book Value	1,837	19,982	3,550	1,414	0	23	450	7,365	2,739	217	37,577

SKB Group											
EUR 000	Land	Buildings	Computer equipment	Furniture & fittings	Other equipment	Assets in course of construction	Leasehold improvements	Assets leased through operating leases	IFRS 16 - Right of use - real estate	IFRS 16 - Right of use - equipment	Total
Cost											
At 1 January 2020	2,292	47,610	9,921	12,184	93	145	6,449	8,626	5,113	159	92,592
Additions	0	461	154	455	0	899	37	7,550	331	192	10,079
Disposals	0	0	(907)	(420)	(22)	(1,037)	(73)	(8,604)	(109)	(39)	(11,211)
Transfer*	34	807	0	0	0	0	0	0	0	0	841
At 31 December 2020	2,326	48,878	9,168	12,219	71	7	6,413	7,572	5,335	312	92,301
Depreciation											
At 1 January 2020	0	(23,820)	(7,975)	(11,212)	(72)	0	(5,777)	(2,186)	(987)	(55)	(52,084)
Depreciation charge for the year	0	(830)	(721)	(177)	(18)	0	(149)	(1,216)	(1,032)	(75)	(4,218)
Eliminations and disposals	0	0	907	415	21	0	70	1,515	111	37	3,076
Transfer*	0	(432)	0	0	0	0	0	0	0	0	(432)
At 31 December 2020	-	(25,082)	(7,789)	(10,974)	(69)	-	(5,856)	(1,887)	(1,908)	(93)	(53,658)
Impairment											
At 1 January 2020	(489)	(2,961)	0	0	0	0	0	0	0	0	(3,450)
Impairment for the year	0	(17)	0	0	0	0	0	0	0	0	(17)
At 31 December 2020	(489)	(2,978)	-	-	-	-	-	-	-	-	(3,467)
Net Book Value	1,837	20,818	1,379	1,245	2	7	557	5,685	3,427	219	35,176

*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.

As at 31. 12. 2021, the SKB Group recognized the right to use real estate in the amount of EUR 2,739 thousand (2020: EUR 3,427 thousand) and the right to use equipment in the amount of EUR 109 thousand (2020: EUR 131 thousand) among property, plant and equipment.

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

In 2021, the SKB Group examined whether there were any indications that fixed assets should be impaired. In doing so, it took into account both external and internal sources of information and concluded that impairments were not necessary because recoverable amounts did not deviate significantly from the carrying amounts. After reviewing the data on sales prices of business premises, we estimated that the estimates from 2019 are relevant. In 2019, real estate appraisals were performed by external, independent experts as part of the PPA (Purchase Price Allocation) requirements related to the purchase of SKB Bank by OTP banka. Estimates showed differences between the recoverable amount and the carrying amount, which is why the SKB Group formed impairments of land and buildings in the amount of EUR 3,450 thousand. Valuations were made on the basis of real estate market analysis and other findings and taking into account the purpose of valuation and characteristics of the assessed property, so the valuation method used market comparisons and yield-based method (to assess value in use).

Tangible fixed assets are not pledged as security for liabilities. As at 31 December 2021, the SKB Group did not show any advances for property, plant and equipment. The fair value of property, plant and equipment is not significantly different from the carrying amount.

Tangible fixed assets in use, which were already fully depreciated in 2021, are two vehicles and three branches: Celje, Ljubljana Črnuče and Ribnica. At the same time, in 2021 we leased two new vehicles and extended the lease for the lease of business premises at the Ljubljana Rudnik, Jesenice and Maribor Tabor locations. As a result, the right to use tangible fixed assets has increased. As at 31 December 2021, the SKB Leasing Group has no property, plant and equipment that would be fully depreciated in 2021. In 2021, 5 new vehicles were leased. As a result, the right to use tangible fixed assets increased by EUR 62 thousand. We completed the business lease for two vehicles, which reduced the right to use by EUR 4,000 thousand.

Movement of property, plant and equipment of the SKB Bank in 2021 and 2020 is summarised in the tables below:

SKB Bank									
EUR 000	Land	Buildings	Computer equipment	Furniture & fittings	Assets in course of construction	Leasehold improvements	IFRS 16 - Right of use - real estate	IFRS 16 - Right of use - equipment	Total
Cost									
At 1 January 2021	2,183	46,154	9,004	11,929	7	6,067	5,335	195	80,874
Additions	0	0	2,778	327	16	0	290	28	3,439
Disposals	0	0	(2,497)	(365)	0	(317)	(284)	(11)	(3,474)
At 31 December 2021	2,183	46,154	9,285	11,891	23	5,750	5,341	212	80,839
Depreciation									
At 1 January 2021	0	(23,560)	(7,675)	(10,759)	0	(5,580)	(1,908)	(64)	(49,546)
Depreciation charge for the year	0	(789)	(626)	(144)	0	(97)	(978)	(50)	(2,684)
Eliminations and disposals	0	0	2,496	360	0	317	284	11	3,468
At 31 December 2021	-	(24,349)	(5,805)	(10,543)	-	(5,360)	(2,602)	(103)	(48,762)
Impairment									
At 1 January 2021	(489)	(2,919)	0	0	0	0	0	0	(3,408)
Impairment for the year	-	-	-	-	-	-	-	-	0
At 31 December 2021	(489)	(2,919)	-	-	-	-	-	-	(3,408)
Net Book Value	1,694	18,886	3,480	1,348	23	390	2,739	109	28,669

SKB Bank									
EUR 000	Land	Buildings	Computer equipment	Furniture & fittings	Assets in course of construction	Leasehold improvements	IFRS 16 - Right of use - real estate	IFRS 16 - Right of use - equipment	Total
Cost									
At 31 December 2019	2,183	45,693	9,767	11,886	145	6,128	5,113	106	81,021
Transition to IFRS 16	0	0	0	0	0	0	4,985	76	5,061
At 1 January 2020	2,183	45,693	9,767	11,886	145	6,128	5,113	106	81,021
Additions	0	461	118	445	899	12	331	110	2,376
Disposals	0	0	(881)	(402)	(1,037)	(73)	(109)	(21)	(2,523)
At 31 December 2020	2,183	46,154	9,004	11,929	7	6,067	5,335	195	80,874
Depreciation									
At 1 January 2020	0	(22,772)	(7,853)	(10,994)	0	(5,511)	(987)	(35)	(48,152)
Depreciation charge for the year	0	(788)	(702)	(162)	0	(139)	(1,032)	(48)	(2,871)
Eliminations and disposals	0	0	880	397	0	70	111	19	1,477
At 31 December 2020	-	(23,560)	(7,675)	(10,759)	-	(5,580)	(1,908)	(64)	(49,546)
Impairment									
At 1 January 2020	(489)	(2,919)	0	0	0	0	0	0	(3,408)
Impairment for the year	0	0	0	0	0	0	0	0	0
At 31 December 2020	(489)	(2,919)	-	-	-	-	-	-	(3,408)
Net Book Value	1,694	19,675	1,329	1,170	7	487	3,427	131	27,920

As at 31. 12 2021, SKB Bank recognized the right to use real estate in the amount of EUR 2,739 thousand (as at 31 December 2020: EUR 3,427 thousand) and the right to use equipment in the amount of EUR 109 thousand (2020: EUR 131 thousand) among property, plant and equipment. funds.

In 2021, SKB Bank checked whether there were any indications that fixed assets should be impaired. In doing so, it took into account both external and internal sources of information and concluded that impairments were not necessary because recoverable amounts did not deviate significantly from the carrying amounts. After reviewing the data on sales prices of business premises, we estimated that the estimates from 2019 are relevant. In 2019, real estate appraisals were performed by external, independent experts as part of the PPA (Purchase Price Allocation) requirements related to the purchase of SKB Bank by OTP banka. Estimates showed differences between the recoverable amount and the carrying amount, which is why SKB Bank formed impairments of land and buildings in the amount of EUR 3,408 thousand. Valuations were made on the basis of real estate market analysis and other findings and taking into account the purpose of valuation and characteristics of the assessed property, so the valuation method used market comparisons and yield-based method (to assess value in use).

Tangible fixed assets are not pledged as security for liabilities. As at 31. 12. 2021, SKB Bank does not disclose advances for property, plant and equipment.

Property, plant and equipment

	SKB Group		SKB Bank	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
	EUR 000			
Property, plant and equipment owned	34,622	31,530	25,821	24,362
Right of use - real estate	2,739	3,427	2,739	3,427
Right of use - equipment (vehicles)	216	219	109	131
	37,577	35,176	28,669	27,920

Lease liabilities

	SKB Group		SKB Bank	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
	EUR 000			
Current lease liabilities	1,020	1,058	979	1,031
Non-current lease liabilities	1,974	2,628	1,905	2,565
	2,994	3,686	2,884	3,596

Rental maturity analysis - contractual undiscounted cash flows

	SKB Group		SKB Bank	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
	EUR 000			
Less than one year	1,053	1,053	1,002	1,015
One to five years	1,962	2,497	1,878	2,423
More than five years	54	163	54	163
	3,069	3,713	2,934	3,601

Rental maturity analysis - contractual undiscounted cash flows

	SKB Group			SKB Bank		
	up to 5 years	more than 5 years	Total	up to 5 years	more than 5 years	Total
	EUR 000					
At 31 December 2021						
Extension / suspension options that we expect to use	2,127	2,295	4,422	2,127	2,295	4,422
Extension / suspension options that we expect not to use	0	0	0	0	0	0
	2,127	2,295	4,422	2,127	2,295	4,422
At 31 December 2020						
Extension / suspension options that we expect to use	1,485	2,734	4,219	1,485	2,734	4,219
Extension / suspension options that we expect not to use	107	0	107	107	0	107
	1,592	2,734	4,326	1,592	2,734	4,326

Rental expenses recognized in the income statement

	SKB Group		SKB Bank	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
	EUR 000			
Depreciation	(1,067)	(1,107)	(1,028)	(1,080)
Interest on lease liability	(34)	(43)	(32)	(42)
Expenses relating to short-term leases	(9)	(76)	(8)	(12)
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	(398)	(373)	(398)	(372)
	(1,508)	(1,599)	(1,466)	(1,506)

1.4.28.b) Investment properties

As at 31 December 2021, the SKB Group had recognized investment property in the amount of EUR 2,293 thousand (as at 31 December 2020: EUR 2,644 thousand). As at 31 December 2021, SKB Bank had recognized investment property in the amount of EUR 2,293 thousand (as at 31 December 2020: EUR 2,644 thousand).

In 2021, the SKB Group had revenues from EUR 90 thousand (2020: EUR 104 thousand) from operating leases of investment property. The SKB Bank had revenues from operating leases of investment property of EUR 242 thousand (2020: EUR 254 thousand).

In 2021, the SKB Group examined whether there were any indications that investment property should be impaired. In doing so, it took into account both external and internal sources of information and concluded that impairments were not necessary because fair values did not deviate significantly from book values. After reviewing the data on sales prices of business premises, we estimated that the estimates from 2019 are relevant. In 2019, real estate appraisals were performed by external, independent experts as part of the PPA (Purchase Price Allocation) requirements related to the purchase of SKB Bank by OTP Bank. Estimates showed differences between the recoverable amount and the carrying amount, which is why the SKB Group formed impairments of land and buildings in the amount of EUR 56 thousand (Bank: in the amount of EUR 98 thousand). Valuations were made on the basis of real estate market analysis and other findings and taking into account the purpose of valuation and characteristics of the assessed property, so the valuation method used market comparisons and yield-based method (to assess value in use).

In 2021, the bank sold three investment properties: Krško, Murska Sobota and a stake in Slovenska cesta. After reviewing the data on sales prices of business premises, we assessed that the valuations from 2019 are relevant, so no new valuation was made.

Investment property is not pledged as security for liabilities. As at 31 December 2021, the SKB Group did not show any advances for investment property. Investment property is not pledged as security for liabilities.

The development of investment property of SKB Bank and the SKB Group in 2021 and 2020 is shown in the table below:

	SKB Group			SKB Bank			
	EUR 000	Land	Buildings	Total	Land	Buildings	Total
Cost							
At 1 January 2021		156	3,057	3,213	276	5,781	6,057
Additions	0	0	0	0	0	0	0
Disposals	(40)	(524)	(564)	(564)	(40)	(566)	(606)
Transfer*	0	0	0	0	0	0	0
At 31 December 2021		116	2,533	2,649	236	5,215	5,451
Depreciation							
At 1 January 2021		0	(1,677)	(1,677)	0	(3,198)	(3,198)
Depreciation charge for year	0	(83)	(83)	(83)	0	(83)	(83)
Eliminations and disposals	0	240	240	240	0	240	240
Transfer*	0	0	0	0	0	0	0
At 31 December 2021		-	(1,520)	(1,520)	-	(3,041)	(3,041)
Impairment							
At 1 January 2021		(25)	(131)	(156)	(25)	(190)	(215)
Impairment for year	25	73	98	98	25	73	98
Transfer*	0	0	0	0	0	0	0
At 31 December 2021		0	(58)	(58)	0	(117)	(117)
Net Book Value		116	955	1,071	236	2,057	2,293

EUR 000	SKB Group			SKB Bank		
	Land	Buildings	Total	Land	Buildings	Total
Cost						
At 1 January 2020	190	3,864	4,054	276	5,781	6,057
Additions	0	0	0	0	0	0
Disposals	0	0	0	0	0	0
Transfer*	(34)	(807)	(841)	0	0	0
At 31 December 2020	156	3,057	3,213	276	5,781	6,057
Depreciation						
At 1 January 2020	0	(2,062)	(2,062)	0	(3,110)	(3,110)
Depreciation charge for year	0	(46)	(46)	0	(88)	(88)
Eliminations and disposals	0	0	0	0	0	0
Transfer*	0	431	431	0	0	0
At 31 December 2020	-	(1,677)	(1,677)	-	(3,198)	(3,198)
Impairment						
At 1 January 2020	(25)	(148)	(173)	(25)	(190)	(215)
Impairment for year	0	0	0	0	0	0
Transfer*	0	17	17	0	0	0
At 31 December 2020	(25)	(131)	(156)	(25)	(190)	(215)
Net Book Value	131	1,249	1,380	251	2,393	2,644

In the financial statements of the SKB Group, the business premises leased by SKB Bank to a subsidiary are transferred from investment property to limited fixed assets.

The Lessee pays SKB Bank current and operating costs for the investment property itself, so SKB Bank does not incur any costs in this regard. The Bank bears only the costs of investment maintenance for the investment property. In 2021 and 2020, there were no payments and costs from investment maintenance, except for payments and spending from the reserve fund.

In 2021, EUR 4 thousand was paid into the investment fund and EUR 1 thousand was used in connection with investment property. In 2020, EUR 5 thousand was paid into the reserve fund and EUR 2 thousand was used for investment property.

The fair value of investment property for SKB Bank as at 31 December 2021 amounted to EUR 2,293 thousand (as at 31 December 2020: EUR 2,644 thousand). The fair value of investment property for the SKB Group as at 31 December 2021 amounted to EUR 1,071 thousand (as at 31 December 2020: EUR 1,380 thousand).

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

1.4.29. Intangible assets

Movements of Intangible assets of the SKB Group in 2021 and 2020 is displayed in the tables below:

EUR 000	SKB Group					SKB Bank		
	Goodwill	Software	Assets in course of construction	Other	Total	Software	Assets in course of construction	Total
Cost								
At 1 January 2021	1,290	22,887	2,083	5	26,265	21,362	2,036	23,398
Additions	0	3,246	3,262	0	6,508	2,746	3,262	6,008
Disposals	0	(265)	(2,395)	(5)	(2,665)	(5)	(2,395)	(2,400)
At 31 December 2021	1,290	25,868	2,950	0	30,108	24,103	2,903	27,006
Depreciation								
At 1 January 2021	0	(15,580)	0	(5)	(15,585)	(14,440)	0	(14,440)
Charge for the year	0	(2,068)	0	0	(2,068)	(1,926)	0	(1,926)
Eliminations and disposals	0	5	0	5	10	5	0	5
At 31 December 2021	-	(17,643)	-	0	(17,643)	(16,361)	-	(16,361)
Impairment								
At 1 January 2021	0	0	0	0	-	0	0	0
Charge for the year	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0	0
At 31 December 2021	0	0	0	0	0	0	0	0
Net Book Value	1,290	8,225	2,950	-	12,465	7,742	2,903	10,645
Cost								
At 1 January 2020	1,290	20,568	2,192	5	24,055	19,164	2,156	21,320
Additions	0	2,380	1,793	0	4,173	2,259	1,660	3,919
Disposals	0	(61)	(1,902)	0	(1,963)	(61)	(1,780)	(1,841)
At 31 December 2020	1,290	22,887	2,083	5	26,265	21,362	2,036	23,398
Depreciation								
At 1 January 2020	0	(13,756)	0	(5)	(13,761)	(12,691)	0	(12,691)
Charge for the year	0	(1,837)	0	0	(1,837)	(1,762)	0	(1,762)
Eliminations and disposals	0	13	0	0	13	13	0	13
At 31 December 2020	0	(15,580)	0	(5)	(15,585)	(14,440)	0	(14,440)
Impairment								
At 1 January 2020	0	0	0	0	0	0	0	0
Charge for the year	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0	0
At 31 December 2020	0	0	0	0	0	0	0	0
Net Book Value	1,290	7,307	2,083	-	10,680	6,922	2,036	8,958

Intangible assets are represented in the main software purchased or developed by the SKB Bank and the SKB Group.

Intangible assets are not pledged as security for liabilities.

The SKB Group annually assesses whether goodwill impairment is required.

As at 31 December 2021, the Bank and the SKB Group did not disclose advances for intangible assets.

Investments in internal development amounted to EUR 2,185 thousand in 2021 and increased by EUR 1,515 thousand compared to 2020 (2020: EUR 669 thousand).

1.4.30. Other assets

	SKB Group		SKB Bank	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
EUR 000				
Receivables for taxes and contributions paid	262	170	96	13
Costs and expenses deferred and paid in advance	15,164	12,772	4,053	1,941
Insurance premium paid in advance	80	13	80	13
Other inventories	35	339	0	0
Advances paid	3,784	616	25	85
Gross exposure	19,325	13,910	4,254	2,052
Provisions	0	0	0	0
Net exposure	19,325	13,910	4,254	2,052

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

Those assets are also not collateralised.

1.4.31. Non-current assets classified as held for sale

	SKB Group		SKB Bank	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
EUR 000				
Non-current assets held for sale	4	63	4	63
	4	63	4	63

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

1.4.32. Financial liabilities measured at amortised cost

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

EUR 000	SKB Group		SKB Bank	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Demand deposits				
Banks	36,970	4,590	36,970	4,590
Corporates	906,481	719,429	906,481	719,429
Government	25,078	2,343	25,078	2,343
Financial organisations	19,429	15,718	33,393	30,747
Individuals	1,084,235	963,312	1,084,235	963,312
Other	36,589	23,978	36,589	23,978
Sole proprietors	108,587	87,560	108,587	87,560
	2,217,369	1,816,930	2,231,333	1,831,959
Time deposits				
Banks	0	0	0	0
Corporates	201,298	294,876	201,298	294,876
Government	4,291	4,944	4,291	4,944
Financial organisations	4,793	8,872	4,793	8,872
Individuals	890,388	973,059	890,388	973,059
Other	5,025	14,190	5,025	14,190
Sole proprietors	1,052	1,362	1,052	1,362
	1,106,847	1,297,303	1,106,847	1,297,303
Long term loans from banks and corporates	6,003	71,876	6,003	71,876
Other financial liabilities	26,472	17,999	19,963	14,496
	3,356,691	3,204,107	3,364,146	3,215,634

Deposits from customers do not contain deposits held as collateral for irrevocable commitments under import letters of credit.

Demand deposits include restricted deposits in the amount of EUR 2,509 thousand (2020: EUR 2,585 thousand).

In the Statement of Financial Position, liabilities for salaries, salary compensations and contributions and taxes from salaries, as well as liabilities for employee benefits are no longer reported under "Other financial liabilities", which are part of the balance sheet item "Financial liabilities measured at amortized cost" but among "Other Obligations". The value of the transferred item as at 31 December 2021 amounts to EUR 2,402 thousand (as at 31 December 2020: EUR 2,357 thousand).

1.4.33. Provisions

	SKB Group		SKB Bank		
	EUR 000	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Pensions and other post retirement benefit obligations		3,789	3,767	3,530	3,518
Other long-term employee benefits		831	815	792	774
Pending legal issues		0	0	0	0
Off-balance sheet commitments		9,810	9,884	9,810	9,884
Other		1,186	88	786	88
		15,616	14,554	14,918	14,264

Movement in provisions

SKB 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	S2	S3		
Balance at 1 January 2021	3,767	815	0	4,234	1,508	4,142	88	14,554
Provisions created during the year	187	180	0	5,881	5,549	1,763	1,098	14,658
Reversed	0	0	0	(6,794)	(3,918)	(2,577)	0	(13,289)
Utilised (paid)	(165)	(164)	0	0	0	0	0	(329)
Transfer	0	0	0	0	0	0	0	-
Exchange gains and losses on foreign denominated items	0	0	0	1	0	21	0	22
Actuarial profits, recognized in other comprehensive income	0	0	0	0	0	0	0	0
Balance at 31 December 2021	3,789	831	-	3,322	3,139	3,349	1,186	15,616
Balance at 1 January 2020	3,591	589	0	2,666	391	3,499	413	11,149
Provisions created during the year	173	137	0	6,293	6,063	1,247	0	13,913
Reversed	0	0	0	(4,725)	(4,878)	(604)	0	(10,207)
Utilised (paid)	(109)	(235)	0	0	0	0	(1)	(345)
Transfer	0	324	0	0	0	0	(324)	0
Exchange gains and losses on foreign denominated items	0	0	0	0	(68)	0	0	(68)
Actuarial profits, recognized in other comprehensive income	112	0	0	0	0	0	0	112
Balance at 31 December 2020	3,767	815	0	4,234	1,508	4,142	88	14,554

Movement in provisions

SKB Bank								
	Pensions and other post retirement benefit obligations	Other long-term employee benefit	Pending legal issues	Off-balance sheet commitments			Other	Total
EUR 000				S1	S2	S3		
Balance at 1 January 2021	3,518	774	0	4,234	1,508	4,142	88	14,264
Provisions created during the year	170	175	0	5,881	5,549	1,763	698	14,236
Reversed	0	0	0	(6,794)	(3,918)	(2,577)	0	(13,289)
Utilised (paid)	(158)	(157)	0	0	0	0	0	(315)
Transfer	0	0	0	1	0	21	0	22
Exchange gains and losses on foreign denominated items	0	0	0	0	0	0	0	0
Actuarial profits, recognized in other comprehensive income	0	0	0	0	0	0	0	0
Balance at 31 December 2021	3,530	792	0	3,322	3,139	3,349	786	14,918
Balance at 1 January 2020	3,360	545	0	2,666	391	3,499	413	10,874
Provisions created during the year	158	136	0	6,293	6,063	1,247	0	13,897
Reversed	0	0	0	(4,725)	(4,878)	(604)	0	(10,207)
Utilised (paid)	(107)	(231)	0	0	0	0	(1)	(339)
Transfer	0	324	0	0	0	0	(324)	0
Exchange gains and losses on foreign denominated items	0	0	0	0	(68)	0	0	(68)
Actuarial profits, recognized in other comprehensive income	107	0	0	0	0	0	0	107
Balance at 31 December 2020	3,518	774	0	4,234	1,508	4,142	88	14,264

Pensions and similar liabilities to employees

Provisions for retirement severance pay and seniority awards are calculated by independent actuary. By calculation of provisions for retirement severance pay and seniority awards in SKB Bank and SKB Group the following assumptions have been taken into account:

- discount factor 0.94 % per year;
- increase of salaries 1.5 % per year;
- wage growth in the Republic of Slovenia 2.5 % per year;
- number of employees;
- fluctuation of employees, depending on their age;
- probability of mortality.

SKB Bank					
Assumption	Change	Description	Total	Retirement Benefits	Jubilee Benefits
Central scenario	0.00 %	Value	3,955,685.60	3,530,156.17	425,529.43
Discount rate	-0.50 %	Value	4,168,571.99	3,725,743.85	442,828.14
		(Diff)	-212,886.39	-195,587.68	-17,298.71
	0.50 %	Value	3,760,231.57	3,350,814.06	409,417.51
		(Diff)	-195,454.03	-179,342.11	-16,111.92
Salary growth	-0.50 %	Value	3,761,106.88	3,351,527.69	409,579.19
		(Diff)	-194,578.72	-178,628.48	-15,950.24
	0.50 %	Value	4,165,361.70	3,722,892.02	442,469.68
		(Diff)	-209,676.10	-192,735.85	-16,940.25
Duration (DBO)			10.40	10.70	7.90

SKB Leasing					
Assumption	Change	Description	Total	Retirement Benefits	Jubilee Benefits
Central scenario	0.00 %	Value	286,585.89	250,871.13	35,714.76
Discount rate	-0.50 %	Value	306,194.38	268,394.07	37,800.31
		(Diff)	-19,608.49	-17,522.94	-2,085.55
	0.50 %	Value	268,828.95	235,025.81	33,803.14
		(Diff)	-17,756.94	-15,845.32	-1,911.62
Salary growth	-0.50 %	Value	268,854.40	235,038.17	33,816.23
		(Diff)	-17,731.49	-15,832.96	-1,898.53
	0.50 %	Value	305,957.27	268,193.60	37,763.67
		(Diff)	-19,371.38	-17,322.47	-2,048.91
Duration (DBO)			13.20	13.50	11.30

SKB Leasing Select					
Assumption	Change	Description	Total	Retirement Benefits	Jubilee Benefits
Central scenario	0.00 %	Value	12,142.46	8,205.14	3,937.32
Discount rate	-0.50 %	Value	13,608.28	9,395.17	4,213.11
		(Diff)	-1,465.82	-1,190.03	-275.79
	0.50 %	Value	10,857.91	7,171.68	3,686.23
		(Diff)	-1,284.55	-1,033.46	-251.09
Salary growth	-0.50 %	Value	10,862.27	7,174.00	3,688.27
		(Diff)	-1,280.19	-1,031.14	-249.05
	0.50 %	Value	13,587.57	9,379.67	4,207.90
		(Diff)	-1,445.11	-1,174.53	-270.58
Duration (DBO)			22.90	27.40	13.50

Litigation

In 2021 and 2020, the SKB Group did not form provisions for outstanding lawsuits. In both years, it also did not benefit from provisions for outstanding lawsuits. As at 31 December 2021 and 31 December 2020, the SKB Group had no provisions for outstanding lawsuits.

In 2021 and 2020, the SKB Bank did not form provisions for outstanding lawsuits. In both years, it also did not benefit from provisions for outstanding lawsuits. As at 31 December 2021 and 31 December 2020, the SKB Bank had no provisions for outstanding lawsuits.

Provisions for commitments and guarantees given

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

1.4.34. Other liabilities

EUR 000	SKB Group		SKB Bank	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Liabilities for wages	2,402	2,358	2,402	2,357
Liabilities for taxes and contributions	965	960	527	470
Advances received	2,171	2,729	259	145
Income deferred and paid in advance	5,885	5,163	1,261	984
	11,423	11,209	4,449	3,956

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

In the Statement of Financial Position, liabilities for salaries, salary compensations and contributions and taxes from salaries, as well as liabilities for employee benefits are no longer reported under "Other financial liabilities", which are part of the balance sheet item "Financial liabilities measured at amortized cost" but among "Other Obligations". The value of the transferred item as at 31 December 2021 amounts to EUR 2,402 thousand (as at 31 December 2020: EUR 2,357 thousand).

1.4.35. Equity

	SKB Group		SKB Bank		
	EUR 000	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Ordinary shares					
• called capital paid		52,784	52,784	52,784	52,784
		52,784	52,784	52,784	52,784
Share premium		104,061	104,061	104,061	104,061
Accumulated other comprehensive income					
• financial assets at fair value through other comprehensive income		16,260	25,820	16,260	25,820
• actuarial profits / (losses)		(1,095)	(1,101)	(945)	(945)
		15,165	24,719	15,315	24,875
Reserves from profit (including retained earnings)					
• reserves from profit		29,106	29,106	29,106	29,106
• retained earnings		195,462	160,462	178,987	143,462
		224,568	189,568	208,093	172,568
Profit / (loss) for the year		46,008	34,850	50,733	35,379
		442,586	405,982	430,986	389,667

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

In 2021, called **capital paid** remained the same as in the previous year, It consists of 12,649,200 no-par value shares, They are registered and issued in dematerialized form, Each no-par value share has the same share and the corresponding amount of the bank's called capital paid,

Net asset per share at 31 December 2021 amount to EUR 34.99 (2020: EUR 32.10) for SKB Group and EUR 34.07 (2020: EUR 30.81) for SKB Bank.

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

As at 31 December 2021, the SKB Bank has no treasury shares and has not formed reserves for the repurchase of treasury shares.

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

Reserves from profit includes statutory reserves in the amount of EUR 4,387 thousand (2020: EUR 4,387 thousand) and other reserves from profits in the amount of EUR 24,719 thousand (2020: EUR 24,719 thousand) and according to Bank statute they cannot be distributed.

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

SKB Bank ended the financial year 2021 with a net profit of EUR 50,733 thousand (2020: EUR 35,379 thousand), and SKB Group with a net profit of EUR 46,008 thousand (2020: EUR 34,850 thousand),

Basic earnings / (loss) per share

	SKB Group		SKB Bank	
	2021	2020	2021	2020
	EUR 000			
Net profit attributable to shareholders	46,008	34,850	50,733	35,379
Weighted average number of ordinary shares in issue	12,649,200	12,649,200	12,649,200	12,649,200
Basic earnings / (loss) per share (in EUR per share)	3.64	2.76	4.01	2.80

The movement of retained earnings / (loss) and income / (loss) in 2021 is presented in the following table:

EUR 000	SKB Group			SKB Bank		
	Retained earnings / (loss)	Income from the current year	Total	Retained earnings / (loss)	Income from the current year	Total
Balance at 1 January 2021	160,462	34,850	195,312	143,462	35,379	178,841
Transfer of profit to retained earnings	34,850	(34,850)	0	35,379	(35,379)	0
Appropriation of (accounting for) dividends	0	0	0	0	0	0
Net profit / (loss) for the financial year	0	46,008	46,008	0	50,733	50,733
Other*	150	0	150	146	0	146
Balance at 31 December 2021	195,462	46,008	241,470	178,987	50,733	229,720
Balance at 1 January 2020	106,349	54,105	160,454	91,378	52,084	143,462
Transfer of profit to retained earnings	54,105	(54,105)	0	52,084	(52,084)	0
Appropriation of (accounting for) dividends	0	0	0	0	0	0
Net profit / (loss) for the financial year	0	34,850	34,850	0	35,379	35,379
Other*	8	0	8	0	0	0
Balance at 31 December 2020	160,462	34,850	195,312	143,462	35,379	178,841

The SKB Bank distributable profit		
EUR 000	2021	2020
Net profit for the financial year	50,733	35,379
Retained earnings	178,987	143,462
Long-term deferred development costs	(2,903)	(2,036)
Distributable profit	226,817	176,805
Distribution of dividends	-	-
Transfer to following year	226,817	176,805

In the 2021 financial year, SKB Bank generated net profit in the amount of EUR 50,733 thousand (2020: EUR 35,379 thousand), At the end of 2021, retained earnings amounted to EUR 178,987 thousand (2020: EUR 143,462 thousand).

The Bank's management will propose to the Bank's General Meeting that the profit for the 2021 financial year will not be paid out.

1.4.36. Financial Instruments with Off-Balance Sheet Risk

In the normal course of business, SKB Group and SKB Bank are parties to financial instruments with off-balance sheet risk to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest and currency rates, These financial instruments include credit lines, financial guarantees, commercial letters of credit and forward foreign exchange contracts,

Credit risk associated with off-balance sheet financial instruments is defined as the possibility of sustaining a loss due to party in a financial instrument that failed to perform in accordance with the terms of the contract, SKB Group and SKB Bank use the same credit policies in making commitments and conditional obligations as for the balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures,

Market risk represents the possibility that the value of financial instruments will change, either positively or negatively, with changes in market prices, such as interest or foreign currency rates,

SKB Group and SKB Bank require collateral to support off-balance sheet financial instruments when it is deemed necessary, Collateral held varies, but may include deposits held in financial institutions, government securities, other marketable securities, and mortgages,

Credit lines are commitments to extend credit, which generally has fixed expiry dates or other termination requirements, Substantially all bank's commitments to extend credit are revocable as they are contingent upon the customers maintaining specific credit standards at the time of loan disbursement, Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements,

Financial guarantees are conditional commitments issued by SKB Group and SKB Bank to guarantee the performance of a customer to a third party, The credit risk involved in issuing guarantees is essentially the same as that involved in extending facilities to other customers, SKB Group and SKB Bank apply similar principles as those applied in assessing the required allowance for losses under other credit facilities when assessing the likelihood of loss under the guarantee,

A commercial letter of credit represents an extension of credit by SKB Group and SKB Bank to its customer where the customer is usually the buyer/importer of goods and the beneficiary is usually the seller/exporter, As letters of credit are collateralized by the underlying shipments of goods to which they relate, they carry significantly lower risk,

SKB Group's and SKB Bank's exposure to off-balance sheet liabilities by original maturity is as follows:

	SKB Group		SKB Bank	
	31. 12. 2021	31. 12. 2020	31. 12. 2021	31. 12. 2020
	EUR 000			
Letters of credit	-	-	-	-
• up to 1 year	0	0	-	-
Guarantees	265,589	222,277	265,589	222,277
Service related	141,431	113,505	141,431	113,505
• up to 1 year	14,136	15,820	14,136	15,820
• over 1 year	127,295	97,685	127,295	97,685
Financial	124,158	108,772	124,158	108,772
• up to 1 year	27,465	15,717	27,465	15,717
• over 1 year	96,693	93,055	96,693	93,055
Pledged assets	-	-	-	-
• up to 1 year	-	-	-	-
• over 1 year	0	0	0	0
Undrawn facilities	533,909	512,414	533,931	512,437
• up to 1 year	384,200	366,560	384,222	366,583
• over 1 year	149,709	145,854	149,709	145,854
Spot	53,248	37,304	53,248	37,304
• up to 1 year	53,248	37,304	53,248	37,304
Derivative financial instruments	700,778	589,522	700,778	589,522
• up to 1 year	209,715	83,422	209,715	83,422
• over 1 year	491,063	506,100	491,063	506,100
	1,553,524	1,361,517	1,553,546	1,361,540

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

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

For the purpose of providing secondary liquidity, the SKB Group and SKB Bank have eligible assets to collateralise claims on the Eurosystem in the total amount of EUR 636,345 thousand (2020: EUR 619,526 thousand), of which securities are EUR 587,099 thousand (2020: EUR 551,195 thousand) and loans EUR 49,246 thousand (2020: EUR 68,331 thousand).

1.4.37. Distribution of dividends

The Bank's management will propose to the General Meeting that the profit for the 2021 financial year will not be paid out.

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

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

SKB Group and SKB Bank			
	EUR 000	31. 12. 2021	31. 12. 2020
ASSETS		2,279,821	1,855,811
Claims due to customers (settlement and current account)		2,279,297	1,855,476
Due to financial instruments		2,279,296	1,855,393
Due to KDD or settlement (custody) account for sold financial instruments		1	46
Due to other or settlement account for sold financial instruments (buyers)		0	37
Cash assets (customers)		524	335
On settlement account		51	149
On current account		473	186
LIABILITIES		2,279,821	1,855,811
Liabilities due to customers (settlement and current account)		2,279,821	1,855,811
Due to customer (cash and financial instruments)		2,279,748	1,855,772
Due to KDD or settlement (custody) account for bought financial instruments		72	38
Due to other or settlement account for bought financial instruments (sellers)		0	0
Due to bank or settlement account for commision, fees itc.		1	1
OFF BALANCE SHEET		2,279,296	1,855,394
Customer financial instruments, diverse by services		2,279,296	1,855,394
Securities services		72	2
Assets management services		0	0
Custody services		2,279,224	1,855,392

SKB Group and SKB Bank have performed as agent or member of syndicate in performing the syndicate loan in EUR 151,037 thousand (2020: EUR 108,620 thousand).

1.4.39. Cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprise of the following balances with maturities of less than 90 days:

	SKB Group		SKB Bank	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
	EUR 000			
Cash in hand	24,887	22,141	24,887	22,141
Balances with central banks and other demand deposits	423,548	496,070	423,548	496,070
Loans to banks up to 90 days	3	0	3	0
	448,438	518,211	448,438	518,211

2. Related party transactions

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

Related party transactions with OTP Bank

	SKB Group		SKB Bank	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
	EUR 000			
Related party transactions with OTP				
Time deposits and loans to other banks	580	429	580	429
EMTN bonds	0	0	0	0
Other borrowed funds	0	0	0	0
Forward foreign exchange - bought (nominal value)	0	44,539	0	44,539
Forward foreign exchange - sold (nominal value)	0	44,210	0	44,210
Interest rate swap - purchase (nominal value)	104,703	11,188	104,703	11,188
Interest rate swap - sale (nominal value)	105,108	11,188	105,108	11,188
Options (caps, floors and collars) - purchase	0	0	0	0
Options (caps, floors and collars) - sale	0	0	0	0
Option bought (nominal value)	6,000	0	6,000	0
Option sold (nominal value)	0	0	0	0
Spot Forex bought (nominal value)	74,474	37,304	74,474	37,304
Spot Forex sold (nominal value)	73,804	37,331	73,804	37,331
Other guarantee granted	0	0	0	0
Variation margin - derivatives	470	410	470	410
Credit lines received	34,667	0	34,667	0
Contra guarantees received	0	0	0	0

	SKB Group		SKB Bank	
	2021	2020	2021	2020
	EUR 000			
Interbank time deposits Income	439	234	439	234
Received loans (liabilities) - Income	0	6	0	6
Interbank time deposits expense	(611)	0	(611)	0
Received loans (liabilities) - Expense	(2,114)	0	(2,114)	0
Interbank demand deposits – nostro accounts (assets)	0	(2)	0	(2)
Interest expenses - negativ interests	0	(465)	0	(465)
Income - Variation margin	126	4	126	4
Expense- Variation margin	(2)	(2)	(2)	(2)
Gains and losses on FX swap, swap and option deals	(2,219)	4,765	(2,219)	4,765
Expense Loans commision	(641)	(661)	(641)	(661)
Income CUSTODY	80	36	80	36
Expense CUSTODY	(2)	(13)	(2)	(13)

Related party transactions with other parties related to OTP Group

	SKB Group		SKB Bank	
	31. 12. 2021	31. 12. 2020	31. 12. 2021	31. 12. 2020
	EUR 000			
Related party transactions with other parties related to OTP				
Time deposits and loans to other banks	2,894	2,609	2,894	2,609
EMTN bonds	0	0	0	0
Other borrowed funds	35,572	1,770	35,572	1,770
Spot Forex bought (nominal value)	178	0	178	0
Spot Forex sold (nominal value)	177	0	177	0
Other guarantee granted	2,133	1,304	2,133	1,304
Credit lines received	0	0	0	0
Contra guarantees received	0	0	0	0

	SKB Group		SKB Bank	
	2021	2020	2021	2020
	EUR 000			
Interbank time deposits Income	1	0	1	0
Received loans (liabilities) - Income	0	52	0	52
Received loans (liabilities) - Expense	0	(14)	0	(14)
Gains and losses on FX swap, swap and option deals	(165)	31	(165)	31
Income Loans commision	10	2	10	2
Expense Loans commision	(2)	(7)	(2)	(7)
Income Custody	131	99	131	99
Expense Custody	(22)	(20)	(22)	(20)

Related party transactions with SKB Leasing

SKB Bank			
	EUR 000	31. 12. 2021	31. 12. 2020
Related party transactions with SKB Leasing at end of the year			
Loans and other financial assets		479,035	480,305
Investment in associates and joint ventures		20,454	20,455
Other assets		0	0
Financial liabilities measured at amortised cost		13,965	15,029
Other liabilities		0	0

SKB Bank			
	EUR 000	2021	2020
Interest income and similar Income		5,504	5,874
Interest expense and similar expense		(2)	(2)
Dividend income		9,250	12,656
Fee and commission income		395	331
Gains and losses on financial assets and liabilities held for trading		0	0
Other operating net income		201	198
Impairment of loans and other financial assets		1,704	(4,396)

Commonly used interest rates with OTP Group

	EUR	Foreign Currency
Borrowing	Fixed IR 0.00 %	-
	0	0
Lending	-	Fixed IR from 0.24 % to 0.58 %
Overnight	Fixed IR from -0.35 % to -0.46 %	Fixed IR from 0.19 % to 0.58 %

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

Remunerations paid to members of the Board of Directors

SKB Group and SKB Bank								
EUR 000	Anita Stojčevska	Vojka Ravbar	Imre Bertalan	Draga Cukjati	Tamás Kamarási	Dr. Miklós Németh	Anna Mítkova Florova	Átilla Kovács
Fixed remuneration	276.0	140.4	0.0	0.0	0.0	0.0	0.0	0.0
Variable remuneration*	23.7	14.4	0.0	0.0	0.0	0.0	0.0	0.0
In - kind benefits**	24.1	7.4	0.0	0.0	0.0	0.0	0.0	0.0
Reimbursement of expenses	17.0	6.4	0.0	0.0	0.0	0.0	0.0	0.0
Insurance premium	2.9	7.3	0.0	0.0	0.0	0.0	0.0	0.0
Other payments	1.6	1.6	0.0	0.0	0.0	0.0	0.0	0.0
Meeting fees	0.0	0.0	21.3	15.0	4.4	15.0	15.0	11.9
Monthly fees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred payments	94.6	32.8	0.0	0.0	0.0	0.0	0	0
Total	439.9	210.3	21.3	15.0	4.4	15.0	15.0	11.9

* In line with OTP Bank policy the employees who are assigned to work abroad, received some in-kind benefits which are locally considered as fixed remuneration and are presented separately.

Members of the Board of Directors have not received payments in Bank's subsidiary SKB Leasing.

At the General Meeting of the SKB bank on 4. 5. 2021, the Assembly appointed a new member of the Board of Directors Attila Kovács, and took note of the resignation statement of Tamás Kamarási dated 16. 3. 2021.

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

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

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

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

Remunerations paid to members of the Key Management Personnel

Key management personnel consist of employees with influence on planning, guidance and managing the activities of SKB Group and SKB Bank.

EUR 000	SKB Group	SKB Bank
Fixed remuneration	559.2	435.5
Variable remuneration	97.3	61.8
In - kind benefits*	65.9	57.4
Reimbursement of expenses	49.1	41.0
Insurance premium	8.5	5.5
Other payments	6.4	4.8
Meeting fees	0.0	0.0
Monthly fees	0.0	0.0
Deferred remuneration	99.9	99.9
Total	886.3	705.9

* In line with OTP Bank policy the employees who are assigned to work abroad, received some in-kind benefits which are locally considered as fixed remuneration and are presented separately.

The difference between remunerations of SKB Group and SKB Bank are remunerations paid to director of subsidiary.

Remuneration policy

The annual bonus is divided into two parts:

- Bonus pool for non-identified employees employees,
- General Bonus Pool and in case established Extraordinary Bonus Pool for identified staff members.

As a rule, the annual bonus part for non-identified employees is paid out with the salary for June of the current year from the funds of the previous year except for Identified Staff members, for which special process and rules are set out.

Levels of identified employees:

- consolidated-level (OTP group-level) personal scope includes those (staff members identified at consolidated level) whose professional activity has a material impact on the risk profile of the entire OTP Group;
- sub-consolidated-level personal scope includes those (staff members identified at sub-consolidated level) whose professional activity has a material impact on the risk profile of the group consisting of the institution owned directly by OTP Bank Plc (credit institution or investment firm) and its subsidiaries;
- local-level personal scope includes those (staff members identified at local level) whose professional activity has a material impact only on the risk profile of SKB Group.

The identified employee is not entitled to performance-based remuneration:

- if it does not contribute to achieving the objectives;
- if his employment is terminated during the probationary period or in the event of immediate dismissal by the employer or termination of employment in connection with the employee's conduct;
- if the employee is not employed at the time of granting the deferral of payment, the entitlement to deferred installments of performance on the basis of performance that has not yet expired ceases.

A identified employee becomes entitled to performance-based benefits (including the short-term and deferred portion of benefits) for a given calendar half-year only if the legal relationship entitling him to performance-based payments exists on the last day of that calendar half-year (on 30 June or 31 December) and has not been discharged on that day.

Remuneration based on performance is paid in cash and in the form of shares in accordance with the Remuneration Policy. The method of payment in the form of shares differs between individual levels of defined employees.

Payment of shares at the sub-consolidated and local levels is made in the form of virtual shares according to the rules applicable to receipts converted into shares.

The payment of shares at the consolidated level is made either in the form of remuneration converted into shares (ordinary OTP shares at a price determined by the OTP Supervisory Board) or as an allotment of shares at a preferential price (right to purchase ordinary OTP shares at a reduced price determined by the Supervisory Board). world OTP). A part of short-term (deferred) earnings converted into shares in accordance with the Remuneration Policy is retained for 1 year. When allocating shares at a preferential price, part of the short-term (deferred) part is retained for 1 year in accordance with the Remuneration Policy, but the retained part can actually be drawn only later - after the year in which the allotment was approved. The shares are provided by OTP.

The payment decision shall be taken for:

- employees at the consolidated level - SKB Board of Directors after obtaining the opinion of the President and Chief Executive Officer of OTP;
- for employees not sub-consolidated and local wounds - SKB Board of Directors.

Bonus	Payed	Accrued
IDENTIFIED EMPLOYEES	360	749
• cash	331	584
• virtual shares	13	33
• shares	16	132
NON-IDENTIFIED EMPLOYEES	830	896
	1.190	1.645

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

	SKB Group and SKB Bank	SKB Group	SKB Bank
EUR 000	Board of Directors	Key Management Personnel	Key Management Personnel
Related party transactions with the members of the Board of Directors and Key Management Personnel at the end of the year			
Loans and advances	1.2	122.7	121.9
Loan commitments	8.2	20.5	9.5
Financial liabilities measured at amortised costs	302.8	120.5	117.1
Related party transactions with the members of the Board of Directors and Key Management Personnel in the year			
Interest income	0.0	0.8	0.7
Interest expense	(0.3)	0.0	0.0
Fee and commission income	0.7	0.8	0.5

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

	EUR 000	SKB Group	SKB Bank
Related party transactions with the family members of the members of the Board of Directors and Key Management Personnel at the end of the year			
Loans and advances		16.2	16.2
Loan commitments		5.9	3.7
Financial liabilities measured at amortised costs		392.7	318.6
Related party transactions with the family members of the members of the Board of Directors and Key Management Personnel in the year			
Interest income		0.7	0.7
Interest expense		(0.1)	(0.1)
Fee and commission income		1.0	0.7

* Interest rates were approved according to the SKB Bank's policy, Average interest rate is 1.97 % and represents the average of common or notional (Euribor + margin or fix) interest rate.

3. Fair value of financial instruments

The following table summarises the carrying values and fair values of those financial assets and liabilities not presented in the SKB Group's and SKB Bank's statement of financial position at their fair value. This table does not include the fair values of non-financial assets and non-financial liabilities.

SKB Group				
	31. 12. 2021		31. 12. 2020	
EUR 000	Carrying value	Fair value	Carrying value	Fair value
Financial assets not measured at fair value				
Cash, cash balances at the central banks and other demand deposits	448,435	448,435	518,211	518,211
Financial assets at amortised cost	2,827,044	2,951,589	2,663,948	2,871,671
Financial liabilities not measured at fair value				
Financial liabilities measured at amortised cost	3,356,691	3,356,596	3,204,107	3,201,196

SKB Bank				
	31. 12. 2021		31. 12. 2020	
EUR 000	Carrying value	Fair value	Carrying value	Fair value
Financial assets not measured at fair value				
Cash, cash balances at the central banks and other demand deposits	448,435	448,435	518,211	518,211
Financial assets at amortised cost	2,821,964	2,910,336	2,652,331	2,817,832
Financial liabilities not measured at fair value				
Financial liabilities measured at amortised cost	3,364,146	3,364,052	3,215,634	3,212,723

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;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The table below summarises the breakdown of financial assets and liabilities by individual valuation method and by individual valuation levels (1, 2, 3). The breakdown is shown for SKB Group and SKB Bank for years 2021 and 2020.

SKB Group								
	31. 12. 2021				31. 12. 2020			
EUR 000	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE								
Cash, cash balances at the central banks and other demand deposits	448,435	-	-	448,435	518,211	-	-	518,211
Loans	-	-	2,744,444	2,744,444	-	-	2,640,234	2,640,234
Government bonds - listed	-	207,145	-	207,145	-	231,437	-	231,437
ASSETS MEASURED AT FAIR VALUE								
Financial assets held for trading								
Derivative financial instruments								
• Forward	-	772	-	772	-	381	-	381
• Interest rate swap	-	4,287	-	4,287	-	8,061	-	8,061
• Currency swap	-	521	-	521	-	457	-	457
• Interest rate option	-	127	-	127	-	11	-	11
• Currency option	-	0	-	0	-	0	-	0
• Spot	-	0	-	0	-	32	-	32
		5,707		5,707		8,942		8,942
Non-trading financial assets mandatorily at fair value through profit of loss								
Equity instruments	-	12,917	7,973	20,890	-	13,028	7,909	20,937
Loans	-	-	0	0	-	0	6,944	6,944
Financial assets designated at fair value through profit or loss	-	0	-	0	-	6,120	-	6,120
Debt securities - listed	-	464,796	-	464,796	-	366,307	-	366,307
Financial assets at fair value through other comprehensive income	-	-	4	4	-	-	63	63
Government bonds - listed	-	464,796	-	464,796	-	366,307	-	366,307
Non-current assets and disposal groups classified as held for sale	-	-	4	4	-	-	63	63

SKB Group								
EUR 000	31. 12. 2021				31. 12. 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE								
Financial liabilities measured at amortised cost	-	-	3,356,596	3,356,596	-	-	3,201,196	3,201,196
LIABILITIES MEASURED AT FAIR VALUE								
Financial liabilities held for trading								
Derivative financial instruments								
• Forward	-	704	-	704	-	807	-	807
• Interest rate swap	-	4,231	-	4,231	-	8,317	-	8,317
• Currency swap	-	542	-	542	-	12	-	12
• Interest rate option	-	127	-	127	-	19	-	19
• Currency option	-	0	-	0	-	0	-	0
• Spot	-	73	-	73	-	5	-	5
		5,677		5,677		9,160		9,160
Financial liabilities designated at fair value through profit or loss								
Structured deposit	-	0	-	0	-	6,120	-	6,120

SKB Bank								
EUR 000	31. 12. 2021				31. 12. 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE								
Cash, cash balances at the central banks and other demand deposits	448,435	-	-	448,435	518,211	0	0	518,211
Loans	-	-	2,703,191	2,703,191	-	0	2,586,395	2,586,395
Government bonds - listed	-	207,145	-	207,145	-	231,437	0	231,437
ASSETS MEASURED AT FAIR VALUE								
Financial assets held for trading								
Derivative financial instruments								
• Forward	-	772	-	772	-	381	-	381
• Interest rate swap	-	4,287	-	4,287	-	8,061	-	8,061
• Currency swap	-	521	-	521	-	457	-	457
• Interest rate option	-	127	-	127	-	11	-	11
• Currency option	-	0	-	-	-	0	-	0
• Spot	0	0	0	0	0	32	-	32
		5,707		5,707		8,942		8,942
Non-trading financial assets mandatorily at fair value through profit of loss								
Equity instruments	-	12,917	7,973	20,890	-	13,028	7,909	20,937
Loans	-	0	0	0	-	0	6,944	6,944
Financial assets designated at fair value through profit or loss								
Debt securities - listed	-				-	6,120	-	6,120
Financial assets at fair value through other comprehensive income								
Government bonds - listed	-	464,796	-	464,796	-	366,307	0	366,307
Non-current assets and disposal groups classified as held for sale	-	-	4	4	-	-	63	63

SKB Bank								
EUR 000	31. 12. 2021				31. 12. 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE								
Financial liabilities measured at amortised cost	-	-	3,364,052	3,364,052	-	-	3,212,723	3,212,723
LIABILITIES MEASURED AT FAIR VALUE								
Financial liabilities held for trading								
Derivative financial instruments								
• Forward	-	704	-	704	-	807	-	807
• Interest rate swap	-	4,231	-	4,231	-	8,317	-	8,317
• Currency swap	-	542	-	542	-	12	-	12
• Interest rate option	-	127	-	127	-	19	-	19
• Currency option	-	0	-	-	-	0	-	-
• Spot	-	73	0	73	0	5	0	5
		5,677		5,677		9,160		9,160
Financial liabilities designated at fair value through profit or loss								
Structured deposit	-	0	-	0	-	6,120	-	6,120

Movement of financial assets and liabilities to level 3

SKB Group and SKB Bank			
EUR 000	Non-trading financial assets mandatorily at fair value through profit or loss		
	Securities	Loans	Total
At 1 January 2021	7,909	6,944	14,853
Valuation in profit or loss	64	0	64
Additions	0	0	-
Disposal (payment/sale)	0	(6,944)	(6,944)
At 31 December 2021	7,973	0	7,973
At 1 January 2020	3,088	8,520	11,608
Valuation in profit or loss	4,708	(426)	4,282
Additions	113	0	-
Disposal (payment/sale)	0	(1,150)	(1,150)
At 31 December 2020	7,909	6,944	14,853

In year 2021 SKB Group and SKB Bank did not have transitions between levels.

TRANSFER	FINANCIAL INSTRUMENT	REASON FOR TRANSFER BETWEEN LEVELS
From Level 2 to 1	Bonds	Re-availability of the market price of the financial instrument. The price for bonds is available if the published market price is due to actual turnover in a period of less than 1 month.
From Level 3 to 1	Shares / funds	Re-availability of the market price of the financial instrument. The price for shares or funds is available if the published market price is the result of actual turnover in a period of less than 1 month.
From Level 1 to 2	Bonds	Valuation of bonds previously valued at market value. The reason for the valuation and change in the level is the withdrawal of the bond from the regulated market or illiquidity (no transaction was concluded within a period of 1 month).
From Level 1 to 3	Shares / funds	Valuation of shares or funds that were previously valued at market value. The reason for the evaluation and change of the level is the withdrawal of shares or funds from the regulated market.
From Level 2 to 3	Derivatives	The underlying instrument to which the derivative relates is reclassified from Level 1 to Level 2 or Level 3 for the underlying instrument.
From Level 3 to 2	Derivatives	The underlying instrument to which the derivative relates is reclassified to Level 1. There is a market value for the underlying instrument.

Financial assets and liabilities not measured at fair value

In estimating the fair value of SKB Group's and SKB Bank's financial instruments, the following methods and assumptions have been used:

Loans and receivables, financial liabilities measured at amortised cost

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

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

Financial assets and liabilities measured at fair value

For determination of fair value for financial instruments which are recorded at fair value using valuation techniques, the estimation of assumptions that a market participant takes into consideration when valuing the instruments is used.

Derivative financial instruments

Derivative products valued using a valuation technique with market observable inputs are mainly foreign exchange forward and swap deals, interest rate derivatives and options such as Interest rate swaps, cap interest rate options or adjusted performance interest rate swaps. The most frequently applied valuation techniques include forward pricing and swap models, using fair value calculations; the model incorporates market data such as spot rates, forward points and interest rate curves.

Securities, loans and deposits

SKB Group and SKB Bank value the securities using valuation models which use discounted cash flow analysis which incorporates either only observable data or both observable and non-observable data. Observable inputs include assumptions regarding current rates of interest; unobservable inputs include assumptions regarding expected future default rates, prepayment rates and market liquidity discounts.

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

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

In accordance with the bank's business model all equity investments not included in the trading book are classified as »Non-trading financial assets mandatorily at fair value through profit or loss«. Gains and losses arising from equity investments are disclosed in the income statement under item »Net gains on non-trading financial assets mandatorily at fair value through profit or loss«. In 2021 there were no changes in accounting policies for measurement of equity investments.

Based on the purpose of acquisition equity instruments are divided into:

- Equity instruments acquired due to regulatory reasons;
- Equity instruments held for strategic reasons; these are long term equity instruments associated with group's core business objectives;
- Non-strategic equity instruments; SKB Group currently does not hold any non-strategic equity investments;
- Equity instruments obtained through debt to equity swap of some non-performing assets, SKB Group holds these financial instruments temporarily.

Book value of all equity instruments is equal to their fair value. None of the equity instruments held by the SKB Group are traded on a stock exchange.

The table below shows the fair value of equity investments:

Issuer	EUR 000	Fair value as of 31 December 2021	Fair value as of 31 December 2020
Equity instruments acquired through debt to equity swap		-	-
Peko, d.d.		-	-
Strategic equity instruments		7,973	7,909
Bankart, d.o.o.		7,172	7,169
Pokojninska družba A, d.d.		777	717
S.W.I.F.T.		24	23
Equity instruments acquired for regulatory reasons		12,917	13,028
Single Resolution Fund		12,917	13,028
Total equity investments		20,890	20,938

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

The table below shows the total realized gains from fair valuation of equity investments in 2021. In 2021 there were no sales or liquidations of equity investments, therefore no gains or losses were realized on this account.

The amounts in the table below are in thousands EUR.

1. Dividends received	2021	2020
Total	163	231
Bankart, d.o.o.	152	231
Pokojninska družba A, d.d.	11	-
2. Sale of equity investments		
Total	-	-
3. Effects on income statement from fair valuation		
Total	(48)	4.762
S.W.I.F.T.	1	1
Single Resolution Fund	(111)	54
Bankart, d.o.o.	3	4.619
Pokojninska družba A, d.d.	59	88

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

Law on limitation and distribution of foreign exchange risk between creditors and borrowers concerning loan agreements in Swiss francs

On 2 February 2022, the Slovenian Parliament passed the "Law on limitation and distribution of foreign exchange risk between creditors and borrowers concerning loan agreements in Swiss francs" (the "Law").

The Law affects all loan agreements denominated in Swiss francs between 28 June 2004 and 31 December 2010. The law sets a currency cap that is activated by more than 10 % change of the exchange rate between the CHF and EUR from the day of drawing of the loan. During the period of validity of the currency cap, the value of installments and other payments is equal to the amount at which the currency cap limit was established. The law requires creditors to calculate the remaining debt, prepare a new annuity plan and prepare a draft contract on the regulation of mutual relations. In the event of overpayment, the lender is obliged to reimburse the borrower the default interest, which runs from the date of occurrence of the overpayment to the date of payment of the overpayment.

Based on the assessment of the Law, we estimate the effect before tax in the amount of approximately EUR 20 million¹⁹ and in this context/equivalent to a reduction in capital adequacy for the SKB Group by 0.62 %²⁰.

Banks have filed an initiative with the Constitutional Court to assess the constitutionality of the law. At its session on 10 March 2022, the Constitutional Court decided to suspend the implementation of the law until the final decision.

Russian-Ukrainian crisis

The Bank carried out its first activities at the end of January 2022, when we identified companies that could be significantly dependent on Russia (on the export or import side) on the basis of internal transactions.

We estimate that the direct exposure is not material, with the total value being off-balance sheet. Regarding indirect exposure, we note that customers do not have significant dependence on Russia or Ukraine, which could significantly worsen the quality of the banking portfolio. The vast majority of companies that could potentially have links with Russia or Ukraine have shares in total turnover of less than 5 %.

We reasonably believe that financial markets and global economy will be negatively affected by the conflict in Ukraine. The severity will depend on the duration and the potential spread of the conflict, as well as, the level and duration of sanctions imposed to Russia.

¹⁹ Based on current assessment, still subject to further analysis.

²⁰ Assuming that total risk exposure would stay the same as on 31.12.2021.

6. Risk management

1. Introduction

In accordance with Regulation (EU) No. 575/2013 (CRR) of the of the European Parliament and of the Council on the prudential requirements for credit institutions and investment firms the bank is obliged to disclose to the public all relevant information regarded as material, since any omission could influence the assessment of a user relying on that information for the purpose of making economic decisions. Number and completeness of disclosed information related to capital adequacy, exposure towards risks and adequacy of governance and control mechanisms, have the impact to a higher transparency of the bank's operations.

SKB Bank d.d. Ljubljana publishes disclosures in a standalone document in the structure compliant to EBA Guidelines on disclosure requirements under Part 8 of Regulation (EU) No. 575/2013.

SKB d.d. as a member of the international banking group OTP designed risk policies on the level of a particular risk as well as comprehensive risk management rules. Risk culture is well developed, the rules and risk management systems are compliant to the local/national legislation and with the guidelines of the parent bank.

Information on the scope of application of the regulatory framework

Institution to which the requirements of this Regulation apply is SKB Bank 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. There are no impediments to the transfer of own funds or repayment of liabilities among the parent bank and its subsidiary.

6.1. Risk management objectives and policies

6.1.1. The institution's approach to risk management

Reputation risk

By strict following of local/national legislation as well as guidelines of the parent bank the bank operates transparently and does not expose itself to risk of reputation loss or degradation, Management of reputation risk is integral part of all the group's activities. This is achieved through increase of this risk awareness, trainings on this topic, through monitoring of media's publications, analysis and adequate management of clients' complaints.

Risk Appetite

Risk Appetite is defined as the level of risk that the SKB Group is willing to assume in achieving its strategic goals.

It is formalized in two documents (the Risk Appetite Framework and the Risk Appetite Statement) which describe SKB Group-level principles, policies and metrics which establish the SKB Group's Risk Appetite. The Risk Appetite is therefore articulated:

- Qualitatively, through a set of principles and policies applicable to various types of risk;
- Quantitatively, through risk control mechanisms comprising forward-looking targets, limits and alert thresholds,

Risk Appetite is revised annually and adjusted based on the annual risk identification process. It is established at SKB Group level, cascaded operationally down to Business Lines through credit policies and delegations and monitored through defined principles.

Risk Appetite is designed such as to encompass the interactions with major strategic processes in the SKB Group such as budgeting and strategic and financial planning (SFP), the internal capital adequacy assessment process (ICAAP), the internal liquidity adequacy assessment process (ILAAP), the Recovery Plan and the compensation mechanism.

Risk Appetite is monitored through various indicators, defined per major risk types, which the SKB Group is prepared to take over, and steered by defined thresholds. The SKB Group sets thresholds according to the following principles:

- **Risk capacity:** is the maximum risk that the bank can absorb without jeopardizing its sustainability;
- **Risk tolerance:** is the maximum negative impact, loss amount, a bank is willing to accept from a specific risk event or series of risk events;
- **Risk 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;
- **Risk target:** is defined as expected level of risk indicators assuming the base macroeconomic scenario and base financial projections of the Group.

SKB Group monitors five major risk types. Overall, in 2021 the SKB Group demonstrated strong financial profile with stable levels of main risk types. Alert levels have been triggered only on credit risk as a result of macroeconomic environment and changes in stage 2 portfolio.

6.1.2. Information on risk management's objectives and policies - by risk category

Risk strategy

The risk management strategy of SKB Group takes into account the advanced risk management standards of the OTP Group, together with regulatory norms. The implementation of efficient risk management is crucial for the strategic development of the SKB Group (from hereafter the Group).

The most important objectives of the SKB 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 SKB Group manages all significant types of risk, including credit, concentration risk, market, liquidity risk, excessive leverage risk, capital risk, operational, reputation and compliance risk.

Principles of risk-management governance

SKB Bank's risk-management governance is based on:

- strong managerial involvement at all levels from the Board of Directors and the General management to operational management teams;
- the independence of risk assessment from commercial operations.

Organization of risk management

The risk management function is supported by the following bodies:

- **Board of Directors**

The Board of Directors defines and monitors the implementation of the SKB 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 management committees**

Monitoring the evolution of all important risks for the SKB Group is performed by various committees:

- Credit risk committee for retail;
- Credit risk committee for non-retail;
- Asset liability committee (interest, FX and liquidity risk);
- Operational risk and compliance committee;
- Work-Out committee.

- **Risk Division**

SKB Risk Division is primarily responsible for setting methodology for monitoring and managing the SKB Group's credit, market and operational risks. The Risk Division acts completely independently from the business operating departments and reports directly to the General Management.

- **Finance Division**

Finance Division is responsible for the management of structural risks (interest rate risk, foreign exchange and liquidity risk).

The capital risk is managed via the Internal Capital Adequacy Assessment Process (ICAAP), organized in cooperation between the Risk and Finance Division.

Risk-adjusted pricing

Since the end of 2007, SKB Bank has been using the risk-adjusted pricing model, which takes into account credit, liquidity, interest rate and capital risk.

The model is a part of the regular decision-making process for newly granted loans and newly taken deposits, and is being frequently updated to reflect current liquidity situation on the market (market short-term and long-term interest rates and the cost of providing liquidity) and takes into account the capital requirements, required return on equity and customer credit risk. The model is also being used in the process of setting the SKB Group's pricing policy for loans and deposits.

Since 2012 SKB Bank has been using maturity matched internal transfer pricing system, which takes into account current market conditions and strategic guidelines of the bank consequently enabling more efficient management of liquidity risk, allocation of costs and benefits and monthly monitoring of the Bank's operations' effectiveness.

6.1.3. Credit risk

Risk approval

Corporate (Non-retail)

Risk approval is conducted in the Credit Risk Assessment unit and is independent from the operational units (Commercial Departments in Bank and Leasing). The granting process is based on approving credit limit applications submitted by commercial units. Any credit risk undertaking must be based on sound knowledge of the client and a thorough understanding of the client's business model, 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 commercial units in order to support SKB Group's business activities and to make the credit process more efficient, while closely monitoring the quality of SKB Bank's credit portfolio.

Retail (MSE and individuals)

For private individuals the implemented risk policies in the granting tool 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.

With Retail MSE clients (professionals and micro companies) granting process is facility based and similar to corporate credit risk, the final risk profile of the client is defined by the rating and is the basis for the credit decision process. Important contribution in terms of process efficiency was the implementation of the new granting tool for Retail MSE (Prozon).

Retail Risk unit supports Business Network in their activities for credit portfolio growth with a sound credit risk strategies and approach. Stability and excellence of Retail portfolio as a result of good and efficient credit risk management and monitoring.

Risk measurement and internal ratings

SKB Bank's rating system is based on three key pillars:

- internal rating models used to measure counterparty risk (expressed as the probability of default by the borrower within the horizon of one year);
- set of procedures and guidelines for the usage of the rating tools and monitoring the usage of the rating system;
- reliance on expert judgment to assess the model results.

Client follow-up and monitoring

Corporate (Non-retail)

Sensitive clients are included on watch lists (WL1&WL2) for regular and systematic follow-up. SKB Bank in 2021 further upgrade its system of monitoring and early detection of sensitive clients (EWS). The main important triggers to include clients on watch lists are:

- deterioration of credit quality;
- difficulties in the settlement of credit obligations;
- breach of contractual covenants;
- blocked accounts, movements on the account, usage of ST lines, negative alerts from SISBIZ, etc.

Through a client watch lists, 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.

Retail (MSE and individuals)

Retail portfolio for both segments is monitored through regular monthly monitoring reporting with automated algorithms which consists of various portfolio quality measurements such as vintages (HR curves), unpaid instalments, demographic data and others. We use various additional analysis for the purpose of detecting portfolio changes or changing patterns in client's behaviour.

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

Counterparty credit risk is the risk arising from the possibility that the counterparty may default on derivative transactions concluded with the bank, which can result to a due closing-out settlement amount based on the actual market value of such transactions. In SKB Group the number of derivative transactions is low and limited to the client driven hedging operations and to the asset liability management operations. All derivative deals initiated by the client are closed with back to back deals. Based on agreement within OTP Group, the deals are not executed by using the central clearing institutions in line with European Market Infrastructure Regulation (EMIR).

6.1.5. Information on governance arrangements

SKB banka d.d. Ljubljana discloses information on management arrangements in accordance with CRR Part 8 Article 435 (2) and guidelines on the disclosure requirements of Part 8 of Regulation (EU) No, 575/2013 in the annual report in Chapter III - Report of the Board of Directors and Committees of the Board of Directors and in point 5,3 - Corporate governance statement of SKB banka d.d. Ljubljana.

6.2. Equity requirements

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

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

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

Capital adequacy

The SKB Group measures its credit and operational risks under Basel II Pillar I rules, Capital requirements for credit risk, counterparty credit risk and operational risk are calculated using the standardized approach.

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

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

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

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

The SKB Group monitors the adequacy of its capital using ratios defined by the requirements of the Bank of Slovenia. These ratios measure capital adequacy by comparing the Group's capital with risk-weighted assets.

While the minimum amount of capital required is 8 % of risk weighted assets under pillar I requirement and the total capital requirement is set to 13.75 % on a consolidated basis, the Group sets its internal limit for capital adequacy to 14.25 % of total capital. This internal limit is the alert level set in Risk Appetite Framework and Risk Appetite Statement and is monitored on a quarterly basis on the Board of Directors committee.

In 2021, the SKB Group's capital adequacy increased and remains safe above the internally set limit. The main reason for the increase is the suspension of dividend payments and the reduction of risk-weighted exposure amounts for credit risks.

Regulatory capital and capital adequacy

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

	SKB Group		SKB Bank		
	EUR 000	2021	2020	2021	2020
Paid up capital instruments		52,784	52,784	52,784	52,784
Share premium		104,061	104,061	104,061	104,061
Retained earnings		195,316	160,462	178,841	143,462
Profit eligible - from current year		46,008	34,850	50,733	35,379
Accumulated other comprehensive income		15,165	24,720	15,315	24,875
Other reserves		29,106	29,106	29,106	29,106
Prudential filters: Value adjustments due to the requirements for prudent valuation		(487)	(396)	(507)	(417)
(-) Goodwill		(1,290)	(1,290)	0	0
(-) Other intangible assets		(2,849)	(2,464)	(3,772)	(3,603)
(-) CET1 capital elements or deductions - other		0	(2,244)	0	(2,485)
COMMON EQUITY TIER 1 (CET1)		391,806	364,739	375,828	347,783
TIER 1 CAPITAL (T1)		391,806	364,739	375,828	347,783
TOTAL CAPITAL (OWN FUNDS)		391,806	364,739	375,828	347,783
Total credit risk exposure		2,410,931	2,209,666	2,554,795	2,347,664
Total exposure to credit valuation adjustment risk		1,175	569	1,175	569
Total operative risk exposure		194,696	195,608	185,380	181,797
TOTAL RISK EXPOSURE (RWA)		2,606,802	2,405,843	2,741,351	2,530,030
Common share equity ratio (ratio CET1)		15.03 %	15.16 %	13.71 %	13.75 %
Share capital ratio (ratio Tier 1)		15.03 %	15.16 %	13.71 %	13.75 %
Total capital ratio		15.03 %	15.16 %	13.71 %	13.75 %

As at 31 December 2021, the capital ratios of the SKB Group are as follows:

- common share equity Ratio: 15.03 %;
- share capital ratio: 15.03 %;
- total capital ratio: 15.03 %.

The total capital requirement of the SKB Group amounts to 13.75 % at the end of 2021 on a consolidated basis and includes:

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

The capital adequacy of SKB Group and SKB Bank thus remains high at the end of 2021 and in line with risk-taking policies, at a level that covers all current and forecast capital requirements, including capital ratio requirements and other requirements and recommendations under Pillar II.

The internal capital adequacy assessment process

The SKB Group implemented Internal Capital Adequacy Assessment Process (ICAAP) to be able to assess capital needs in accordance with risk profile and risk strategy.

The process consists of a qualitative and quantitative assessment. The qualitative part represent the assessment of SKB 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 SKB Group's General Management through the ALCO Committee. Internal estimates of capital needs are calculated for all important risks from normative²¹ and economic²² 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 SKB Group is exposed.

The ICAAP process is intertwined with the ILAAP process (Internal Liquidity Adequacy Assessment process) by which the Group analysing liquidity position from qualitative and quantitative perspective, including liquidity metrics which are not specifically defined within liquidity risk section of ICAAP report.

The ICAAP and ILAAP process are intertwined with the SKB Group's main strategic processes, such as Risk Appetite Framework, Risk Appetite Statement and Recovery and resolution plan.

6.3. Credit risk

6.3.1. General qualitative information on credit risk

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

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

Default rules

The SKB Group is applying the regulatory default definition and is performing the monitoring of the default marking process. In line with EBA requirements defaulted exposures are classified as non-performing assets and are all either individually impaired or impaired by using statistical methods.

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

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

Forborne classification (Restructuring and Refinancing)

In case of financial difficulties of the debtor and subject to still viable underlying business of such debtor, the group primarily seeks to implement restructuring of the financial obligations instead of insolvency procedures. In accordance with group standards, which encompass EBA - regulatory rules and IFRS 9 standards, such assets - as a rule - trigger the classification in default. As such they are treated as non-performing loans. The decision to maintain the counterparty as performing is taken with consideration of a non-material NPV loss after restructuring. In line with EBA guidelines on payment moratoria, the performing classification also applies on particular cases of moratoriums, launched in response to the COVID-19 pandemic.

Following the internal rules the SKB Group keeps forborne assets / obligors in non-performing classification at least one year.

The performing forborne assets / obligors can exit forbearance classification in case of becoming performing assets / obligors. That can take place under two conditions:

- successfully passing the probation period of two years, starting from the date of upgrade from non-performing (defaulted) assets / obligors or two years after applying a performing forborne status;
- all required credit quality conditions for facility / debtor are fulfilled.

²¹ 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.

²² Economic internal perspective is perspective under which the institution manages its economic capital adequacy by ensuring that its economic risks are sufficiently covered by available internal capital.

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

Retail

The SKB 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 SKB 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 SKB Group regularly monitors its credit portfolio to assess the quality of its assets and impairs its assets in accordance with IFRS 9 rules.

Non-retail assets with significant exposure are impaired based on individual assessment of present value of estimated future cash flows to the Group after considering all available information on the expected recovery duration and estimated value of the collateral.

For the remaining non-performing non-significant assets, the recovery assumptions are based on homogeneous groups. Each homogeneous group represents group assets with similar risk profiles. The level of impairment is set-up by using statistical models and depends on client segmentation, product type and progressively increases in dependence of time in default.

The approach for the calculation of collective impairments on sound portfolio is described under item Impairment of financial instruments.

6.3.2. General quantitative information on credit risk

The tables throughout the Credit risk section present exposures of SKB Group and SKB Bank seen through various qualitative views and assessments. The data is presented in accordance with the Capital Requirements Regulation.

	SKB Group					
EUR 000	2021			2020		
	Gross exposure	Risk adjustment	Net exposure	Gross exposure	Risk adjustment	Net exposure
Balance sheet exposure	3,840,236	74,183	3,766,053	3,676,448	85,330	3,591,118
Off balance sheet exposure	799,498	9,810	789,688	734,691	9,884	724,807
Total balance and Off balance sheet exposure	4,639,734	83,993	4,555,741	4,411,139	95,214	4,315,925

	SKB Bank					
EUR 000	2021			2020		
	Gross exposure	Risk adjustment	Net exposure	Gross exposure	Risk adjustment	Net exposure
Balance sheet exposure	3,826,981	69,148	3,757,833	3,657,797	79,945	3,577,852
Off balance sheet exposure	799,520	6,672	792,848	734,714	8,234	726,480
Total balance and Off balance sheet exposure	4,626,501	75,820	4,550,681	4,392,511	88,179	4,304,332

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

	SKB Group		SKB Bank	
	2021	2020	2021	2020
	EUR 000			
Cash on hand, balances with central banks and sight deposits with banks	448,528	518,211	448,528	518,211
Financial assets held for trading	0	32	0	32
Financial assets measured at fair value through profit or loss that are not held for trading	20,890	27,881	20,890	27,881
Financial assets measured at fair value through other comprehensive income	464,796	366,307	464,796	366,307
Financial assets measured at fair value through profit or loss	0	6,120	0	6,120
Financial assets measured at amortized cost	2,900,315	2,748,987	2,887,060	2,730,337
Debt securities	195,570	214,834	195,570	214,834
Loans to banks	61	99	61	99
Loans to State	56,184	43,507	56,184	43,504
Loans to individuals	1,508,121	1,442,155	1,266,669	1,200,111
Loans to other customers	1,135,363	1,045,391	1,363,968	1,269,260
Other financial assets	5,016	3,001	4,608	2,529
Derivatives, held for trading	5,707	8,911	5,707	8,911
Total gross financial assets	3,840,236	3,676,449	3,826,981	3,657,799
Total guarantees and potential liabilities	799,498	734,691	799,520	734,714
Total maximum exposure to credit risk	4,639,734	4,411,140	4,626,501	4,392,513

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

Concentration of risk

The concentration of risk is managed by client, by country and by industrial sector. SKB Group precisely monitors concentration of risk by client name, using large exposure analyses, and manages it by defining the limits comparing to the SKB Group capital. The regular reporting on large exposure and limits are part of the risk management process of the SKB Group. For regular portfolio analyses, the SKB Group also quarterly monitors concentration by the industrial sector as part of ICAAP process.

In terms of geographical breakdown, the majority of exposure remains to be allocated on Slovenian market.

The portfolio structure on the other hand remains well diversified by individual debtor and by industrial sector.

SKB Group	Loans to banks measured at amortized cost		Loans to non-banks measured at amortized cost		Debt securities measured at amortized cost		Financial assets measured at fair value through other comprehensive income		Financial guarantees and other off-balance sheet liabilities	
	EUR 000	2021	2020	2021	2020	2021	2020	2021	2020	2021
Agriculture and forestry, finshing	-	-	12,091	3,419	-	-	-	-	8,490	363
Mining	-	-	4,943	3,082	-	-	-	-	3,289	3,238
Manufacturing	-	-	295,416	291,737	-	-	-	-	138,559	143,769
Electricity, gas and water services	-	-	73,364	54,832	-	-	-	-	91,339	73,120
Construction	-	-	59,853	59,086	-	-	-	-	72,607	65,274
Commerce	-	-	218,342	216,740	-	-	-	-	187,328	169,508
Hotel trading	-	-	22,211	21,636	-	-	-	-	10,401	9,440
Traffic, warehousing and communication	-	-	263,243	230,342	-	-	-	-	65,559	84,574
Other financial organizations	61	99	39,970	35,931	-	-	-	-	28,158	15,693
Real estate	-	-	33,308	26,596	-	-	-	-	6,800	2,537
Government	-	-	87,522	70,356	80,608	99,254	355,013	290,221	3,265	22,767
Education	-	-	1,606	707	-	-	-	-	592	1,510
Health and social services	-	-	18,049	7,013	-	-	-	-	5,335	1,689
Other public, collective and personal services	-	-	62,005	67,314	114,962	115,580	109,783	76,086	80,693	47,680
Individuals	-	-	1,507,745	1,442,262	-	-	-	-	97,083	93,529
• mortgage secured	-	-	797,407	760,135	-	-	-	-	6,761	2,620
• unsecured	-	-	417,837	428,748	-	-	-	-	89,557	90,350
Total	61	99	2,699,670	2,531,053	195,570	214,834	464,796	366,307	799,498	734,691

SKB Bank	Loans to banks measured at amortized cost		Loans to non-banks measured at amortized cost		Debt securities measured at amortized cost		Financial assets measured at fair value through other comprehensive income		Financial guarantees and other off-balance sheet liabilities	
	EUR 000	2021	2020	2021	2020	2021	2020	2021	2020	2021
Agriculture and forestry, finshing	-	-	9,272	663	-	-	-	-	8,490	363
Mining	-	-	3,580	2,297	-	-	-	-	3,289	3,238
Manufacturing	-	-	248,935	241,092	-	-	-	-	138,559	143,769
Electricity, gas and water services	-	-	68,552	50,348	-	-	-	-	91,339	73,120
Construction	-	-	22,944	23,596	-	-	-	-	72,607	65,274
Commerce	-	-	155,214	144,417	-	-	-	-	187,327	169,509
Hotel trading	-	-	18,599	18,986	-	-	-	-	10,401	9,440
Traffic, warehousing and communication	-	-	195,224	162,146	-	-	-	-	65,559	84,574
Other financial organizations	61	99	521,357	520,159	-	-	-	-	28,181	15,716
Real estate	-	-	30,872	24,894	-	-	-	-	6,800	2,537
Government	-	-	87,155	70,068	-	-	-	-	3,265	22,767
Education	-	-	1,152	305	80,608	99,254	355,013	290,221	592	1,510
Health and social services	-	-	16,673	5,864	-	-	-	-	5,335	1,689
Other public, collective and personal services	-	-	41,045	47,929	114,962	115,580	109,783	76,086	80,693	47,680
Individuals	-	-	1,266,247	1,200,111	-	-	-	-	97,083	93,528
• mortgage secured	-	-	797,407	760,135	-	-	-	-	6,761	2,620
• unsecured	-	-	176,337	186,729	-	-	-	-	89,557	90,350
Total	61	99	2,686,821	2,512,875	195,570	214,834	464,796	366,307	799,520	734,714

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

SKB Group	Loans to banks measured at amortized cost		Loans to non-banks measured at amortized cost		Debt securities measured at amortized cost		Financial assets measured at fair value through other comprehensive income		Financial guarantees and other off-balance sheet liabilities	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Slovenia	2	0	2,685,264	2,510,462	80,608	99,254	250,689	272,534	775,361	719,774
France	0	0	0	2	114,962	115,580	21,271	22,507	4,421	4,395
Hungary	0	0	0	0	0	0	88,513	53,605	0	0
Other	59	99	14,404	20,589	0	0	104,323	17,661	19,716	10,522
Total	61	99	2,699,668	2,531,053	195,570	214,834	464,796	366,307	799,498	734,691

SKB Bank	Loans to banks measured at amortized cost		Loans to non-banks measured at amortized cost		Debt securities measured at amortized cost		Financial assets measured at fair value through other comprehensive income		Financial guarantees and other off-balance sheet liabilities	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Slovenia	2	0	2,672,818	2,492,888	80,608	99,254	250,689	272,534	775,383	719,794
France	0	0	0	0	114,962	115,580	21,271	22,507	4,421	4,395
Hungary	0	0	0	0	0	0	88,513	53,605	0	0
Other	59	99	14,003	19,987	0	0	104,323	17,661	19,716	10,525
Total	61	99	2,686,821	2,512,875	195,570	214,834	464,796	366,307	799,520	734,714

The vast majority of SKB Group exposure at the end of 2021 is allocated on Slovenian debtors. Among the loans to non-banks customers, this number exceeds 99 % of the total loans granted and the structure remains the same as in 2020. In comparison to 2020 the geographical structure changed mostly on financial assets measured at fair value through other comprehensive income, where the share of debtors in "other" category increased by 18 percentage points.

Credit quality of exposures by exposure class and instrument

SKB Group - 2021							
EUR 000	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted Exposures	Non defaulted exposures					
Central governments or central banks	-	1,128,457	-	1,041	-	660	1,127,415
Regional governments or local authorities	-	82,892	-	266	-	50	82,627
Public sector entities	-	-	-	-	-	-	-
Multilateral Development Banks	-	-	-	-	-	-	-
International Organisations	-	-	-	-	-	-	-
Institutions	-	68,614	-	149	-	87	68,466
Corporates	-	1,547,264	-	13,947	-	(8,407)	1,533,317
• Of which SME	-	729,036	-	7,995	-	(3,079)	721,041
Retail	-	1,743,972	-	16,455	-	(3,610)	1,727,517
• Of which SME	-	174,051	-	3,783	-	37	170,267
• Of which secured by mortgages on immovable property	-	802,273	-	9,436	-	(10,801)	792,836
Exposures in default	68,535	-	17,732	34,404	7,685	-	16,399
Items associated with particular high risk	-	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-
Collective investments undertakings (CIU)	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-
Other items	-	-	-	-	-	-	-
Total Standardised Approach	68,535	4,571,199	17,732	66,261	7,685	(11,220)	4,555,740
• Of which: loans	68,449	3,430,778	17,732	65,177	7,685	(11,897)	3,399,997
• Of which: debt securities	-	195,570	-	131	-	(231)	195,439
• Of which: off-balance sheet items	4,165	795,333	3,242	6,568	-	(74)	788,873

SKB Group - 2020							
EUR 000	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted Exposures	Non defaulted exposures					
Central governments or central banks	-	1,127,467	-	381	-	352	1,127,086
Regional governments or local authorities	-	51,573	-	216	-	173	51,357
Public sector entities	-	-	-	-	-	-	-
Multilateral Development Banks	-	-	-	-	-	-	-
International Organisations	-	-	-	-	-	-	-
Institutions	-	62,004	-	62	-	55	61,943
Corporates	-	1,378,439	-	15,051	-	9,965	1,363,388
• Of which SME	-	613,678	-	7,451	-	5,710	606,227
Retail	-	1,704,480	-	17,812	-	17,919	1,686,668
• Of which SME	-	205,702	-	3,336	-	2,774	202,366
• Of which secured by mortgages on immovable property	-	920,797	-	10,094	-	10,630	910,703
Exposures in default	87,176	-	27,094	34,598	3,443	-	25,484
Items associated with particular high risk	-	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-
Collective investments undertakings (CIU)	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-
Other items	-	-	-	-	-	-	-
Total Standardised Approach	87,176	4,323,963	27,094	68,120	3,443	28,464	4,315,926
• Of which: loans	80,099	3,185,746	27,094	67,712	3,443	28,112	3,152,604
• Of which: debt securities	-	587,550	-	362	-	334	587,188
• Of which: off-balance sheet items	5,619	729,072	3,935	5,949	-	3,328	723,254

SKB Bank - 2021							
EUR 000	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted Exposures	Non defaulted exposures					
Central governments or central banks	-	1,128,456	-	1,041	-	(16,353)	1,127,414
Regional governments or local authorities	-	82,715	-	265	-	(7,155)	82,450
Public sector entities	-	-	-	-	-	-	-
Multilateral Development Banks	-	-	-	-	-	-	-
International Organisations	-	-	-	-	-	-	-
Institutions	-	68,614	-	149	-	(20,866)	68,466
Corporates	-	1,866,018	-	15,709	-	(86,833)	1,850,309
• Of which SME	-	593,320	-	7,145	-	(9,231)	586,174
Retail	-	1,426,934	-	14,936	-	(42,934)	1,411,998
• Of which SME	-	92,119	-	2,871	-	(79,409)	89,248
• Of which secured by mortgages on immovable property	-	802,456	-	9,436	-	7,270	793,020
Exposures in default	53,764	0	16,354	27,366	7,297	0	10,044
Items associated with particular high risk	-	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-
Collective investments undertakings (CIU)	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-
Other items	-	-	-	-	-	-	-
Total Standardised Approach	53,764	4,572,737	16,354	59,466	7,297	(174,142)	4,550,681
• Of which: loans	53,754	3,432,648	16,354	55,248	7,297	74,741	3,401,625
• Of which: debt securities	-	195,570	-	131	-	131	195,439
• Of which: off-balance sheet items	-	795,356	3,242	3,430	-	9,810	788,895

SKB Bank - 2020							
EUR 000	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted Exposures	Non defaulted exposures					
Central governments or central banks	-	1,127,395	-	381	-	352	1,127,014
Regional governments or local authorities	-	51,435	-	215	-	174	51,220
Public sector entities	-	-	-	-	-	-	-
Multilateral Development Banks	-	-	-	-	-	-	-
International Organisations	-	-	-	-	-	-	-
Institutions	-	62,004	-	62	-	55	61,943
Corporates	-	1,704,084	-	17,633	-	13,920	1,686,451
• Of which SME	-	484,276	-	5,923	-	5,245	478,353
Retail	-	1,371,828	-	15,355	-	16,772	1,356,473
• Of which SME	-	111,772	-	1,818	-	1,857	109,954
• Of which secured by mortgages on immovable property	-	920,797	-	10,094	-	10,630	910,703
Exposures in default	75,766	-	25,363	29,171	3,137	-	21,231
Items associated with particular high risk	-	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-
Collective investments undertakings (CIU)	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-
Other items	-	-	-	-	-	-	-
Total Standardised Approach	75,766	4,316,747	25,363	62,816	3,137	31,273	4,304,333
• Of which: loans	68,799	3,178,889	25,363	60,770	3,137	30,923	3,145,622
• Of which: debt securities	-	587,550	-	362	-	334	587,188
• Of which: off-balance sheet items	5,619	729,090	3,935	4,299	-	3,328	723,271

Note: presented in the table are gross and net values (after exclusion of provisions) of balance and off-balance credit risk exposure. Specific credit risk adjustment are the ones that are individually impaired. General credit risk adjustments are the ones, calculated based on statistical model. Credit risk adjustments include balance and off-balance part.

At the end of 2021 the share of defaulted exposures represented 1.5 % of the gross exposure of the SKB Group. The level of defaulted exposures decreased in comparison with 2020 by more than 20 %. The amount of specific credit risk adjustments decreased by 34 % compared with 2020, whereas the decrease on the level of general risk adjustment was less than 3 %. The overall decrease of defaulted exposures results from improvement in the economic situation in 2021, efficiency of internal recovery process and partially also write-offs.

The distribution of portfolio among stages is very similar to respective 2020 distribution, the coverage with provisions for non-defaulted exposures remained very similar as well. The coverage of the defaulted exposure increased when compared to 2020.

Credit quality of loans and other financial assets by industry

SKB Group - 2021							
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	327	20,255	0	331	4	75	20,250
Mining	686	7,546	400	36	0	115	7,796
Manufacturing	7,476	426,560	3,485	7,387	1,987	(5,210)	423,164
Electricity, gas and water services	149	164,648	96	1,499	24	235	163,202
Construction	6,510	125,965	3,220	3,372	343	(2,042)	125,884
Commerce	3,587	403,823	1,201	5,048	754	(2,297)	401,161
Hotel trading	1,914	30,724	568	1,670	3	810	30,400
Traffic, warehousing and communication	6,797	331,968	1,150	5,869	286	(496)	331,747
Other financial organizations	105	535,702	0	352	0	112	535,455
Real estate	337	39,952	0	629	98	(199)	39,660
Government	0	526,294	0	768	0	408	525,526
Education	18	2,181	0	28	0	(13)	2,171
Health and social services	16	23,372	6	179	0	73	23,203
Other public, collective and personal services	5,023	362,672	2,159	3,074	14	897	362,463
Individuals	35,588	1,569,539	5,448	36,020	4,173	(3,685)	1,563,656
Total	68,533	4,571,201	17,733	66,262	7,686	(11,217)	4,555,738

SKB Group - 2020							
EUR 000	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non defaulted exposures					
Agriculture and forestry, fishing	370	3,413	4	253	27	20	3,526
Mining	971	5,350	276	46	-	197	5,999
Manufacturing	13,055	422,545	7,780	8,303	291	3,599	419,517
Electricity, gas and water services	266	127,726	116	1,244	-	513	126,632
Construction	8,642	115,929	5,566	3,067	122	1,740	115,937
Commerce	13,528	382,483	2,679	5,868	278	1,741	387,464
Hotel trading	1,482	29,644	488	939	248	143	29,698
Traffic, warehousing and communication	6,878	320,744	1,263	6,252	32	3,885	320,106
Other financial organizations	17	592,830	-	240	1	102	592,607
Real estate	567	28,568	-	828	6	273	28,307
Government	-	482,793	-	361	-	281	482,432
Education	43	2,180	-	40	-	(1)	2,182
Health and social services	21	8,687	6	106	-	31	8,595
Other public, collective and personal services	4,093	302,655	1,598	2,738	450	816	302,413
Individuals	37,245	1,498,419	7,318	37,834	1,987	15,124	1,490,511
Total	87,176	4,323,964	27,094	68,120	3,443	28,464	4,315,926

SKB Bank - 2021							
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	48	17,714	0	169	0	(121)	17,593
Mining	686	6,184	400	31	0	(117)	6,439
Manufacturing	6,456	381,085	3,309	6,596	1,966	4,964	377,636
Electricity, gas and water services	13	159,972	0	1,448	0	(292)	158,537
Construction	5,345	90,207	3,079	2,549	297	1,918	89,924
Commerce	2,745	341,486	1,043	4,351	657	1,448	338,837
Hotel trading	1,821	27,205	568	1,566	3	(769)	26,893
Traffic, warehousing and communication	3,405	267,318	877	4,058	92	(3)	265,788
Other financial organizations	105	1,017,120	0	3,121	0	1,579	1,014,104
Real estate	262	37,591	0	583	98	176	37,270
Government	0	525,926	0	763	0	(413)	525,163
Education	7	1,738	0	15	0	6	1,730
Health and social services	4	22,005	0	167	0	(78)	21,842
Other public, collective and personal services	3,893	342,804	2,118	2,326	10	(940)	342,253
Individuals	28,975	1,334,381	4,960	31,722	4,173	5,000	1,326,674
Total	53,764	4,572,737	16,354	59,466	7,297	12,360	4,550,681

SKB Bank - 2020							
EUR 000	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non defaulted exposures					
Agriculture and forestry, fishing	50	976	-	49	1	31	977
Mining	971	4,565	276	38	-	194	5,221
Manufacturing	12,197	370,619	7,586	7,284	108	3,577	367,947
Electricity, gas and water services	66	123,716	-	1,156	-	462	122,626
Construction	7,653	81,404	5,404	2,142	62	1,547	81,510
Commerce	12,086	320,128	2,394	4,449	265	1,924	325,371
Hotel trading	1,439	26,098	488	877	248	162	26,172
Traffic, warehousing and communication	4,078	255,330	730	4,201	15	2,864	254,477
Other financial organizations	8	1,077,104	-	4,700	1	4,506	1,072,412
Real estate	438	26,994	-	760	1	254	26,672
Government	-	482,410	-	351	-	274	482,059
Education	25	1,795	-	21	-	(1)	1,799
Health and social services	4	7,551	-	89	-	31	7,466
Other public, collective and personal services	3,152	278,424	1,594	1,910	450	542	278,072
Individuals	33,599	1,259,634	6,892	34,790	1,987	14,908	1,251,552
Total	75,766	4,316,747	25,363	62,816	3,137	31,273	4,304,333

Note: counterparties have been allocated to the groups according to Standard industry classification. Presented exposures are gross and net values (after exclusion of provisions) of balance and off balance credit risk exposure. Specific credit risk adjustment are the ones that are individually impaired. General credit risk adjustments are the ones, calculated based on statistical model. Credit risk adjustments also include balance and off-balance part.

The highest share of defaulted exposures at the end of 2021 was observed in the manufacturing industry (11%). Traffic, warehousing and communication industry along with construction industry shared the second place with almost 10 % share of defaulted exposures. Comparing to 2020 the situation is much improved in the commerce industry with 5 % share of defaulted exposures (15 % in 2020).

Defaulted exposures on individuals' portfolio represent a 52 % share of total defaulted portfolio, comparing to 43 % share in 2020.

Comparison of defaulted exposure of 2021 with 2020 shows a reduction of defaulted exposure in the majority of industries, with the highest decrease observed in the aforementioned commerce industry (73%). The increase was observed in the hotel & trading industry which was highly impacted with COVID-19 pandemic.

At the end of 2021 manufacturing and construction industries also had the highest share of specific credit risk adjustments (just below 20 %).

Quality of non - performing exposures by geographical area

SKB Group- 2021							
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					
Slovenia	68,455	4,186,397	17,732	65,314	7,014	(11,699)	4,171,806
France	0	141,446	0	96	0	49	141,351
Hungary	0	90,197	0	168	0	149	90,029
Other	80	153,161	0	684	671	280	152,557
Total	68,535	4,571,201	17,732	66,261	7,685	(11,220)	4,555,743

SKB Group- 2020							
EUR 000	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non defaulted exposures					
Slovenia	80,167	4,055,683	27,094	67,651	3,139	28,515	4,041,105
France	0	149,745	0	47	0	224	149,698
Hungary	0	54,676	0	18	0	(18)	54,657
Other	7,009	63,861	0	404	304	(257)	70,466
Total	87,176	4,323,964	27,094	68,120	3,443	28,464	4,315,926

Note: presented in the table are gross and net values (after exclusion of provisions) of balance and off balance credit risk exposure. Specific credit risk adjustment are the ones that are individually impaired. General credit risk adjustments are the ones, calculated based on statistical model. Credit risk adjustments include balance and off balance part.

SKB Bank- 2021							
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					
Slovenia	53,699	4,188,309	16,354	58,531	6,626	(12,830)	4,167,131
France	0	141,446	0	96	0	49	141,351
Hungary	0	90,197	0	168	0	149	90,029
Other	57	152,785	0	672	671	272	152,167
Total	53,756	4,572,737	16,354	59,466	7,297	(12,360)	4,550,678

SKB Bank- 2020							
EUR 000	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non defaulted exposures					
Slovenia	68,806	4,031,835	25,363	62,351	2,833	28,515	4,012,927
France	0	158,064	0	47	0	224	158,017
Hungary	0	54,978	0	18	0	(18)	54,960
Other	6,959	71,869	0	399	304	2,553	78,429
Total	75,766	4,316,747	25,363	62,816	3,137	31,273	4,304,333

At the end of 2021 almost entire amount of defaulted exposure (99 %) was observed on the debtors from Slovenia. When comparing with 2020, defaulted exposure was noticeably reduced in the "other" category, following the effective recovery process and partially write-offs. The entire amount of specific credit risk adjustment is allocated on Slovenia as well.

Credit quality of exposures by rating buckets

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

SKB Group - 2021	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1	2,958,524	229,018	6,876	-	3,194,418
Rating group 2	707,479	125,987	194	-	833,660
Rating group 3	245	69,546	-	-	69,791
Rating group 4	-	345	61,379	-	61,724
Total gross values	3,666,248	424,895	68,449	-	4,159,592
Risk adjustments	(10,822)	(20,091)	(52,128)	-	(83,040)
Net values	3,655,426	404,805	33,841	-	4,094,072

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

SKB Bank - 2021	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1	3,133,882	200,907	3,282	-	3,338,071
Rating group 2	611,857	88,993	3,582	-	704,431
Rating group 3	218	51,984	2	-	52,204
Rating group 4	-	5,173	46,889	-	52,062
Total gross values	3,745,956	347,057	53,754	-	4,146,768
Risk adjustments	(12,468)	(18,687)	(43,717)	-	(74,872)
Net values	3,733,489	328,370	10,037	-	4,071,896

SKB Bank 2020	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1	3,504,892	246,201	-	-	3,751,093
Rating group 2	420,072	90,047	-	-	510,119
Rating group 3	20	55,007	-	-	55,027
Rating group 4	-	792	75,766	-	76,558
Total gross values	3,924,984	392,047	75,766	-	4,392,797
Risk adjustments	(14,621)	(18,900)	(61,692)	-	(95,213)
Net values	3,910,363	373,147	14,074	-	4,297,584

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

Presented in the tables above are financial assets measured at fair value through other comprehensive income – debt securities, debt securities measured at amortized cost, loans to banks and loans to clients, other than banks. All mentioned financial are further presented in continuation of this section

The distribution of portfolio by rating groups demonstrates an increase of rating group 2, whereas the share other rating groups decreased. Shift of portfolio to rating group 2 is a result of macroeconomic conditions in 2021 following COVID-19 pandemic.

Exposure to credit risk by credit rating groups

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

SKB Group and SKB Bank - 2021	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1	441,951	-	-	-	441,951
Rating group 2	22,845	-	-	-	22,845
Rating group 3	-	-	-	-	-
Rating group 4	-	-	-	-	-
Total gross values	464,796	-	-	-	464,796
Risk adjustments	-	-	-	-	-
Net values	464,796	-	-	-	464,796

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

b) Debt securities measured at amortized cost

SKB Group and SKB Bank - 2021	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1	195,570	-	-	-	195,570
Rating group 2	-	-	-	-	-
Rating group 3	-	-	-	-	-
Rating group 4	-	-	-	-	-
Total gross values	195,570	-	-	-	195,570
Risk adjustments	(131)	-	-	-	(131)
Net values	195,439	-	-	-	195,439

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

c) Loans to banks

SKB Group and SKB Bank - 2021	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1	2	-	-	-	2
Rating group 2	59	-	-	-	59
Rating group 3	-	-	-	-	-
Rating group 4	-	-	-	-	-
Total gross values	61	-	-	-	61
Risk adjustments	(1)	-	-	-	(1)
Net values	60	-	-	-	60

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

d) Loans to clients, other than banks

SKB Group and SKB Bank - 2021	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1	1,899,742	211,606	6,876	-	2,118,224
Rating group 2	395,501	74,997	194	-	470,692
Rating group 3	209	52,984	0	-	53,193
Rating group 4	0	345	57,214	-	57,559
Total gross values	2,295,452	339,932	64,284	-	2,699,668
Risk adjustments	(7,368)	(16,952)	(48,778)	-	(73,098)
Net values	2,288,084	322,980	15,506	-	2,626,570

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

SKB Bank - 2021	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1	2,085,980	186,007	3,282	-	2,275,269
Rating group 2	288,973	40,663	3,582	-	333,218
Rating group 3	185	35,423	2	-	35,610
Rating group 4	0	0	42,724	-	42,724
Total gross values	2,375,138	262,093	49,590	-	2,686,821
Risk adjustments	(9,013)	(15,548)	(40,368)	-	(64,929)
Net values	2,366,125	246,545	9,222	-	2,621,892

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

e) Financial guarantees and other off-balance items

SKB Group - 2021	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1	421,259	17,413	-	-	438,672
Rating group 2	289,074	50,990	-	-	340,064
Rating group 3	36	16,562	-	-	16,598
Rating group 4	-	-	4,165	-	4,165
Total gross values	710,369	84,964	4,165	-	799,498
Risk adjustments	(3,322)	(3,139)	(3,349)	-	(9,810)
Net values	707,047	81,825	815	-	789,688

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

SKB Bank - 2021	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1	410,378	14,899	-	-	425,278
Rating group 2	299,980	48,330	-	-	348,310
Rating group 3	33	16,562	-	-	16,595
Rating group 4	-	5,173	4,165	-	9,338
Total gross values	710,391	84,964	4,165	-	799,520
Risk adjustments	(3,322)	(3,139)	(3,349)	-	(9,810)
Net values	707,070	81,825	815	-	789,710

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

Exposures by exposure categories and by stage

SKB Group - 2021	Gross carrying amount / nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
EUR 000	Performing exposures			Non-performing exposures			Performing exposures - accumulated impairment and provisions			Non-performing exposures - accumulated negative changes in fair value due to credit risk and provisions		
		of which: stage 1	of which: stage 2		of which: stage 2	of which: stage 3		of which: stage 1	of which: stage 2		of which: stage 2	of which: stage 3
Cash balances at central banks and other demand deposits	423,641	423,641					(93)	(93)				
Loans and advances	2,640,376	2,300,355	340,021	64,370	-	64,370	(24,353)	(7,395)	(16,959)	(48,787)	-	(48,787)
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	129,423	129,029	394	-	-	-	(105)	(91)	(14)	-	-	-
Credit institutions	3,331	3,331	-	-	-	-	(26)	(26)	-	-	-	-
Other financial corporations	4,693	4,624	69	3	-	3	(22)	(20)	(2)	(1)	-	(1)
Non-financial corporations	961,264	834,915	126,349	26,412	-	26,412	(10,571)	(4,874)	(5,696)	(18,483)	-	(18,483)
Of which: Small and Medium-sized Enterprises	506,866	405,646	101,220	25,557	-	25,557	(7,053)	(2,468)	(4,585)	(17,664)	-	(17,664)
Households	1,541,665	1,328,456	213,208	37,955	-	37,955	(13,630)	(2,384)	(11,246)	(30,303)	-	(30,303)
Debt securities	661,186	661,186	-	-	-	-	(951)	(951)	-	-	-	-
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	661,186	661,186	-	-	-	-	(951)	(951)	-	-	-	-
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
OFF-BALANCE SHEET EXPOSURES	795,356	710,392	84,964	4,165	-	4,165	6,461	3,322	3,139	3,349	-	3,349
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	3,825	3,825	-	-	-	-	2	2	-	-	-	-
Credit institutions	24,316	24,316	-	-	-	-	82	82	-	-	-	-
Other financial corporations	1,948	1,939	10	-	-	-	8	8	-	-	-	-
Non-financial corporations	652,079	574,563	77,515	4,108	-	4,108	5,697	2,879	2,818	3,342	-	3,342
Households	113,187	105,748	7,439	56	-	56	671	351	320	8	-	8
Total	4,520,558	4,095,574	424,985	68,535	-	68,535	(18,937)	(5,117)	(13,820)	(45,437)	-	(45,437)

SKB Group - 2020	Gross carrying amount / nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
EUR 000	Performing exposures			Non-performing exposures			Performing exposures - accumulated impairment and provisions			Non-performing exposures - accumulated negative changes in fair value due to credit risk and provisions		
		of which: stage 1	of which: stage 2		of which: stage 2	of which: stage 3		of which: stage 1	of which: stage 2		of which: stage 2	of which: stage 3
Loans and advances	2,459,541	2,066,356	393,184	83,736	-	83,736	(27,340)	(10,090)	(17,250)	(59,806)	-	(59,806)
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	93,515	93,356	160	-	-	-	(60)	(57)	(3)	-	-	-
Credit institutions	2,025	495	1,531	-	-	-	(8)	(1)	(8)	-	-	-
Other financial corporations	2,803	2,780	23	2	-	2	(21)	(20)	(1)	-	-	-
Non-financial corporations	890,047	750,412	139,635	43,825	-	43,825	(11,976)	(6,851)	(5,125)	(27,389)	-	(27,389)
Of which: Small and Medium-sized Enterprises	459,527	354,210	105,317	30,550	-	30,550	(6,944)	(3,296)	(3,648)	(21,532)	-	(21,532)
Households	1,471,151	1,219,314	251,837	39,909	-	39,909	(15,275)	(3,161)	(12,114)	(32,417)	-	(32,417)
Debt securities	587,550	587,550	-	-	-	-	(362)	(362)	-	-	-	-
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	581,430	581,430	-	-	-	-	(362)	8,362	-	-	-	-
Credit institutions	6,120	6,120	-	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
OFF-BALANCE SHEET EXPOSURES	729,073	647,372	81,701	5,619	-	5,619	5,819	4,196	1,623	4,065	-	4,065
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	24,376	24,373	3	-	-	-	5	5	-	-	-	-
Credit institutions	14,893	14,747	145	-	-	-	53	53	-	-	-	-
Other financial corporations	581	581	-	-	-	-	2	2	-	-	-	-
Non-financial corporations	581,110	507,309	73,800	5,568	-	5,568	5,288	3,888	1,400	4,064	-	4,064
Households	108,113	100,361	7,752	51	-	51	471	248	224	1	-	1
Total	3,776,163	3,301,278	474,885	89,356	-	89,356	(33,522)	(14,648)	(18,873)	(63,872)	-	(63,872)

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

Improved macroeconomic situation in 2021 reflected in partial decrease of Stage 2 portfolio in comparison with 2020. Overall, the share of Stage 2 portfolio decreased from 13 % in 2020 to 9 % in 2021, the level, which is still much higher than in the pre-COVID times and reflects the continuing uncertainties in the macro environment with high inflation and on-going virus threat. The decrease of non-performing exposure derives from low default rates and effective recovery process.

Ageing of past-due exposures

SKB Group	2021			2020		
EUR 000	Loans to banks	Loans to non-banks	Total debt securities	Loans to banks	Loans to non-banks	Total debt securities
Not past due	24,378	3,355,376	661,186	14,992	3,113,406	581,141
Past due up to 30 days	-	67,520	-	-	70,513	-
Past due from 31 to 60 days	-	11,059	-	-	13,114	-
Past due from 61 to 90 days	-	3,507	-	-	3,419	-
Past due from 91 to 180 days	-	3,239	-	-	3,185	-
Past due from 181 to 360 days	-	2,224	-	-	3,678	-
Past due more than 360 days	-	31,925	-	-	43,538	-
Total past due exposures	24,378	3,474,850	661,186	14,992	3,250,853	581,141

SKB Bank	2021			2020		
EUR 000	Loans to banks	Loans to non-banks	Total debt securities	Loans to banks	Loans to non-banks	Total debt securities
Not past due	24,378	3,390,676	661,186	14,992	3,152,193	581,141
Past due up to 30 days	-	30,012	-	-	28,670	-
Past due from 31 to 60 days	-	5,204	-	-	3,853	-
Past due from 61 to 90 days	-	2,002	-	-	1,257	-
Past due from 91 to 180 days	-	2,422	-	-	2,237	-
Past due from 181 to 360 days	-	1,779	-	-	3,376	-
Past due more than 360 days	-	29,929	-	-	41,112	-
Total past due exposures	24,378	3,462,025	661,186	14,992	3,232,699	581,141

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

By focusing only on loans to clients, other than banks (as other categories do not demonstrate any past due exposures), the vast majority (over 97 %) of these exposures have no overdue at all, and 1.6 % of them have more than 30 days past due. Comparing to 2020 the share of portfolio with no overdue is slightly higher than the previous year.

Non-performing and forborne exposures

SKB Group – 2021								
EUR 000	Gross carrying amount of exposures with forbearance measures				Accumulated impairment, accumulated changes in fair value due to credit risk and provisions		Collateral received on exposures with forbearance measures	
	Performing exposures with forbearance measures	Non-performing exposures with forbearance measures		on performing exposures with forbearance measures	on non-performing exposures with forbearance measures		Financial guarantees received on non-performing exposures with forbearance measures	
		of which: Defaulted	of which: Impaired					
Loans and advances	7,995	19,671	19,671	19,671	(1,348)	(16,039)	5,879	1,281
Central banks	-	-	-	-	-	-	-	-
Central governments	-	-	-	-	-	-	-	-
Regional governments or local authorities	-	-	-	-	-	-	-	-
Other financial institutions	-	-	-	-	-	-	-	-
Non-financial corporations	4,659	9,852	9,852	9,852	(609)	(7,576)	3,616	1,257
Households	3,336	9,819	9,819	9,819	(739)	(8,463)	2,263	23
Debt securities	-	-	-	-	-	-	-	-
Loan commitments given	-	15	15	15	-	15	-	-
Total	7,995	19,686	19,686	19,686	(1,348)	(16,024)	5,879	1,281

SKB Group – 2020								
EUR 000	Gross carrying amount of exposures with forbearance measures				Accumulated impairment, accumulated changes in fair value due to credit risk and provisions		Collateral received on exposures with forbearance measures	
	Performing exposures with forbearance measures	Non-performing exposures with forbearance measures			on performing exposures with forbearance measures	on non-performing exposures with forbearance measures		Financial guarantees received on non-performing exposures with forbearance measures
			of which: Defaulted	of which: Impaired				
Loans and advances	602	24,941	24,941	24,941	(151)	(19,563)	3,215	-
Central banks	-	-	-	-	-	-	-	-
Central governments	-	-	-	-	-	-	-	-
Regional governments or local authorities	-	-	-	-	-	-	-	-
Other financial institutions	-	-	-	-	-	-	-	-
Non-financial corporations	62	13,594	13,594	13,594	(11)	(9,999)	2,006	-
Households	541	11,347	11,347	11,347	(140)	(9,564)	1,209	-
Debt securities	-	-	-	-	-	-	-	-
Loan commitments given	-	-	-	-	-	-	-	-
Total	602	24,941	24,941	24,941	(151)	(19,563)	3,215	-

Comparing to 2020 the exposure on accounts with forbearance measures has increased on performing and decreased on non-performing portfolio. Increase on performing side is a result of regulation concerning Covid moratoria loans. The decrease of non-performing side results from improved macroeconomic conditions and repayments.

Modified financial assets

SKB Group and SKB Bank			
	EUR 000	2021	2020
Financial assets with contractual cash flows change, Groups S2 and S3 (lifetime losses)		0	0
• Amortised value before change		59,583	87,525
• Net profit / loss because of change		(38)	(19)
Financial assets with contractual cash flows change, Transition from group S2 (lifetime losses) to group S1 (12-month losses)		0	0
• Gross carrying amount on reporting day		55,016	14,606

Changes in stock exposure between stages

SKB Group - 2021						
EUR 000	S1 to S2	S2 to S1	S2 to S3	S3 to S2	S1 to S3	S3 to S1
Loans and advances	173,824	159,325	12,289	7,238	837	450
Non-financial corporations	39,670	37,317	3,749	3,215	342	406
Households	134,154	122,008	8,540	4,023	495	44

SKB Group - 2020						
EUR 000	S1 to S2	S2 to S1	S2 to S3	S3 to S2	S1 to S3	S3 to S1
Loans and advances	374,484	177,720	8,952	7,640	732	2,751
Non-financial corporations	123,506	78,577	3,648	4,408	563	1,952
Households	250,978	99,143	5,304	3,233	169	799

SKB Bank - 2021						
EUR 000	S1 to S2	S2 to S1	S2 to S3	S3 to S2	S1 to S3	S3 to S1
Loans and advances	131,447	112,338	2,367	5,826	100	25
Non-financial corporations	23,532	14,778	447	2,882	97	22
Households	107,915	97,560	1,920	2,944	3	3

SKB Bank - 2020						
EUR 000	S1 to S2	S2 to S1	S2 to S3	S3 to S2	S1 to S3	S3 to S1
Loans and advances	293.411	119.961	6.825	4.157	475	79
Non-financial corporations	88.532	42.848	2.440	2.895	312	5
Households	204.879	77.113	4.385	1.262	163	74

Significantly smaller shift of gross exposure from Stage 1 to Stage 2 occurred in 2021, when comparing to 2020, while the transfer increased from Stage 2 to stage 1.

In 2021 the transfer from Stage 1 to Stage 2 results from:

- upgraded methodology of relative change in credit risk within significant increase in credit risk criteria;
- worsening of macroeconomic conditions in energy supply sector, where individual clients have been reclassified to the watch list in line with increased riskiness of the counterparty.

The increase of transfers from stage 2 to stage 1 is a result of general improvement of macroeconomic conditions following last year's heavier transfers due to Covid pandemic.

Detailed movement in stock exposure between stages is presented hereafter.

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

SKB Group- 2021						
	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1.1.2021		2,065,009	391,565	74,479	-	2,531,053
Transfer to stage 1		159,775	(159,325)	(450)	-	-
Transfer to stage 2		(173,824)	181,062	(7,238)	-	-
Transfer to stage 3		(837)	(12,289)	13,126	-	-
Changes due to change in credit risk		241,395	(48,838)	(3,607)	-	188,950
Increases due to origination and acquisition		514,962	123,500	17,551	-	656,013
Decreases due to derecognition		(511,028)	(135,743)	(29,577)	-	(676,348)
Changes due to update in the institution's methodology		-	-	-	-	-
Write-offs		-	-	-	-	-
Changes due to modifications without derecognition		-	-	-	-	-
Other adjustments		-	-	-	-	-
Closing balance 31.12.2021		2,295,452	339,932	64,284	-	2,699,668
Loss allowance 31.12.2021		(7,368)	(16,952)	(48,778)	-	(73,098)

SKB Group- 2020						
	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1.1.2020		2,395,557	101,504	60,346	-	2,557,407
Transfer to stage 1		180,471	(177,719)	(2,751)	-	1
Transfer to stage 2		(374,484)	382,124	(7,640)	-	-
Transfer to stage 3		(732)	(8,952)	9,683	-	(1)
Changes due to change in credit risk		16,132	(160,675)	833	-	(143,710)
Increases due to origination and acquisition		567,129	376,122	16,728	-	959,979
Decreases due to derecognition		(528,760)	(312,789)	(11,760)	-	(853,309)
Changes due to update in the institution's methodology		(190,304)	190,304	-	-	-
Write-offs		-	-	(4,882)	-	(4,882)
Changes due to modifications without derecognition		-	1,646	97	-	1,743
Other adjustments		-	-	13,825	-	13,825
Closing balance 31.12.2020		2,065,009	391,565	74,479	-	2,531,053
Loss allowance 31.12.2020		(10,089)	(17,235)	(57,597)	-	(84,921)

SKB Bank - 2021						
	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1.1.2021		2,148,938	300,756	63,181	-	2,512,875
Transfer to stage 1		112,363	(112,338)	(25)	-	-
Transfer to stage 2		(131,447)	137,273	(5,826)	-	-
Transfer to stage 3		(100)	(2,367)	2,467	-	-
Changes due to change in credit risk		15,266	(67,030)	4,810	-	(46,954)
Increases due to origination and acquisition		540,403	82,075	9,169	-	631,647
Decreases due to derecognition		(310,285)	(76,276)	(24,186)	-	(410,747)
Changes due to update in the institution's methodology		-	-	-	-	-
Write-offs		-	-	-	-	-
Changes due to modifications without derecognition		-	-	-	-	-
Other adjustments		-	-	-	-	-
Closing balance 31.12.2021		2,375,138	262,093	49,590	-	2,686,821
Loss allowance 31.12.2021		(9,013)	(15,548)	(40,368)		(64,929)

SKB Bank - 2020						
	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1.1.2020		2,421,419	60,509	51,115	-	2,533,043
Transfer to stage 1		120,039	(119,960)	(79)	-	-
Transfer to stage 2		(293,411)	297,568	(4,157)	-	-
Transfer to stage 3		(475)	(6,825)	7,300	-	-
Changes due to change in credit risk		(98,047)	(180,562)	(3,723)	-	(282,332)
Increases due to origination and acquisition		613,025	357,578	13,925	-	984,528
Decreases due to derecognition		(451,299)	(271,511)	(9,810)	-	(732,620)
Changes due to update in the institution's methodology		(162,313)	162,313	-	-	-
Write-offs		-	0	(4,486)	-	(4,486)
Changes due to modifications without derecognition		-	1,646	97	-	1,743
Other adjustments		-	-	12,999	-	12,999
Closing balance 31.12.2020		2,148,938	300,756	63,180	-	2,512,875
Loss allowance 31.12.2020		(12,552)	(14,894)	(50,452)	-	(77,899)

b) Financial instruments at amortized cost - Debt securities

SKB Group and SKB Bank - 2021						
	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1.1.2021		214,834	-	-	-	214,834
Transfer to stage 1		0	-	-	-	0
Transfer to stage 2		0	-	-	-	0
Transfer to stage 3		0	-	-	-	0
Changes due to change in credit risk		(2,568)	-	-	-	(2,568)
Increases due to origination and acquisition		0	-	-	-	0
Decreases due to derecognition		(16,696)	-	-	-	(16,696)
Changes due to update in the institution's methodology		0	-	-	-	0
Write-offs		0	-	-	-	0
Changes due to modifications without derecognition		0	-	-	-	0
Other adjustments		0	-	-	-	0
Closing balance 31.12.2021		195,570	-	-	-	195,570
Loss allowance 31.12.2021		(131)				(131)

SKB Group and SKB Bank - 2020						
	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1.1.2020		249,280	-	-	-	249,280
Transfer to stage 1		0	-	-	-	0
Transfer to stage 2		0	-	-	-	0
Transfer to stage 3		0	-	-	-	0
Changes due to change in credit risk		(3,198)	-	-	-	(3,198)
Increases due to origination and acquisition		0	-	-	-	0
Decreases due to derecognition		(31,248)	-	-	-	(31,248)
Changes due to update in the institution's methodology		0	-	-	-	0
Write-offs		0	-	-	-	0
Changes due to modifications without derecognition		0	-	-	-	0
Other adjustments		0	-	-	-	0
Closing balance 31.12.2020		214,834	-	-	-	214,834
Loss allowance 31.12.2020		(73)				(73)

c) Financial instruments at amortized cost - Loans and advances to banks

SKB Group and SKB Bank - 2021						
	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1.1.2021		99	-	-	-	99
Transfer to stage 1		0	-	-	-	0
Transfer to stage 2		0	-	-	-	0
Transfer to stage 3		0	-	-	-	0
Changes due to change in credit risk		543	-	-	-	543
Increases due to origination and acquisition		47,133	-	-	-	47,133
Decreases due to derecognition		(47,714)	-	-	-	(47,714)
Changes due to update in the institution's methodology		0	-	-	-	0
Write-offs		0	-	-	-	0
Changes due to modifications without derecognition		0	-	-	-	0
Other adjustments		0	-	-	-	0
Closing balance 31.12.2021		61	-	-	-	61
Loss allowance 31.12.2021		(1)	-	-	-	(1)

SKB Group and SKB Bank - 2020						
	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1.1.2020		539	-	-	-	539
Transfer to stage 1		0	-	-	-	0
Transfer to stage 2		0	-	-	-	0
Transfer to stage 3		0	-	-	-	0
Changes due to change in credit risk		(27)	-	-	-	(27)
Increases due to origination and acquisition		156,127	-	-	-	156,127
Decreases due to derecognition		(156,540)	-	-	-	(156,540)
Changes due to update in the institution's methodology		0	-	-	-	0
Write-offs		0	-	-	-	0
Changes due to modifications without derecognition		0	-	-	-	0
Other adjustments		0	-	-	-	0
Closing balance 31.12.2020		99	-	-	-	99
Loss allowance 31.12.2020		0	-	-	-	0

d) Debt instruments through other comprehensive income

SKB Group and SKB Bank - 2021						
	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1.1.2021		366,307	-	-	-	366,307
Transfer to stage 1		0	-	-	-	0
Transfer to stage 2		0	-	-	-	0
Transfer to stage 3		0	-	-	-	0
Changes due to change in credit risk		(14,324)	-	-	-	(14,324)
Increases due to origination and acquisition		123,250	-	-	-	123,250
Decreases due to derecognition		(10,437)	-	-	-	(10,437)
Changes due to update in the institution's methodology		0	-	-	-	0
Write-offs		0	-	-	-	0
Changes due to modifications without derecognition		0	-	-	-	0
Other adjustments		0	-	-	-	0
Closing balance 31.12.2021		464,796	-	-	-	464,796
Loss allowance 31.12.2021		(820)	-	-	-	(820)

SKB Group and SKB Bank - 2020						
	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1.1.2020		267,205	-	-	-	267,205
Transfer to stage 1		0	-	-	-	0
Transfer to stage 2		0	-	-	-	0
Transfer to stage 3		0	-	-	-	0
Changes due to change in credit risk		48,174	-	-	-	48,174
Increases due to origination and acquisition		71,195	-	-	-	71,195
Decreases due to derecognition		(20,267)	-	-	-	(20,267)
Changes due to update in the institution's methodology		0	-	-	-	0
Write-offs		0	-	-	-	0
Changes due to modifications without derecognition		0	-	-	-	0
Other adjustments		0	-	-	-	0
Closing balance 31.12.2020		366,307	-	-	-	366,307
Loss allowance 31.12.2020		(289)	-	-	-	(289)

e) Off-balance sheet liabilities

SKB Group - 2021						
	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1.1.2021		647,372	81,700	5,619	-	734,691
Transfer to stage 1		55,496	(55,476)	(20)	-	0
Transfer to stage 2		(29,475)	30,772	(1,297)	-	0
Transfer to stage 3		(103)	(24)	127	-	0
Changes due to change in credit risk		(117,993)	5,765	1,233	-	(110,995)
Increases due to origination and acquisition		627,855	98,582	1,826	-	728,263
Decreases due to derecognition		(472,783)	(76,355)	(3,323)	-	(552,461)
Changes due to update in the institution's methodology		0	0	0	-	0
Write-offs		0	0	0	-	0
Changes due to modifications without derecognition		0	0	0	-	0
Other adjustments		0	0	0	-	0
Closing balance 31.12.2021		710,369	84,964	4,165	-	799,498
Loss allowance 31.12.2021		3,322	3,139	3,349	-	9,810

SKB Group - 2020						
	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1.1.2020		653,536	12,921	4,755	-	671,212
Transfer to stage 1		13,243	(13,197)	(47)	-	-
Transfer to stage 2		(121,168)	121,746	(579)	-	-
Transfer to stage 3		(40)	(987)	1,027	-	0
Changes due to change in credit risk		71,917	(92,259)	(406)	-	(20,748)
Increases due to origination and acquisition		456,567	99,732	1,331	-	557,630
Decreases due to derecognition		(423,424)	(49,517)	(462)	-	(473,403)
Changes due to update in the institution's methodology		(3,261)	3,261	-	-	0
Write-offs		-	-	-	-	0
Changes due to modifications without derecognition		-	-	-	-	0
Other adjustments		-	-	-	-	0
Closing balance 31.12.2020		647,370	81,701	5,619	-	734,691
Loss allowance 31.12.2020		4,233	1,509	4,142	-	9,884

SKB Bank - 2021						
	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1.1.2021		647,395	81,700	5,619	-	734,714
Transfer to stage 1		55,496	(55,476)	(20)	-	0
Transfer to stage 2		(29,475)	30,772	(1,297)	-	0
Transfer to stage 3		(103)	(24)	127	-	0
Changes due to change in credit risk		(117,994)	5,765	1,233	-	(110,996)
Increases due to origination and acquisition		627,855	98,582	1,826	-	728,263
Decreases due to derecognition		(472,783)	(76,355)	(3,323)	-	(552,461)
Changes due to update in the institution's methodology		-	-	-	-	0
Write-offs		-	-	-	-	0
Changes due to modifications without derecognition		-	-	-	-	0
Other adjustments		-	-	-	-	0
Closing balance 31.12.2021		710,391	84,964	4,165	-	799,520
Loss allowance 31.12.2021		3,322	3,139	3,349	-	9,810

SKB Bank - 2020						
	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1.1.2020		653,558	12,921	4,755	-	671,234
Transfer to stage 1		13,243	(13,197)	(47)	-	-
Transfer to stage 2		(121,168)	121,746	(579)	-	-
Transfer to stage 3		(40)	(987)	1,027	-	0
Changes due to change in credit risk		71,941	(92,259)	(406)	-	(20,724)
Increases due to origination and acquisition		456,544	99,732	1,331	-	557,607
Decreases due to derecognition		(423,424)	(49,517)	(462)	-	(473,403)
Changes due to update in the institution's methodology		(3,261)	3,261	-	-	0
Write-offs		-	-	-	-	0
Changes due to modifications without derecognition		-	-	-	-	0
Other adjustments		-	-	-	-	0
Closing balance 31.12.2020		647,393	81,701	5,619	-	734,714
Loss allowance 31.12.2020		4,233	1,509	4,142	-	9,884

Movement of specific and general credit risk adjustment

a) Movement of specific and general credit risk adjustment for financial assets measured at amortized cost

SKB Group - 2021									
	Debt securities	Loans to banks		Loans to non-bank customers			Other financial assets		
	12-month expected credit losses	12-month expected credit losses	Lifetime ECL	12-month expected credit losses	Lifetime ECL	Lifetime ECL	12-month expected credit losses	Lifetime ECL	Lifetime ECL
EUR 000	S1	S1	S2	S1	S2	S3	S1	S2	S3
Opening balance 01.01.2021	(73)	0	-	(10,089)	(17,235)	(57,597)	(1)	(16)	(28)
Increases due to origination and acquisition	0	(4)	-	(3,770)	(4,907)	(7,829)	(26)	(2)	-
Decreases due to derecognition	7	3	-	1,974	3,790	18,497	29	1	8
Changes due to change in credit risk	(65)	0	-	4,101	(594)	(7,208)	(29)	11	12
Changes due to modifications without derecognition	0	0	-	-	-	-	-	-	-
Changes due to update in the institution's methodology	0	0	-	-	-	-	-	-	-
Write-offs	0	0	-	-	-	7,769	-	-	-
Other adjustments	0	0	-	-	-	-	-	-	-
Transfer S1-S2	0	0	-	3,670	(3,670)	-	-	-	-
Transfer S1-S3	0	0	-	175	-	(175)	-	-	-
Transfer S2-S1	0	0	-	(3,304)	3,304	-	-	-	-
Transfer S2-S3	0	0	-	-	4,657	(4,657)	-	-	-
Transfer S3-S1	0	0	-	(125)	-	125	-	-	-
Transfer S3-S2	0	0	-	-	(2,297)	2,297	-	-	-
Closing balance 31.12.2021	(131)	(1)	-	(7,368)	(16,952)	(48,778)	(27)	(6)	(8)

SKB Group - 2020									
	Debt securities	Loans to banks		Loans to non-bank customers			Other financial assets		
	12-month expected credit losses	12-month expected credit losses	Lifetime ECL	12-month expected credit losses	Lifetime ECL	Lifetime ECL	12-month expected credit losses	Lifetime ECL	Lifetime ECL
EUR 000	S1	S1	S2	S1	S2	S3	S1	S2	S3
Opening balance 01.01.2020	(11)	0	-	(8,420)	(7,687)	(44,030)	(15)	0	(13)
Increases due to origination and acquisition	0	(9)	-	(17,969)	(16,269)	(9,750)	(1)	(11)	(13)
Decreases due to derecognition	0	9	-	5,878	11,112	10,413	15	10	3
Changes due to change in credit risk	(62)	0	-	(8,270)	9,108	(1,673)	1	(16)	(5)
Changes due to modifications without derecognition	0	0	-	-	(225)	(62)	-	-	-
Changes due to update in the institution's methodology	0	0	-	6,293	(3,037)	-	-	-	-
Write-offs	0	0	-	-	-	3,544	-	-	-
Other adjustments	0	0	-	123	(129)	(13,870)	(1)	1	-
Transfer S1-S2	0	0	-	18,006	(18,006)	-	-	-	-
Transfer S1-S3	0	0	-	411	0	(411)	-	-	-
Transfer S2-S1	0	0	-	(6,020)	6,020	-	-	-	-
Transfer S2-S3	0	0	-	-	4,221	(4,221)	-	-	-
Transfer S3-S1	0	0	-	(120)	0	120	-	-	-
Transfer S3-S2	0	0	-	-	(2,343)	2,343	-	-	-
Closing balance 31.12.2020	(73)	0	0	(10,089)	(17,235)	(57,597)	(1)	(16)	(28)

SKB Bank - 2021									
	Debt securities	Loans to banks		Loans to non-bank customers			Other financial assets		
	12-month expected credit losses	12-month expected credit losses	Lifetime ECL	12-month expected credit losses	Lifetime ECL	Lifetime ECL	12-month expected credit losses	Lifetime ECL	Lifetime ECL
EUR 000	S1	S1	S2	S1	S2	S3	S1	S2	S3
Opening balance 01.01.2021	(73)	0	-	(12,552)	(14,894)	(50,452)	(1)	(16)	(17)
Increases due to origination and acquisition	-	(4)	-	(4,422)	(4,271)	(4,930)	(25)	-	-
Decreases due to derecognition	7	3	-	2,174	3,246	15,673	28	-	-
Changes due to change in credit risk	(65)	0	-	5,938	991	(8,647)	(28)	10	14
Changes due to modifications without derecognition	-	-	-	-	-	-	-	-	-
Changes due to update in the institution's methodology	-	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	7,217	-	-	-
Other adjustments	-	-	-	-	-	-	-	-	-
Transfer S1-S2	-	-	-	2,610	(2,610)	-	-	-	-
Transfer S1-S3	-	-	-	23	-	(23)	-	-	-
Transfer S2-S1	-	-	-	(2,774)	2,774	-	-	-	-
Transfer S2-S3	-	-	-	-	980	(980)	-	-	-
Transfer S3-S1	-	-	-	(10)	-	10	-	-	-
Transfer S3-S2	-	-	-	-	(1,764)	1,764	-	-	-
Closing balance 31.12.2021	(131)	(1)	-	(9,013)	(15,548)	(40,368)	(26)	(6)	(3)

SKB Bank - 2020										
	Debt securities	Loans to banks			Loans to non-bank customers			Other financial assets		
	12-month expected credit losses	12-month expected credit losses	Lifetime ECL	12-month expected credit losses	Lifetime ECL	Lifetime ECL	12-month expected credit losses	Lifetime ECL	Lifetime ECL	
EUR 000	S1	S1	S2	S1	S2	S3	S1	S2	S3	
Opening balance 01.01.2020	(11)	0	-	(6,501)	(5,565)	(38,238)	(14)	0	(3)	
Increases due to origination and acquisition	-	(9)	-	(14,854)	(11,471)	(6,279)	-	(9)	(13)	
Decreases due to derecognition	-	9	-	4,631	8,154	8,013	14	9	5	
Changes due to change in credit risk	(62)	-	-	(13,346)	4,665	(2,320)	(1)	(16)	(6)	
Changes due to modifications without derecognition	-	-	-	-	(225)	(62)	-	-	-	
Changes due to update in the institution's methodology	-	-	-	6,469	(1,103)	-	-	-	-	
Write-offs	-	-	-	-	-	3,191	-	-	-	
Other adjustments	-	-	-	85	(99)	(13,042)	-	-	-	
Transfer S1-S2	-	-	-	15,141	(15,141)	-	-	-	-	
Transfer S1-S3	-	-	-	369	-	(369)	-	-	-	
Transfer S2-S1	-	-	-	(4,517)	4,517	-	-	-	-	
Transfer S2-S3	-	-	-	-	2,956	(2,956)	-	-	-	
Transfer S3-S1	-	-	-	(30)	-	30	-	-	-	
Transfer S3-S2	-	-	-	-	(1,581)	1,581	-	-	-	
Closing balance 31.12.2020	(73)	-	-	(12,552)	(14,894)	(50,452)	(1)	(16)	(17)	

b) Movement of provisions for financial assets measured at fair value through OCI

SKB Group and SKB Bank	2021			2020		
	12-month expected credit losses	Lifetime ECL	Lifetime ECL	12-month expected credit losses	Lifetime ECL	Lifetime ECL
EUR 000	S1	S2	S3	S1	S2	S3
Opening balance 1. 1.	(289)	-	-	(18)	-	-
Increase due to origination and acquisition	(580)	-	-	(192)	-	-
Decreases due to derecognition	4	-	-	1	-	-
Changes due to credit risk (net)	45	-	-	(80)	-	-
Changes due to updating of the institution's assessment methodology (net)	0	-	-	0	-	-
Decreases due to writte-offs	0	-	-	0	-	-
Other adjustments	0	-	-	0	-	-
Transfer S1-S2	0	-	-	0	-	-
Transfer S1-S3	0	-	-	0	-	-
Transfer S2-S1	0	-	-	0	-	-
Transfer S2-S3	0	-	-	0	-	-
Transfer S3-S1	0	-	-	0	-	-
Transfer S3-S2	0	-	-	0	-	-
Closing balance 31.12.	(820)	-	-	(289)	-	-

c) Movement in specific and general credit risk adjustment for off-balance sheet liabilities

SKB Group and SKB Bank	2021			2020		
	12-month expected credit losses	Lifetime ECL	Lifetime ECL	12-month expected credit losses	Lifetime ECL	Lifetime ECL
EUR 000	S1	S2	S3	S1	S2	S3
Opening balance 1. 1.	4,232	1,509	4,143	2,666	393	3,499
Increase due to origination and acquisition	3,825	2,698	549	2,736	4,248	171
Decreases due to derecognition	(3,014)	(1,168)	(854)	(1,705)	(1,654)	(462)
Changes due to credit risk (net)	(651)	(562)	(897)	1,849	(1,912)	124
Changes due to updating of the institution's assessment methodology (net)	-	-	-	-	-	-
Decreases due to writte-offs	-	-	-	-	-	0
Other adjustments	-	-	-	-	-	(67)
Transfer S1-S2	(1,200)	1,200	0	(1,409)	1,409	0
Transfer S1-S3	(7)	0	7	(28)	0	28
Transfer S2-S1	136	(136)	0	125	(125)	0
Transfer S2-S3	0	(403)	403	-	(853)	853
Transfer S3-S1	1	0	(1)	-	-	-
Transfer S3-S2	0	1	(1)	0	3	(3)
Closing balance 31.12.	3,322	3,139	3,349	4,233	1,509	4,142

Movements of specific and general credit risk adjustment reflects the movements in macroeconomic environment, which has gradually improved in 2021 after extremely negative situation in 2020. Nevertheless, new risks are arising in the form of higher inflation rates and shocks in energy supply market.

6.3.3. General qualitative information on credit risk mitigation measures (CRM)

The SKB Group uses collaterals and other credit enhancements to optimize the risk on credit assets. In accordance with the collateral policy, the main types of collaterals are:

- cash collateral which are used in full amount or with potential maturity mismatch adjustment for capital adequacy purposes;
- state guarantees; which are used in full amount for capital adequacy purposes;
- real estate.

Real estate is the main type of collateral for housing loans portfolio. The evaluations are done either by internal or external evaluators or taken from official real estate data-base. Starting January 2019 the initial evaluation has always been performed by the internal or external evaluators, which are accordingly licensed and in case of the external ones, their valuation reports are regularly monitored by the internal ones. All values are re-evaluated on yearly basis in case of significant price variation on the market. Real estate collaterals are not taken into account for capital adequacy purposes.

The SKB Group does not use the close-out netting agreements on derivatives for reporting purposes.

The SKB Group does not use any credit derivatives for credit risk mitigation purposes.

The SKB Group doesn't have any significant increase of concentration risk due to CRM techniques. An increase is primarily seen on sovereign exposures (Republic of Slovenia) and some insurance companies for individual loan portfolio.

6.3.4. General quantitative information on credit risk mitigation measures (CRM)

SKB Group - 2021					
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	3,323,541	175,686	4,851	170,835	-
Total debt securities	661,186	-	-	-	-
Total exposures	3,675,180	175,686	4,851	170,835	-
Of which defaulted	68,415	34	629	456	-

SKB Group - 2020					
EUR 000	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	3,136,481	129,338	3,400	125,938	-
Total debt securities	587,550	-	-	-	-
Total exposures	3,547,305	129,338	3,400	125,938	-
Of which defaulted	79,065	8,111	629	7,483	-

The table represents only collaterals eligible for regulatory reporting purposes. Share of secured exposure in total exposure was at the end of 2021 4.5 % and has slightly increased in comparison to 2020.

When presenting information on collateralized portfolio, the data is the same for SKB Bank and SKB Group.

Overview of collateralized portfolio by segment and collateral type

SKB Group		2021		2020	
EUR 000	Primary collateral	Gross Exposure of collateralized loans	Collateral value	Gross Exposure of collateralized loans	Collateral value
Banks	Guarantees (except state)	23,993	24,000	14,654	14,661
Territorial authorities	State guarantee (cov-19 moratorium)	98	2	109	2
	Deposits	0	0	36	36
	Commercial RE	698	932	778	1,205
	Guarantees (except state)	14	17	51	51
Large enterprises	State guarantee (regular)	46,960	46,927	59,028	59,892
	State guarantee (ZDLGPE)	931	746	1,060	850
	State guarantee (cov-19 moratorium)	6,914	802	8,281	821
	Deposits	542	113	1,669	729
	Commercial RE	106,516	98,501	94,152	101,138
	Shares	3,522	4,000	3,988	4,000
	Guarantees (except state)	101,452	100,023	96,216	91,524
SME	State guarantee (regular)	17,067	12,406	18,679	13,445
	State guarantee (ZDLGPE)	3,954	3,020	2,891	2,086
	State guarantee (cov-19 moratorium)	7,688	411	6,308	643
	Deposits	38,484	4,769	20,247	3,024
	Residential RE	5,788	5,430	7,151	5,551
	Commercial RE	162,937	194,905	135,050	170,274
	Shares	4,917	10,015	1,721	4,225
	Guarantees (except state)	60,720	79,532	44,605	63,102
Retail/SME	State guarantee (regular)	4,930	3,506	4,775	3,476
	State guarantee (ZDLGPE)	2,422	1,952	1,557	1,255
	State guarantee (cov-19 moratorium)	368	74	1,059	268
	Deposits	5,382	1,470	5,693	1,706
	Residential RE	967	4,439	2,220	5,997
	Commercial RE	5,531	17,701	6,389	20,122
	Guarantees (except state)	25,635	29,591	19,071	22,181
Retail/Individuals	State guarantee (cov-19 moratorium)	6,757	576	12,076	997
	Deposits	129	124	302	374
	Residential RE	801,214	1,439,354	757,534	1,311,888
	Commercial RE	3,234	7,872	5,149	9,140
	Insurance company	157,378	158,458	109,190	109,961
	Debt securities	0	0	539	590
	Guarantees (except state)	40,517	44,807	45,546	50,868
Total		1,647,661	2,296,475	1,487,774	2,076,079

The total insured exposure and the value of Collaterals increased compared to year 2020. The main reasons for this increase are mainly the growth in the segment of guarantees, sureties, credit insurance by Zavarovalnica Triglav and real estate collaterals.

The Collateral portfolio in 2021 still includes special state guarantees, based on the intervention laws that determine measures to mitigate the economic consequences of the COVID-19 pandemic and increase the liquidity of the economy:

- state guarantees for the COVID-19 moratorium;
- state guarantees for new loans (in accordance with ZDLGPE);
- however, will slowly decline given the maturity of moratoriums and the dynamics of repayments.

6.4. Market risk

Market risk is the risk of loss resulting from movements in market prices, in particular, changes in:

- Interest rates;
- Foreign exchange rates;
- Equity and commodity prices.

The SKB Group and the companies in the SKB Group are bearing foreign exchange and interest rate risk. The SKB Group has established an independent Market Risk management function, which monitors market risks in accordance with legal requirements and methodologies that reflect their activities and scope of operations.

6.4.1. Position risk

Position risk is the risk of loss due to a change in the price of a financial instrument held by the SKB Group in its portfolio for trading purposes in its equity account. The SKB Group does not have this risk because it does not trade with financial instruments for its own account.

6.4.2. Structural currency risk

Foreign exchange risk represents potential loss arising from an open foreign exchange position and from changes in foreign exchange rates. It shows the change in the fair value or future cash flows of financial instruments due to changes in foreign exchange rates. The SKB Group monitors its foreign exchange risk in accordance with the requirements of its parent bank OTP and optimizes its foreign exchange risk within the approved limits. The main goal of SKB Group is to minimize foreign exchange risk exposure by matching foreign exchange positions per each currency with minimal exposure against given limits.

The daily foreign exchange position is regulated by the Global Markets department. The daily and intra daily foreign exchange position is monitored by the General Risk Management Department. The monitoring process is supported by the OTP Group Market Risk Information System, which allows continuous control of the compliance of positions with limits. The limit system contains currency position limits, global limit, maximum loss limits (P&L) and Value at Risk (VaR) limits. The structural foreign exchange position of the bank is monitored by the Assets and liabilities management department (ALM) on a monthly basis and managed within prescribed foreign exchange limits.

All foreign exchange positions of SKB Group are monitored as a part of structural risk management. The trading book is not relevant to SKB Bank 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 SKB Group exposure to currency risk was minimal. At the end of the year, the SKB Group estimated that would not be sensitive to +/- 5 % change in foreign exchange rates as the foreign currencies represents less than 4 % of total on and off balance sheet.

EUR 000	USD	CHF	GBP	Other*
Impact on P&L +5 %	(1)	0	(1)	(3)
Impact on P&L -5 %	1	0	1	3

* mainly HRK

Foreign exchange sensitivity analysis is the same for SKB Group and SKB Bank.

Methods of capital requirement calculation

The bank is using the standardized approach for market risks and foreign exchange risk.

In accordance with Annex III DIRECTIVE 2006/49/EC banks do not report capital requirements for an open foreign exchange position if the sum of the overall net foreign exchange position does not exceed 2 % of its total own funds.

The tables below present the SKB Group foreign exchange risk exposure by currency as of the end of the year.

SKB Group - As of 31 December 2021							
	EUR 000	EUR	USD	CHF	GBP	OTHER	TOTAL
ASSETS							
Cash, cash balances at central banks and other demand deposits at banks		427,446	5,898	6,240	1,000	7,851	448,435
Financial assets held for trading		5,573	-	-	95	39	5,707
Non-trading financial assets mandatorily at fair value through profit or loss		20,890	-	-	-	-	20,890
Financial assets designated at fair value through profit or loss		-	-	-	-	-	-
Financial assets at fair value through other comprehensive income		464,796	-	-	-	-	464,796
Financial assets at amortised cost		2,814,846	135	12,062	-	1	2,827,044
• debt securities		195,439	-	-	-	-	195,439
• loans to banks		60	-	-	-	-	60
• loans to non-bank customers		2,614,377	131	12,062	-	-	2,626,570
• other financial assets		4,970	4	-	-	1	4,975
Derivatives - hedge accounting		-	-	-	-	-	-
Other assets		71,056	-	-	-	12	71,068
Total financial assets		3,804,607	6,033	18,302	1,095	7,903	3,837,940
LIABILITIES							
Financial liabilities held for trading		58,791	(39,191)	(10,615)	(3,098)	(210)	5,677
Financial liabilities designated at fair value through profit or loss		-	-	-	-	-	-
Financial liabilities measured at amortised cost		3,272,831	45,197	28,914	4,180	7,971	3,359,093
• deposits from banks and central banks		36,970	-	-	-	-	36,970
• deposits from non-bank customers		3,202,568	43,730	28,911	4,135	7,902	3,287,246
• loans from banks and central banks		6,003	-	-	-	-	6,003
• loans from non-bank customers		-	-	-	-	-	-
• debt securities		-	-	-	-	-	-
• other financial liabilities		27,290	1,467	3	45	69	28,874
Fair value changes of the hedged items in portfolio hedge of interest rate risk		1,165	-	-	-	-	1,165
Other liabilities and equity		471,919	4	2	-	80	472,005
Total financial liabilities		3,804,706	6,010	18,301	1,082	7,841	3,837,940
Net balance sheet position		(99)	23	1	13	62	-

SKB Group - As of 31 December 2020							
	EUR 000	EUR	USD	CHF	GBP	OTHER	TOTAL
ASSETS							
Cash, cash balances at central banks and other demand deposits at banks		497,887	2,991	8,654	887	7,792	518,211
Financial assets held for trading		8,942	-	-	-	-	8,942
Non-trading financial assets mandatorily at fair value through profit or loss		27,881	-	-	-	-	27,881
Financial assets designated at fair value through profit or loss		6,120	-	-	-	-	6,120
Financial assets at fair value through other comprehensive income		366,307	-	-	-	-	366,307
Financial assets at amortised cost		2,649,727	125	14,093	3	-	2,663,948
• debt securities		214,761	-	-	-	-	214,761
• loans to banks		99	-	-	-	-	99
• loans to non-bank customers		2,431,918	121	14,093	-	-	2,446,132
• other financial assets		2,950	4	-	3	-	2,957
Other assets		64,766	-	-	-	-	64,766
Total financial assets		3,621,630	3,116	22,747	890	7,792	3,656,175
LIABILITIES							
Financial liabilities held for trading		9,160	-	-	-	-	9,160
Financial liabilities designated at fair value through profit or loss		6,120	-	-	-	-	6,120
Financial liabilities measured at amortised cost		3,135,410	35,171	22,836	4,875	8,171	3,206,463
• deposits from banks and central banks		4,590	-	-	-	-	4,590
• deposits from non-bank customers		3,038,995	34,849	22,829	4,843	8,127	3,109,643
• loans from banks and central banks		71,876	-	-	-	-	71,876
• other financial liabilities		19,949	322	7	32	44	20,354
Fair value changes of the hedged items in portfolio hedge of interest rate risk		1,732	-	-	-	-	1,732
Other liabilities and equity		431,940	686	1	-	73	432,700
Total financial liabilities		3,584,362	35,857	22,837	4,875	8,244	3,656,175
Net balance sheet position		37,268	(32,741)	(90)	(3,985)	(452)	-

The tables below present the SKB Bank foreign exchange risk exposure by currency as of the end of the year.

SKB Bank - As of 31 December 2021							
	EUR 000	EUR	USD	CHF	GBP	OTHER	TOTAL
ASSETS							
Cash, cash balances at central banks and other demand deposits at banks		427,446	5,898	6,240	1,000	7,851	448,435
Financial assets held for trading		5,573	-	-	95	39	5,707
Non-trading financial assets mandatorily at fair value through profit or loss		20,890	-	-	-	-	20,890
Financial assets designated at fair value through profit or loss		-	-	-	-	-	-
Financial assets at fair value through other comprehensive income		464,796	-	-	-	-	464,796
Financial assets at amortised cost		2,809,766	135	12,062	-	1	2,821,964
• debt securities		195,439	-	-	-	-	195,439
• loans to banks		60	-	-	-	-	60
• loans to non-bank customers		2,609,699	131	12,062	-	-	2,621,892
• other financial assets		4,568	4	-	-	1	4,573
Derivatives - hedge accounting		-	-	-	-	-	-
Other assets		66,307	-	-	-	12	66,319
Total financial assets		3,794,778	6,033	18,302	1,095	7,903	3,828,111
LIABILITIES							
Financial liabilities held for trading		58,791	(39,191)	(10,615)	(3,098)	(210)	5,677
Financial liabilities designated at fair value through profit or loss		-	-	-	-	-	-
Financial liabilities measured at amortised cost		3,280,286	45,197	28,914	4,180	7,971	3,366,548
• deposits from banks and central banks		36,970	-	-	-	-	36,970
• deposits from non-bank customers		3,216,532	43,730	28,911	4,135	7,902	3,301,210
• loans from banks and central banks		6,003	-	-	-	-	6,003
• loans from non-bank customers		-	-	-	-	-	-
• debt securities		-	-	-	-	-	-
• other financial liabilities		20,781	1,467	3	45	69	22,365
Fair value changes of the hedged items in portfolio hedge of interest rate risk		1,165	-	-	-	-	1,165
Other liabilities and equity		454,635	4	2	-	80	454,721
Total financial liabilities		3,794,877	6,010	18,301	1,082	7,841	3,828,111
Net balance sheet position		(99)	23	1	13	62	-

SKB Bank - As of 31 December 2020							
	000 EUR	EUR	USD	CHF	GBP	OTHER	TOTAL
ASSETS							
Cash, cash balances at central banks and other demand deposits at banks		497,887	2,991	8,654	887	7,792	518,211
Financial assets held for trading		8,942	-	-	-	-	8,942
Non-trading financial assets mandatorily at fair value through profit or loss		27,881	-	-	-	-	27,881
Financial assets designated at fair value through profit or loss		6,120	-	-	-	-	6,120
Financial assets at fair value through other comprehensive income		366,307	-	-	-	-	366,307
Financial assets at amortised cost		2,638,110	125	14,093	3	-	2,652,331
• debt securities		214,761	-	-	-	-	214,761
• loans to banks		99	-	-	-	-	99
• loans to non-bank customers		2,420,762	121	14,093	-	-	2,434,976
• other financial assets		2,488	4	-	3	-	2,495
Other assets		65,648	-	-	-	-	65,648
Total financial assets		3,610,895	3,116	22,747	890	7,792	3,645,440
LIABILITIES							
Financial liabilities held for trading		9,160	-	-	-	-	9,160
Financial liabilities designated at fair value through profit or loss		6,120	-	-	-	-	6,120
Financial liabilities measured at amortised cost		3,146,937	35,171	22,836	4,875	8,171	3,217,990
• deposits from banks and central banks		4,590	-	-	-	-	4,590
• deposits from non-bank customers		3,054,024	34,849	22,829	4,843	8,127	3,124,672
• loans from banks and central banks		71,876	-	-	-	-	71,876
• other financial liabilities		16,447	322	7	32	44	16,852
Fair value changes of the hedged items in portfolio hedge of interest rate risk		1,732	-	-	-	-	1,732
Other liabilities and equity		409,678	686	1	-	73	410,438
Total financial liabilities		3,573,627	35,857	22,837	4,875	8,244	3,645,440
Net balance sheet position		37,268	(32,741)	(90)	(3,985)	(452)	-

6.4.3. Structural interest rate risk

The structural interest rate risk in the banking book (IRRBB) is arising from mismatches in repricing behaviour of balance and off balance sheet items, which causes volatility of interest income and economic value of equity, depending on the volatility of market interest rates. The main purpose of structural interest rate risk management is to maintain interest rate risk within defined limits and to limit volatility of financial results of SKB Group on the long term.

For the purpose of structural interest rate risk management SKB Group followed the procedures and methods for control, measurement, analysis and interest rate risk reporting which are defined in the Memorandum on the interest rate risk management, Management of structural interest rate in banking book is done within Assets and liabilities management (ALM) within Finance division. Activities of managing interest rate risk are done on monthly basis or quarterly basis on level of SKB Group, which includes SKB Bank, SKB Leasing and SKB Leasing Select and are regularly reported on ALCO.

SKB Group has implemented new requirements regarding the interest rate risk in the banking book (IRRBB) published by European Banking Authority and Basel Committee on Banking Supervision, Monitoring of SKB Group IRRBB is broken down into three components:

- Gap risk related to the term structure of the assets and liabilities items of the banking book and arising from the timing of rate changes. The extent of the gap risk depends on whether changes to the term structure occur consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk).
- Basis risk refers to the impact of relative changes in interest rates for financial instruments that have similar tenors but are priced using different interest rate indices. SKB Group is exposed to basis risk which arises when assets are financed by liabilities of different indexes or discrepancies related to different repricing frequencies of the same index. Basis risk is assessed by splitting all the balance and off balance sheet items per currencies and the related interest rate indexes in order to obtain an index gap per repricing time buckets.
- Optionality risk arises from option derivative positions or optional elements embedded in the bank's assets, liabilities and/or off balance sheet items, where the bank or its customer can alter the level and timing of their cash flows.

On monthly basis the SKB Group measures Economic value of equity (EVE) and on quarterly basis the Net interest income (NII) based on EBA IRRBB methodology, under various interest rate shock scenarios for potential changes in the level and shape of the interest rate yield curves.

Results are regularly presented on local ALCO committee together with significant modelling assumptions, threshold and limit breaches and possible hedging actions based on bank's Risk Appetite Statement where the internal alerts for EVE are set.

Assets and liabilities management department monitors interest rate risk sensitivity only on SKB Group level based on regulation, IR sensitivity is monitored based on the following methods:

- SKB Group calculates Economic value of equity (EVE) based on EBA IRRBB methodology. EVE sensitivity is calculated based on eight predefined interest rate shock scenarios (parallel shift, shock on short term curve and change in steepness of the curve) for all interest bearing on-balance sheet and certain off-balance sheet. In the calculation behaviour options and models for non-maturing items are used. SKB Group manages EVE sensitivity within regulatory limits.

SKB Group	31. 12. 2021					31. 12. 2020					
	EUR 000	EUR	USD	CHF	Other	Total	EUR	USD	CHF	Other	Total
Standardize stress tests											
Parallel -200 bp shift	5,918	(3,656)	(726)	(665)	871	4,379	(2,997)	(2,179)	(1,022)	(1,819)	
Parallel +200 bp shift	(29,122)	1,575	1,124	438	(25,985)	(6,460)	1,248	887	423	(3,902)	
Parallel shift											
Parallel down	5,928	(3,669)	(730)	(678)	851	4,379	(2,997)	(1,032)	(1,210)	(860)	
Parallel up	(29,122)	1,575	589	496	(26,462)	(6,460)	1,248	466	482	(4,264)	
Shift of curve inclination											
Flattener	(2,388)	(184)	(260)	(45)	(2,877)	2,149	(148)	(235)	(62)	1,704	
Steeper	(3,789)	424	298	130	(2,937)	(5,323)	334	239	122	(4,628)	
Short rates shift											
Short rate down	4,296	(1,206)	(302)	(312)	2,476	(2,088)	(1,035)	(307)	(371)	(3,801)	
Short rate up	(11,169)	620	194	181	(10,174)	958	491	149	175	1,773	

- Net interest income (NII sensitivity) is calculated based on the EBA IRRBB requirements. NII sensitivity calculates the impact of different interest rate shock scenarios to SKB Group net interests over a three-year rolling horizon. NII sensitivity is calculated based on six interest rate shock scenarios prescribed by the EBA and five internally defined shock scenarios. SKB Group manages NII sensitivity within internally defined limits.

SKB Group	31. 12. 2021			31. 12. 2020			
	EUR 000	EUR	Other	Total	EUR	Other	Total
Standardize stress tests							
Parallel -200 bp shift							
Parallel +200 bp shift							
Parallel shift							
Parallel down		(16,022)	(144)	(16,166)	(5,569)	(57)	(5,626)
Parallel up		86,476	119	86,595	71,515	254	71,769
Shift of curve inclination		-	-	-	-	-	-
Flattener		29,171	42	29,213	15,766	89	15,855
Steeper		(1,613)	(24)	(1,637)	(338)	(38)	(376)
Short rates shift		-	-	-	-	-	-
Short rate down		(12,334)	(145)	(12,479)	(5,308)	(57)	(5,365)
Short rate up		54,605	122	54,727	35,376	215	35,591

- SKB Group calculates Net present value sensitivity (NPV) for all on-balance sheet and certain off-balance sheet items, taking into account the client's behaviour options, modelling for non-maturing items and based on different interest rate shocks scenarios: parallel 10 basis points rise/fall in the yield curve and an immediate non-parallel yield curve shocks,
- Interest rate sensitivity using an internal method calculates the effect of interest rate changes (parallel increase of interest rate curves by 100 basis points) on the SKB Group net interest income for the period of 1 year,
- For measuring interest rate risk in the banking book based on normative perspective for ICAAP (Internal Capital Adequacy Assessment Process) the SKB Group calculates Net interest income (NII) sensitivity taken into account base budget and adverse scenarios for 3-year period.

SKB Group analyses and estimates the interest rate risk profiles of non-maturing products. Currently the interest rate profiles are defined for cash, mandatory reserves, credit cards, overdrafts, deposit agreements, sight deposits, saving accounts, off balance sheet items, early repayment of loans and for non-performing loans. Models are reviewed and prepared in line with internal SKB and OTP methodology. Models are back tested on a regular basis and are approved by ALCO Committee.

Asset and Liability Committee (ALCO) approves and regularly discusses all actions needed for managing interest rate risk within set limits. SKB group monitors interest risk exposure with aim to manager interest rate sensitivity within the acceptable levels defined in the SKB Group Risk Appetite Statement, the Risk Appetite Framework and in the Internal Capital Adequacy Assessment Process (ICAAP).

Interest rate policy

The main goal of the interest rate policy in 2021 was to manage the negative interest rate environment while maintaining the competitive position of SKB Group by offering a quality product mix to its clients at acceptable, win-win prices for the clients and the bank.

SKB Group optimizes the interest rate risk exposure, considering the structure of the Group's balance sheet in terms of variable rate and fixed rate products with different maturities.

Realized interest rates (in %) for all currencies for SKB Bank:

	As of 31 December 2021	As of 31 December 2020
Assets		
Cash and balances with central banks	-0.1 %	-0.1 %
Due from banks	-0.1 %	-0.2 %
Loans and advances to customers	2.1 %	2.0 %
Debt securities	1.8 %	1.5 %
Derivatives - hedge accounting	-	-
Other assets	-	-
Liabilities		
Due to banks	0.1 %	0.3 %
Due to customers	0.0 %	0.0 %
Debt securities in issue	-	-
Other borrowed funds	-	-

Interest rate risk

The tables below represent the SKB Group assets and liabilities at carrying amounts, categorized by the earlier of the contractual repricing or the maturity dates.

SKB Group - As of 31 December 2021								
EUR 000	Demand	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
ASSETS								
Cash, cash balances at central banks and other demand deposits at banks	39,833	408,602	-	-	-	-	-	448,435
Financial assets held for trading	-	5,707	-	-	-	-	-	5,707
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	796	16,114	3,980	-	20,890
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	-	-	30,092	-	188,135	220,807	25,762	464,796
Financial assets at amortised cost	43,138	404,746	636,497	528,749	669,109	541,097	3,708	2,827,044
Other assets	-	-	-	-	-	-	19,325	19,325
Total financial assets	82,971	819,055	666,589	529,545	873,358	765,884	48,795	3,786,197
LIABILITIES								
Financial liabilities held for trading	-	5,677	-	-	-	-	-	5,677
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	2,318,658	487,669	467,085	42,760	30,401	12,520	-	3,359,093
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-	1,165	1,165
Other liabilities	-	-	-	-	-	-	9,021	9,021
Total financial liabilities	2,318,658	493,346	467,085	42,760	30,401	12,520	10,186	3,374,956
Net balance sheet position	(2,235,687)	325,709	199,504	486,785	842,957	753,364	38,609	411,241

SKB Group - As of 31 December 2020

EUR 000	Demand	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
ASSETS								
Cash, cash balances at central banks and other demand deposits at banks	38,309	479,902	-	-	-	-	-	518,211
Financial assets held for trading	-	8,942	-	-	-	-	-	8,942
Non-trading financial assets mandatorily at fair value through profit or loss	-	187	386	2,539	20,451	4,318	-	27,881
Financial assets designated at fair value through profit or loss	-	-	6,139	-	-	-	(19)	6,120
Financial assets at fair value through other comprehensive income	-	10,000	-	-	88,554	231,038	36,715	366,307
Financial assets at amortised cost	42,020	466,699	716,828	473,310	415,159	545,507	4,425	2,663,948
Other assets	-	-	-	-	-	-	13,910	13,910
Total financial assets	80,329	965,730	723,353	475,849	524,164	780,863	55,031	3,605,319
LIABILITIES								
Financial liabilities held for trading	-	9,160	-	-	-	-	-	9,160
Financial liabilities designated at fair value through profit or loss	-	-	6,139	-	-	-	(19)	6,120
Financial liabilities measured at amortised cost	1,814,115	578,507	548,011	114,865	137,597	13,368	-	3,206,463
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-	1,732	1,732
Other liabilities	-	-	-	-	-	-	8,853	8,853
Total financial liabilities	1,814,115	587,667	554,150	114,865	137,597	13,368	10,566	3,232,328
Net balance sheet position	(1,733,786)	378,063	169,203	360,984	386,567	767,495	44,465	372,991

The tables below represent the SKB Bank assets and liabilities at carrying amounts, categorized by the earlier of the contractual repricing or the maturity dates.

SKB Bank - As of 31 December 2021								
EUR 000	Demand	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
ASSETS								
Cash, cash balances at central banks and other demand deposits at banks	39,833	408,602	-	-	-	-	-	448,435
Financial assets held for trading	-	5,707	-	-	-	-	-	5,707
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	796	16,114	3,980	-	20,890
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	-	-	30,092	-	188,135	220,807	25,762	464,796
Financial assets at amortised cost	43,138	335,779	734,374	547,945	619,539	537,481	3,708	2,821,964
Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	-	20,454	20,454
Other assets	-	-	-	-	-	-	4,254	4,254
Total financial assets	82,971	750,088	764,466	548,741	823,788	762,268	54,178	3,786,500
LIABILITIES								
Financial liabilities held for trading	-	5,677	-	-	-	-	-	5,677
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	2,332,623	481,267	467,083	42,751	30,352	12,472	-	3,366,548
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-	1,165	1,165
Other liabilities	-	-	-	-	-	-	2,047	2,047
Total financial liabilities	2,332,623	486,944	467,083	42,751	30,352	12,472	3,212	3,375,437
Net balance sheet position	(2,249,652)	263,144	297,383	505,990	793,436	749,796	50,966	411,063

SKB Bank - As of 31 December 2020

EUR 000	Demand	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
ASSETS								
Cash, cash balances at central banks and other demand deposits at banks	38,309	479,902	-	-	-	-	-	518,211
Financial assets held for trading	-	8,942	-	-	-	-	-	8,942
Non-trading financial assets mandatorily at fair value through profit or loss	-	187	386	2,539	20,451	4,318	-	27,881
Financial assets designated at fair value through profit or loss	-	-	6,139	-	-	-	(19)	6,120
Financial assets at fair value through other comprehensive income	-	10,000	-	-	88,554	231,038	36,715	366,307
Financial assets at amortised cost	42,020	393,938	798,415	499,944	370,942	542,647	4,425	2,652,331
Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	-	20,454	20,454
Other assets	-	-	-	-	-	-	2,052	2,052
Total financial assets	80,329	892,969	804,940	502,483	479,947	778,003	63,627	3,602,298
LIABILITIES								
Financial liabilities held for trading	-	9,160	-	-	-	-	-	9,160
Financial liabilities designated at fair value through profit or loss	-	-	6,139	-	-	-	(19)	6,120
Financial liabilities measured at amortised cost	1,829,144	575,095	548,009	114,857	137,557	13,328	-	3,217,990
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-	1,732	1,732
Other liabilities	-	-	-	-	-	-	1,600	1,600
Total financial liabilities	1,829,144	584,255	554,148	114,857	137,557	13,328	3,313	3,236,602
Net balance sheet position	(1,748,815)	308,714	250,792	387,626	342,390	764,675	60,314	365,696

CHF LIBOR

The LIBOR rates, which stand for London Interbank Offered Rate, are benchmark interest rates administered by ICE Benchmark Administration. In March 2021 Financial Conduct Authority (FCA) in the United Kingdom announced the cessation of LIBOR benchmark settings as of 31 December 2021 from the panel banks providing LIBOR settings for variety of currencies including Swiss Franc (CHF) and thus impacting the new and existing credit and other financial contracts applying LIBOR for interest rate calculation.

In SKB Bank the only outstanding portfolio is related to CHF LIBOR contracts for housing loans granted primarily between 2006 and 2008. The outstanding value as per 31 December 2021 amounts to 13.247.486,74 EUR in 257 contracts. In all cases contracting variable rate the 3 months CHF LIBOR is used.

In all these contracts the new Swiss Franc risk-free rate SARON is nominated replacement rate instead of the CHF LIBOR at the first repricing date in 2022.

EU regulation²³ is applied as of 1 January 2022 and is binding in its entirety and is directly applicable in all Member States. With its adoption the Regulation assures SARON as the nominated replacement rate, its united implementation. transparent transition to the new reference rate, predictability and continuity of Swiss franc denominated contracts. Replacement of reference rate in the contract does not change any other contractually agreed provision and any right or obligation of the contractual parties.

EU regulation determines:

- in the references to CHF LIBOR in contracts the three-month CHF LIBOR is replaced by a three-month SARON, as determined in the three-month period before the interest rate period;
- SARON replacement interest rate is supplemented by an adjustment for a fixed spread of + 0.0031 % when replacing the three-month CHF LIBOR.

Values of benchmark interest rates as per 31 December 2021:

3M CHF LIBOR	-0.7604 %
SARON 3M compounded	-0.7058 %
SARON 3M compounded with adjustment spread	-0.7027 %

The difference between the 3M CHF LIBOR value and its succession rate SARON 3M compounded with adjustment spread is minimal and is its impact to the value of the bank portfolio immaterial.

In order to properly adjust contractual relations SKB started a project in the spring of 2021 preparing a communication plan for external publics and clients, providing appropriate information to employees and amending IT support for interest calculations with SARON. During the year we participated in the working group of the Slovene Banking Association and at a time when it was not clear whether the EU Regulation would be adopted and in what form, we prepared and followed the plan for alternative activities. The entire work of the project team was directed and supervised by the Steering and Project Committee at SKB Bank.

6.5. Operational risk

Operational risk exists in bank's day to day operations, It is inherent to all bank's products, activities, procedures and systems and is normally accepted as a necessary consequence of doing business. It is influenced by both internal and external variables, such as advanced internal processes, complex products, rising regulatory requirements and severe economic circumstances.

Operational risk management can have a major influence on bank's costs, its competitiveness, compliance and image. SKB Group therefore act preventively and identify and manage the risk before operational events occur, increasing the chances for our success and diminishing possible mistakes and losses. Great emphasis is also devoted to the collection and monitoring of operational losses linked to credit risk, monitoring action plans defined to mitigate the operational risk, and the identification and prevention of fraud.

SKB Group is very well aware of the importance of good operational risk management, increased awareness, better comprehension and appropriation of operational risks, and the potential impact of concrete manifestations of these risks. Thus a lot of attention is given to improve and strengthen our internal control system and to operational risk training for SKB Group employees and to preventive measures to mitigate these risks.

²³ October 2021 EU Commission in its Official Gazette published Commission Implementing Regulation EU 2021/1847 of 14 October 2021 on the designation of a statutory replacement for certain settings of CHF LIBOR with SARON as nominated replacement rate in the whole European Union.

Definition

The regulatory definition defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or external events. The official definition includes legal risk but excludes strategic and reputation risks. However, SKB Group also includes reputation risk in its definition.

Under the Basel II rules, an operational loss event is an event that results in loss and is associated with any of the following seven operational loss event categories: internal fraud; external fraud; employment practices and workplace safety; clients, products and business practices, damage to physical assets, business disruption and system failures. Specific examples of loss events include robberies, internal fraud, processing errors and physical losses from natural disasters.

Operational risk framework

SKB Group has acknowledged that operational risk is an integral component of prudent business operations and has adopted an operational risk framework to ensure that operational risks are consistently and comprehensively identified, assessed, managed and controlled. Our framework defines the management governance model, monitoring and control system as well as the reporting on information relevant to operational risk.

The primary goal is prevention, early identification, measurement, assessment, monitoring and mitigation of operational risk. To this end, SKB Group performs regular training for all employees. A bank can only manage effectively the things that can be known and measured well.

Operational units

At SKB Group each individual operational unit and management level takes responsibility for its own operational risks and the provision of adequate resources and procedures for the management and mitigation of those risks. Operational risk is thus controlled through a network of controls, procedures, reports and responsibilities.

Independent operational risk management function implemented in the SKB Bank consists of:

- **The Operational Risk and Compliance Committee** is responsible for overseeing the operational risk framework at the SKB 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 SKB 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 SKB 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 SKB Bank, and reports to General Management of the bank, Board of Directors, Operational Risk and Compliance Committee and parent bank. The Operational Risk Manager is also responsible for providing adequate support to business units in all operational risk issues. It also coordinates and advises in performing Risk and Control Self-Assessment exercise and scenario analysis.
- **Operational Risk Correspondent** coordinates collection of recorded losses submitted by various departments. Correspondent also coordinates the quarterly performing of Key Risk Indicators and incidents and follows the realization of the defined corrective measures and action plans.
- **Internal Audit** verifies the reliability of risk-profile assessments. This includes the periodic audit of the compliance and relevance of declarations of internal losses and all tools implemented by the SKB Bank for assessing and managing operational risks across the organization.
- **General Management** of SKB Group develops and guides the operational risk framework, strategies, policies, practices and defines major changes in the management of operational risk.
- **External Audit** performs regular reviews of the operational risk management processes. This review includes both the activities of the business units and of the independent operational risk management function.

Operational risk management activities

• Risk awareness

Proper risk awareness is key for successful management of operational risk and quality internal control system. In order to raise and maintain the risk awareness among employees the SKB Bank and its HR department organizes various types of trainings, regulatory ones or by initiative of Operational risk management.

• Determining the value of operational risk appetite

The target relating to the operational risk appetite is defined in the Risk appetite Framework and Risk appetite Statement. The operational risk appetite expresses the maximum exposure the SKB Bank is willing to take and tolerate in relation to the individual event types.

• Loss data collection

An operating loss is a financial effect associated with an operating event that is recorded in the financial statement of a financial institution in accordance with International Financial Reporting Standards.

Better operational risk management means the use of effective methods, such as the accurate collection of losses associated with incident data, so that corrective action can be taken to reduce the possibility of recurrence of such losses. The operational risk management department is responsible for collecting data on losses.

Data on losses and incidents provide essential information for identifying, evaluating and effectively managing operational risks, Identification, reporting, analysis and definition of measures are key activities for risk control and an effective system of internal controls. The centralization and analysis of this information, together with other risk indicators, should enable the development of a global vision of the bank's exposure to operational risk in order to monitor its development and optimize related coverage (especially bank capital and insurance).

All employees and all departments in the bank are responsible for reporting operating losses.

• Risk and control self-assessment (RCSA)

Self-assessment and its associated methodology allow process owners to identify and assess the risks associated with the processes they control. The SKB Bank conducts appraisals once a year, identifying vulnerabilities in procedures and controls.

Each year before the RCSA workshop, the head of the project management, organization and processes department in the bank and the ORM department evaluates the bank's procedures and determines the process owners. The process structure and list of process owners are approved by the ORCC.

The responsibilities of process owners include identifying, measuring, and monitoring potential ones risks in their processes as well as the coordination of its management. In the case of processes that affecting several business organizations is also providing the necessary communication between these units their responsibility.

The process owner must carry out a close assessment of the risks specific to the processes (self-assessment) in cooperation with the Operational Risk Management Department.

The self-assessment is followed by an action plan for the implementation of corrective measures. The Operational Risk Management Department is responsible for monitoring implementation and reports to the Operational Risk and Compliance Committee.

• Follow-up of key risk indicators (KRI)

In addition to monitoring operational loss events. SKB bank identified appropriate indicators that provide early warning of an increased risk of future losses.

A Key Risk Indicator (KRI) is an objective and measurable piece of information that prompts the Bank to assess one or more key risks and to manage such risks more effectively.

Monitoring of indicators, such as employee turnover, training rates, transaction breaks, cash errors and system failures provide early warnings of increased risk of future losses. Monitoring of these indicators is regularly presented to General Management of the bank, Board of Directors, Operational Risk and Compliance Committee and parent bank.

• Accounting reconciliation

The internal loss declaration process must ensure consistency with accounting principles, so that it can be audited. Consistency checking is done by reconciling the data from these accounts with the amounts from the loss database.

Monthly reconciliation is performed between records booked on accounts and declared operational losses, provisions and insurance recoveries which are greater than EUR 10,000.

The list of accounts in which the amounts to be declared may be recorded is determined and enclosed to the Accounting reconciliation procedure.

All accounts from the list are classified as sensitive and controlled at least quarterly in a frame of Permanent Supervision. It is defined by the Head of Accounting department in cooperation with ORM department.

- **Scenario analysis and stress testing**

Testing of exceptional situations in the field of operational risk provides an estimate of the maximum financial loss that the bank would still be able to face. Scenario analysis is necessary to evaluate such testing, with which we can determine all the factors that could lead to such a loss. Scenario analysis is a strategy that involves assessing various possible future events and developing scenarios regarding the probability of occurrence of events if different combinations of these events occur.

The SKB Bank uses scenario analysis and stress testing to test operational effectiveness, to cover high-risk areas, to identify major action plans to prevent similar losses, and to calculate regulatory capital. The results of the scenario analysis are reviewed and analyzed by the Bank's Management Board, the Operational Risk Committee and the parent bank.

- **New products process management**

In compliance with EBA guidelines and local Framework policies and processes to approve and manage new products and outsourced services New Product Approval Committee (NPC) has been established by the Bank.

Any new product (activity or service) or big change of existing service in the Bank must be submitted to an approval process before it is put in place in line with regulation. The objective is to ensure that all types of risks that a new product/service generates have been correctly identified and assessed and that, as a result, its launch and execution will take place with the highest possible level of security. Compliance has been assessed with respect to current laws and Framework, standard industry practices and any risks that may harm the Bank's image and reputation.

All related activities are managed by NPC, a decision-making body that decides on the production & marketing of "new products".

- **Outsourced services management**

In the Bank any new outsourced activity or service is submitted to an approval process before it is put in place. For the purpose of managing risks inherent in outsourcing of services the Bank adopted and implemented a policy for the use of external contractors.

The outsourcing of services is a subject to specific management and controls within the framework of the internal control and risk management system. Any outsourcing must be carried out in a manner that is in line with the Bank's regulatory and ethical practices and must not impair the internal control system or the control of risks, particularly operational risks, or impair the resilience of the Bank's business.

- **Estimation of ICT risks**

The ICT risks (Information and Communication Technology Risk, ICT risk) mean such a combined risk type which stems from the interruption of the availability and continuity of ICT systems and services, incidents relating to data integrity and data security, the lack of tracking the changes in ICT systems, and the negligent follow-up of the outsourced ICT services. The ORM Unit focuses on the quantification of the potential reputation losses relating to ICT risks.

The expert-based estimation methodology is established for this purpose which quantifies the potential reputation losses stemming from the critical nature of the IT systems, the priority of IT incidents, the period of service outages and the financial effect of the incidents. ICT incidents reported to the regulator are monitored separately.

- **Model Model risk governance fram**

Model risk means the potential loss an institution may incur, as a consequence of decisions that could be principally based on the output of internal models, due to errors in the development, implementation or use of such models (CRD IV, 2013).

Model risks are managed through the establishment of an adequate control environment.

A model inventory is prepared under the coordination of ORM Unit in order to assess the Banking models. The models included in the model inventory are classified into 3 categories (Tier 1, Tier 2 and Tier 3) based on their complexity, impact on decisions and materiality. Different control criteria are assigned to each category in relation to the review, approval, validation, business continuity plan and documentation of the model.

The ORM department reviews the model inventory annually with the involvement of the model owners.

Calculation of the operational risk capital requirement under Standardized approach

In the Standardized Approach, Banks activities are divided into standardized business units and business lines. Within each business line, there is a specified broad indicator that reflects the size or volume of Banks activities in that area. The indicator serves as a rough proxy for the amount of operational risk within each of the business lines:

- Corporate finance (Issuing of securities, capital market transactions);
- Trading and sales;
- Retail Banking;
- Commercial Banking;
- Payment and settlement;
- Retail brokerage;
- Agency services;
- Asset management.

Business continuity and crisis management

The main purpose of Business Continuity Management (BCM) and Crisis Management (CM) activities is to ensure the presence of written procedures and adequately trained employees, as well as to have resources ready and properly tested, to be ready for immediate activation in case of a crisis.

The complete BCM operational team has been trained, as well as the BCM IT team and new members of the Crisis Management team.

BCP, IT and CM tests, prepared in advance, have been tested on-site – such as:

- Branch network Branch closure, relocation of employees to the user backup location, IT teams to the IT support backup location and a Head Office disaster recovery plan test;
- BCM IT test has been performed as a technical test of application restoration on the back-up servers;
- CM routines were executed in four different types of tests, namely as a Notification test, Notification and Meeting test, Crisis Room test and Evacuation of the Head Office test, Performances were made with performers working from home.

Permanent supervision

Permanent Control includes all controls carried out inside the departments. It is a part of internal control system ensuring its effectiveness in reducing exposure to operational risk.

It is under responsibility of business lines as a part of first line of defense and consists of :

- **Day to day Control**

Day to day Control corresponds to the correct application of the rules and procedures by all employees as well as to the day to day accounts controls they are in charge of. Moreover, it includes the day to day supervision of their work by their hierarchical senior.

- **Managerial Supervision**

It corresponds to the supervision by heads of department of the correct application of the rules of day to day control. It is brought into action through a periodical verification of the accounts and procedures considered as sensitive in line with valid control library. These verifications are formalized in control files and their results are reported in dedicated control application for statistical quarterly reporting. Synthesis reports are created on a quarterly basis to the different levels of the hierarchy.

6.6. Liquidity risk

Liquidity risk represents a risk in a situation that SKB Group will not be able to meet its payment obligations associated with its financial liabilities at maturity, replace the financial sources in case of sudden outflows and meet its contractual obligations. Funding risk is defined as risk that SKB Group will not be able to finance its business model on level, which is aligned with commercial plans, also taking into account cost effectiveness in comparison to competitors.

Liquidity management procedures, responsibilities and reporting are defined in the Memorandum on liquidity management, containing also the general principles on liquidity management in the SKB Group, liquidity risk limit system, primary and secondary liquidity sources, stress tests scenarios and contingency funding plan, In year 2021 there were no material changes in the liquidity risk management process.

Assets and liabilities management department (ALM) within Finance Division is responsible for overall liquidity of the SKB Group and the Group's structural and regulatory liquidity. ALM cooperates with Global market department (GLM) within Corporate Banking and Financial markets Division by giving guidelines and instructions for SKB Group daily and short term liquidity, while for long term liquidity ALM is responsible for raising and execution of funding. SKB Bank monitors and manages liquidity risk on the SKB Group level, consisting of SKB Bank, SKB Leasing and SKB Leasing Select.

Liquidity management

In addition to regulatory liquidity ratios, SKB Group monitors and regularly discusses a number of internal liquidity indicators on the Asset and Liability Committee (ALCO). Eventual deterioration of liquidity indicators are also used as early warning signals indicating potential liquidity crisis.

SKB Group - liquidity indicators in %	2021		2020	
	Average 2021	31.12.2021	Average 2020	31.12.2020
Liquid assets / Total assets	27 %	27 %	26 %	29 %
Liquid assets / Short term deposits	89 %	98 %	80 %	86 %
Customer loans / Customer deposits	81 %	80 %	86 %	79 %

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 1 of January 2019 LCR ratio must be above 100 %, while the internal threshold for LCR ratio is set above 120 %. As at 31. 12. 2021 SKB Bank's liquidity buffer amounted to EUR 1,043 million, while the net cash outflows amounted to EUR 478 million resulting in LCR of 218 %.

NSFR requires that the bank maintains a minimum amount of stable funding in relation to the amount of required stable funding to at least 100 % over one year horizon. NSFR internal threshold for SKB Bank is set above 110 %. SKB Bank reports and analyses NSFR on a quarterly basis. As at 31.12.2021 NSFR ratio amounted of 153 %, of which available amount of stable funding 3,222 million and required amount of stable funding 2,110 million.

SKB Bank - liquidity indicators in %	2021		2020	
	Average 2021	31.12.2021	Average 2020	31.12.2020
Liquidity coverage ratio (LCR)	306 %	218 %	245 %	262 %
Net stable funding ratio (NSFR)	153 %	153 %	148 %	156 %

Within regular reports to the Bank of Slovenia SKB Group calculates additional liquidity monitoring metrics (ALMM) for liquidity reporting which includes different reports: concentration of funding by counterparty, concentration of funding by product type, prices for various lengths of funding, roll-over of funding, concentration of secondary liquidity on issuer/counterparty and maturity ladder.

Operative liquidity is also monitored on a monthly basis through Primary and operative liquidity report in line with the mother bank guidelines. Report includes information related to excess liquidity of the bank placed to the Bank of Slovenia and other nostro accounts, level of obligatory reserve, bank's secondary liquidity, expected inflows and outflows within next month and within next three months, business forecast and the level of deposit shock within next three months.

SKB Group continuously monitors future cash flows as well as calculates and analyses short term, medium term and long term liquidity gaps arising from balance and off balance sheet items. Assets and liabilities maturity mismatch is measured monthly, based on maturity gaps per liquidity time buckets. SKB Group analyses and estimates the liquidity risk profile of non-maturing products.

Management of liquidity risk is also integrated in Internal Liquidity Adequacy Assessment Process (ILAAP), Internal Capital Adequacy Assessment Process (ICAAP), Risk Appetite Statement (RAS) and Recovery and Resolution plan.

Funding sources

The global liquidity position of the SKB Group is monitored and managed through annual business plans which include the level of refinancing with the parent bank and all other funding sources. Short term and long term funding limits are in line with its liquidity risk management policy set by (OTP Group) and SKB Group within the annual budget process.

SKB Group's funding is comprised of a mix of customer deposits, wholesale funding and ECB funding. SKB Group manages this within risk appetite settings to ensure suitable funding of its asset base and to adapt and respond to changing market conditions and regulatory requirements. SKB Group's funding amounted to EUR 3,322 million as at 31 December 2021, which represents 87 % of the Group's total liabilities, consisting mainly of customer deposits. The Group has EUR 6 million funding taken from The Council of Europe Development Bank (CEB) as at 31 December 2021.

SKB Bank maintained a sufficient and diversified pool of ECB liquid assets in the amount of EUR 636 million as at 31 December 2021. The collateral for central bank funding mainly consist of marketable assets (government bonds) and non-marketable assets (loans to the state, state owned entities, state guaranteed loans and Bank of Slovenia In-house Credit Assessment System (ICAS²⁴) eligible loans).

Liquidity stress testing and contingency liquidity risk management

The SKB Group ensures sufficient liquidity in case of extraordinary liquidity circumstances based on measured effects of liquidity risk, which are based on assumptions of different stress scenarios: idiosyncratic stress scenario, market based scenario and combined scenario. The scenarios are analysed on a regular basis through different time periods: a short acute phase of stress (up to one week) followed by a longer period of less acute, but more persistent stress (up to one month, up to three months and up to twelve months).

The liquidity stress tests are interconnected with a contingency funding plan evaluating liquidity sources which can be obtained under stress scenarios. Bank regularly monitors assumptions of stress scenarios, which are based on different liquidity indicators, which indicated various types of crisis scenarios. Contingency funding plan provides a detailed overview of available funding sources that can be gathered in times of stress. Liquidity transactions summarize potential interbank, money market and commercial funding sources which can be used in a contingency liquidity scenario.

Internal Liquidity Adequacy Assessment Process (ILAAP)

Internal liquidity adequacy review for the year 2021 was performed simultaneously with the ICAAP process (Internal Capital Adequacy Assessment Process) on the Group level and verified by ALCO Committee, the General Management and Board of Directors.

The review was performed from a qualitative and quantitative perspective, taking into account the overall liquidity risk management and measurement in SKB Group, including description of systems, processes and methodologies for measuring liquidity and funding risk.

ILAAP outcomes were presented within the Self-assessment documentation and evaluated in line with the bank's overall liquidity risk management framework considering liquidity risk tolerance limits in accordance to the Risk Appetite Framework and Risk Appetite Statement

Risk adjusted pricing model and internal profitability

When granting new loans, deposits or leasing deals SKB Group uses pricing tool that compares incomes from customer to the main costs of particular deal. This process allows SKB Group, before the contract is signed, to determine the margins taking into account the cost of funding, capital cost, customer credit risk and direct overhead expenses.

Pricing tool is a part of the daily decision making process and is therefore being frequently updated to reflect current liquidity situation on the market (market short-term and long-term interest rates and liquidity cost). It takes into account normative capital requirements and return on equity and applicable credit risk associated with the client and the facility. The model is also being used in the process of setting the Group's overall pricing policy for loans, leasing deals and deposits.

Besides a forward looking model SKB Bank has also established an internal profitability analysis, which measures a profitability of the stock of the portfolios per client(s), organisational units(s), segment(s), product(s) taking into account maturity matched transfer pricing and allocation of fees, overhead expenses and cost of risk. This enables the bank to better monitor implementation of strategic guidelines and execution of policies of the bank, consequently enabling more efficient management of liquidity risk, allocation of costs and benefits and monthly monitoring of the bank's operations' profitability.

²⁴ Bank of Slovenia In-house Credit Assessment System

The tables below shows the residual maturity of SKB Group's contractual undiscounted financial liabilities, including the future interest from non-derivative financial instruments, based on balance sheet structure as of the end of the year.

SKB Group							
EUR 000	Carrying amount	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
As of 31 December 2021							
Financial liabilities held for trading	5,677	5,677	-	-	-	-	5,677
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	3,359,093	2,172,158	71,220	192,756	464,820	460,652	3,361,606
Derivatives - hedge accounting	-	-	-	-	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,165	1,165	-	-	-	-	1,165
Other liabilities	9,021	9,021	-	-	-	-	9,021
Total undiscounted financial liabilities	3,374,956	2,188,021	71,220	192,756	464,820	460,652	3,377,469
As of 31 December 2020							
Financial liabilities held for trading	9,160	9,160	-	-	-	-	9,160
Financial liabilities designated at fair value through profit or loss	6,120	(19)	6,139	-	-	-	6,120
Financial liabilities measured at amortised cost	3,206,463	2,049,831	119,247	221,348	449,087	368,710	3,208,223
Derivatives - hedge accounting	-	-	-	-	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,732	1,732	-	-	-	-	1,732
Other liabilities	8,853	8,853	-	-	-	-	8,853
Total undiscounted financial liabilities	3,232,328	2,069,557	125,386	221,348	449,087	368,710	3,234,088

SKB Bank							
EUR 000	Carrying amount	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
As of 31 December 2021							
Financial liabilities held for trading	5,677	5,677	-	-	-	-	5,677
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	3,366,548	2,179,725	71,218	192,747	464,771	460,604	3,369,065
Derivatives - hedge accounting	-	-	-	-	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,165	1,165	-	-	-	-	1,165
Other liabilities	2,047	2,047	-	-	-	-	2,047
Total undiscounted financial liabilities	3,375,437	2,188,614	71,218	192,747	464,771	460,604	3,377,954
As of 31 December 2020							
Financial liabilities held for trading	9,160	9,160	-	-	-	-	9,160
Financial liabilities designated at fair value through profit or loss	6,120	(19)	6,139	-	-	-	6,120
Financial liabilities measured at amortised cost	3,217,990	2,061,453	119,245	221,340	449,047	368,670	3,219,755
Derivatives - hedge accounting	-	-	-	-	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,732	1,732	-	-	-	-	1,732
Other liabilities	1,600	1,600	-	-	-	-	1,600
Total undiscounted financial liabilities	3,236,602	2,073,926	125,384	221,340	449,047	368,670	3,238,367

Contractual expiry by maturity of the Group's contingent financial liabilities and commitments:

SKB Group	2021					
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	551,329	27,492	80,797	108,590	31,290	799,498

SKB Group	2020					
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	506,904	35,408	74,349	84,048	33,982	734,691

Contractual expiry by maturity of the Bank's contingent financial liabilities and commitments:

SKB Bank	2021					
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	551,351	27,492	80,797	108,590	31,290	799,520

SKB Bank	2020					
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	506,927	35,408	74,349	84,048	33,982	734,714

All loan commitments are presented as commitments "On demand" while all other commitments are based on contractual maturity. SKB 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

The tables below represent the assets and liabilities at carrying amounts, categorized by contractual maturity dates.

SKB Group - As of 31 December 2021							
EUR 000	Demand	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
ASSETS							
Cash, cash balances at central banks and other demand deposits at banks	39,833	408,602	-	-	-	-	448,435
Financial assets held for trading	-	5,707	-	-	-	-	5,707
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	796	16,114	3,980	20,890
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	-	25,762	30,092	-	188,135	220,807	464,796
Financial assets at amortised cost	43,138	52,070	83,817	447,394	1,329,569	871,056	2,827,044
Other assets	-	19,325	-	-	-	-	19,325
Total financial assets	82,971	511,466	113,909	448,190	1,533,818	1,095,843	3,786,197
LIABILITIES							
Financial liabilities held for trading	-	5,677	-	-	-	-	5,677
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	2,318,658	318,335	68,668	170,235	329,843	153,354	3,359,093
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	1,165	-	-	-	-	1,165
Other liabilities	-	9,021	-	-	-	-	9,021
Total financial liabilities	2,318,658	334,198	68,668	170,235	329,843	153,354	3,374,956
Net balance sheet position	(2,235,687)	177,268	45,241	277,955	1,203,975	942,489	411,241

SKB Group - As of 31 December 2020

	EUR 000	Demand	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
ASSETS								
Cash, cash balances at central banks and other demand deposits at banks	38,309	479,902	-	-	-	-	-	518,211
Financial assets held for trading	-	8,942	-	-	-	-	-	8,942
Non-trading financial assets mandatorily at fair value through profit or loss	-	187	386	2,539	20,451	4,318		27,881
Financial assets designated at fair value through profit or loss	-	(19)	6,139	-	-	-	-	6,120
Financial assets at fair value through other comprehensive income	-	46,715	-	-	88,554	231,038		366,307
Financial assets at amortised cost	42,020	65,976	86,994	411,000	1,175,652	882,306		2,663,948
Other assets	-	13,910	-	-	-	-	-	13,910
Total financial assets	80,329	615,613	93,519	413,539	1,284,657	1,117,662		3,605,319
LIABILITIES								
Financial liabilities held for trading	-	9,160	-	-	-	-	-	9,160
Financial liabilities designated at fair value through profit or loss	-	(19)	6,139	-	-	-	-	6,120
Financial liabilities measured at amortised cost	1,814,115	422,450	132,558	249,400	436,203	151,737		3,206,463
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	1,732	-	-	-	-	-	1,732
Other liabilities	-	8,853	-	-	-	-	-	8,853
Total financial liabilities	1,814,115	442,176	138,697	249,400	436,203	151,737		3,232,328
Net balance sheet position	(1,733,786)	173,437	(45,178)	164,139	848,454	965,925		372,991

SKB Bank - As of 31 December 2021

EUR 000	Demand	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
ASSETS							
Cash, cash balances at central banks and other demand deposits at banks	39,833	408,602	-	-	-	-	448,435
Financial assets held for trading	-	5,707	-	-	-	-	5,707
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	796	16,114	3,980	20,890
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	-	25,762	30,092	-	188,135	220,807	464,796
Financial assets at amortised cost	43,138	33,484	59,670	451,850	1,367,457	866,365	2,821,964
Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	20,454	20,454
Other assets	-	4,254	-	-	-	-	4,254
Total financial assets	82,971	477,809	89,762	452,646	1,571,706	1,111,606	3,786,500
LIABILITIES							
Financial liabilities held for trading	-	5,677	-	-	-	-	5,677
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	2,332,623	311,933	68,666	170,226	329,794	153,306	3,366,548
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	1,165	-	-	-	-	1,165
Other liabilities	-	2,047	-	-	-	-	2,047
Total financial liabilities	2,332,623	320,822	68,666	170,226	329,794	153,306	3,375,437
Net balance sheet position	(2,249,652)	156,987	21,096	282,420	1,241,912	958,300	411,063

SKB Bank - As of 31 December 2020							
EUR 000	Demand	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
ASSETS							
Cash, cash balances at central banks and other demand deposits at banks	38,309	479,902	-	-	-	-	518,211
Financial assets held for trading	-	8,942	-	-	-	-	8,942
Non-trading financial assets mandatorily at fair value through profit or loss	-	187	386	2,539	20,451	4,318	27,881
Financial assets designated at fair value through profit or loss	-	(19)	6,139	-	-	-	6,120
Financial assets at fair value through other comprehensive income	-	46,715	-	-	88,554	231,038	366,307
Financial assets at amortised cost	42,020	47,781	53,976	369,872	1,209,046	929,636	2,652,331
Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	20,454	20,454
Other assets	-	2,052	-	-	-	-	2,052
Total financial assets	80,329	585,560	60,501	372,411	1,318,051	1,185,446	3,602,298
LIABILITIES							
Financial liabilities held for trading	-	9,160	-	-	-	-	9,160
Financial liabilities designated at fair value through profit or loss	-	(19)	6,139	-	-	-	6,120
Financial liabilities measured at amortised cost	1,829,144	419,036	132,557	249,393	436,163	151,697	3,217,990
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	1,732	-	-	-	-	1,732
Other liabilities	-	1,600	-	-	-	-	1,600
Total financial liabilities	1,829,144	431,509	138,696	249,393	436,163	151,697	3,236,602
Net balance sheet position	(1,748,815)	154,051	(78,195)	123,018	881,888	1,033,749	365,696

Maturity analysis of assets and liabilities according to expected cash flows

The tables below show an analysis of the assets' and liabilities' expected cash flows as of the end of the year (taking into account the client's behavioural options and bank's funding assumptions).

SKB Group - As of 31 December 2021				
	EUR 000	Within 12 months	After 12 months	Total
ASSETS				
Cash, cash balances at central banks and other demand deposits at banks		448,435	-	448,435
Financial assets held for trading		5,707	-	5,707
Non-trading financial assets mandatorily at fair value through profit or loss		796	20,094	20,890
Financial assets designated at fair value through profit or loss		-	-	-
Financial assets at fair value through other comprehensive income		55,854	408,942	464,796
Financial assets at amortised cost		666,446	2,160,598	2,827,044
Tangible assets		1,466	37,182	38,648
Intangible assets		129	12,336	12,465
Tax assets		313	313	626
Other assets		19,325	-	19,325
Non-current assets and disposal groups classified as held for sale		4	-	4
Total financial assets		1,198,475	2,639,465	3,837,940
LIABILITIES				
Financial liabilities held for trading		5,677	-	5,677
Financial liabilities designated at fair value through profit or loss		-	-	-
Financial liabilities measured at amortised cost		183,982	3,175,111	3,359,093
Fair value changes of the hedged items in portfolio hedge of interest rate risk		1,165	-	1,165
Provisions		5,960	9,656	15,616
Tax liabilities		4,782	-	4,782
Other liabilities		9,021	-	9,021
Total financial liabilities		210,587	3,184,767	3,395,354
Net balance sheet position		987,888	(545,302)	442,586

SKB Group - As of 31 December 2020				
	EUR 000	Within 12 months	After 12 months	Total
ASSETS				
Cash, cash balances at central banks and other demand deposits at banks		518,211	-	518,211
Financial assets held for trading		8,942	-	8,942
Non-trading financial assets mandatorily at fair value through profit or loss		3,113	24,768	27,881
Financial assets designated at fair value through profit or loss		6,120	-	6,120
Financial assets at fair value through other comprehensive income		46,715	319,592	366,307
Financial assets at amortised cost		641,176	2,022,772	2,663,948
Tangible assets		1,542	35,014	36,556
Intangible assets		129	10,551	10,680
Tax assets		3,557	-	3,557
Other assets		13,910	-	13,910
Non-current assets and disposal groups classified as held for sale		63	-	63
Total financial assets		1,243,478	2,412,697	3,656,175
LIABILITIES				
Financial liabilities held for trading		9,160	-	9,160
Financial liabilities designated at fair value through profit or loss		6,120	-	6,120
Financial liabilities measured at amortised cost		654,291	2,552,172	3,206,463
Fair value changes of the hedged items in portfolio hedge of interest rate risk		1,732	-	1,732
Provisions		5,445	9,109	14,554
Tax liabilities		3,311	-	3,311
Other liabilities		8,853	-	8,853
Total financial liabilities		688,912	2,561,281	3,250,193
Net balance sheet position		554,566	(148,584)	405,982

SKB Bank - As of 31 December 2021				
	EUR 000	Within 12 months	After 12 months	Total
ASSETS				
Cash, cash balances at central banks and other demand deposits at banks		448,435	-	448,435
Financial assets held for trading		5,707	-	5,707
Non-trading financial assets mandatorily at fair value through profit or loss		796	20,094	20,890
Financial assets designated at fair value through profit or loss		-	-	-
Financial assets at fair value through other comprehensive income		55,854	408,942	464,796
Financial assets at amortised cost		632,117	2,189,847	2,821,964
Investments in subsidiaries, associates and joint ventures		2,045	18,409	20,454
Tangible assets		925	30,037	30,962
Intangible assets		-	10,645	10,645
Tax assets		-	-	-
Other assets		4,254	-	4,254
Non-current assets and disposal groups classified as held for sale		4	-	4
Total financial assets		1,150,137	2,677,974	3,828,111
LIABILITIES				
Financial liabilities held for trading		5,677	-	5,677
Financial liabilities designated at fair value through profit or loss		-	-	-
Financial liabilities measured at amortised cost		177,568	3,188,980	3,366,548
Fair value changes of the hedged items in portfolio hedge of interest rate risk		1,165	-	1,165
Provisions		5,730	9,188	14,918
Tax liabilities		6,770	-	6,770
Other liabilities		2,047	-	2,047
Total financial liabilities		198,957	3,198,168	3,397,125
Net balance sheet position		951,180	(520,194)	430,986

SKB Bank - As of 31 December 2020

	EUR 000	Within 12 months	After 12 months	Total
ASSETS				
Cash, cash balances at central banks and other demand deposits at banks		518,211	-	518,211
Financial assets held for trading		8,942	-	8,942
Non-trading financial assets mandatorily at fair value through profit or loss		3,113	24,768	27,881
Financial assets designated at fair value through profit or loss		6,120	-	6,120
Financial assets at fair value through other comprehensive income		46,715	319,592	366,307
Financial assets at amortised cost		553,291	2,099,040	2,652,331
Investments in subsidiaries, associates and joint ventures		2,045	18,409	20,454
Tangible assets		1,157	29,407	30,564
Intangible assets		-	8,958	8,958
Tax assets		3,557	-	3,557
Other assets		2,052	-	2,052
Non-current assets and disposal groups classified as held for sale		63	-	63
Total financial assets		1,145,266	2,500,174	3,645,440
LIABILITIES				
Financial liabilities held for trading		9,160	-	9,160
Financial liabilities designated at fair value through profit or loss		6,120	-	6,120
Financial liabilities measured at amortised cost		644,963	2,573,027	3,217,990
Fair value changes of the hedged items in portfolio hedge of interest rate risk		1,732	-	1,732
Provisions		5,415	8,849	14,264
Tax liabilities		4,907	-	4,907
Other liabilities		1,600	-	1,600
Total financial liabilities		673,897	2,581,876	3,255,773
Net balance sheet position		471,369	(81,702)	389,667

6.7. Encumbered assets

An asset is treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralize or credit enhance any transaction from which it cannot be freely withdrawn. At the end of the year 2021 SKB Group's encumbrance ratio stood at the level of 1.67 % as the SKB Group had EUR 64 million of encumbered assets compared to EUR 101 million encumbered assets and 2.76 % encumbered ratio as at 31. 12. 2020.

Encumbered assets consist of government bonds which are held by the bank for the purpose of Single Resolution Fund established in Slovenia in the amount of EUR 15 million, capital investment in Single Resolution Fund in amount of 15 million, government bonds reserved due to Market in Financial Instruments Act (ZTFI) in the amount of EUR 2 million ECB required mandatory reserve which has to be held on the Bank of Slovenia target account in the amount of EUR 32 million and funds held at the Bank of Slovenia for the purpose of guarantee schemes and seizures in the amount of EUR 2 million.

Table A: Assets

SKB Group - as of 31 December 2021												
		Carrying amount of encumbered assets			Fair value of encumbered assets			Carrying amount of unencumbered assets			Fair value of unencumbered assets	
		(EUR 000)	of which:	Of which			of which:	Of which			of which:	Of which
			central bank's eligible	notionally eligible EHQLA and HQLA			central bank's eligible	notionally eligible EHQLA and HQLA			central bank's eligible	notionally eligible EHQLA and HQLA
	010	030	035	040	050	055	060	080	085	090	100	
010	Assets, of which:	64,187	17,327	17,327	-	-	-	3,773,753	721,375	1,017,621	-	-
020	• Loans on demand	33,930	-	-	-	-	-	389,618	-	374,713	-	-
030	• equity instruments	12,931	-	-	12,931	-	-	7,959	-	-	7,959	-
040	• debt securities	17,327	17,327	17,327	17,327	17,327	17,327	642,908	591,715	642,908	545,709	494,517
070	of which: issued by general governments	17,327	17,327	17,327	17,327	17,327	17,327	642,908	591,715	642,908	545,709	494,517
080	of which: issued by financial corporations	-	-	-	-	-	-	-	-	-	-	-
100	• Loans and advances other than loans on demand	-	-	-	-	-	-	2,631,606	129,660	-	-	-
110	of which: mortgage loan	-	-	-	-	-	-	1,007,293	36,378	-	-	-
120	• other assets	-	-	-	-	-	-	101,662	-	-	-	-

SKB Group - as of 31 December 2020									
		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		010	of which: central bank's eligible	040	of which: central bank's eligible	060	of which: central bank's eligible	090	of which: central bank's eligible
			030		050		080		100
(EUR 000)		010	030	040	050	060	080	090	100
010	Assets, of which:	100,768	69,883	-	-	3,555,407	661,796	-	-
020	• Loans on demand	30,886	-	-	-	465,184	-	-	-
030	• equity instruments	-	-	-	-	20,938	-	20,938	-
040	• debt securities	63,450	63,450	55,090	55,090	523,738	499,931	431,512	407,705
070	of which: issued by general governments	63,450	63,450	55,090	55,090	517,618	499,931	425,392	407,705
080	of which: issued by financial corporations	-	-	-	-	6,120	-	6,120	-
100	• Loans and advances other than loans on demand	6,433	6,433	-	-	2,449,729	161,865	-	-
110	of which: mortgage loan	673	673	-	-	929,587	26,210	-	-
120	• other assets	-	-	-	-	95,819	-	-	-

Table B: Collateral received

SKB Group - as of 31 December 2021										
		Fair value of encumbered collateral received or own debt securities issued			Unencumbered assets					
		010	of which: central bank's eligible	Of which notionally eligible EHQLA and HQLA	Fair value of collateral received or own debt securities issued available for encumbrance	Nominal of collateral received or own debt securities issued non available for encumbrance				
							030	035	040	060
							040	060	060	060
(EUR 000)		010	030	035	040	060				
130	Collateral received by the reporting institution	-	-	-	-	1,743,297				
230	• other collateral received	-	-	-	-	1,743,297				
250	Total assets, collateral received and own debt securities issued	64,187	17,327	17,327	-	-				

SKB Group - as of 31 December 2020					
		Fair value of encumbered collateral received or own debt securities issued		Unencumbered assets	
				Fair value of collateral received or own debt securities issued available for encumbrance	
				of which: central bank's eligible	of which: central bank's eligible
		(EUR 000)	010	030	040
130	Collateral received by the reporting institution	-	-	-	1,437,973
230	• other collateral received	-	-	-	1,437,973
250	Total assets, collateral received and own debt securities issued	100,768	69,883	-	-

Table C: Sources of encumbrance

SKB Group		2021		2020	
(EUR 000)		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own securities issued	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own securities issued
		010	030	010	030
010	Carrying amount of selected financial liabilities	300	2,049	50,170	53,855

Table D: Encumbrance information

Encumbrance information
SKB Group maintained very low level of encumbered assets in year 2021.
At the end of the year 2021 SKB Group's encumbrance ratio stood at the level of 1.67 % as the SKB Group had EUR 64 million of encumbered assets compared to EUR 101 million encumbered assets and 2.76 % encumbered ratio as at 31. 12. 2020. Main reason for the decrease of ratio was prematurely repaid long term loan to European Central Bank (ECB).
Encumbered assets consist of government bonds which are held by the bank for the purpose of Single Resolution Fund established in Slovenia in the amount of EUR 15 million capital investment in Single Resolution Fund in amount of 15 million, government bonds reserved due to Market in Financial Instruments Act (ZTFI) in the amount of EUR 2 million ECB required mandatory reserve which has to be held on the Bank of Slovenia target account in the amount of EUR 32 million and funds held at the Bank of Slovenia for the purpose of guarantee schemes and seizures in the amount of EUR 2 million.
SKB Group classified all received collateral as unavailable for encumbrance.

6.8. Risk management statements

A declaration on the adequacy of risk management arrangements of SKB banka d.d. Ljubljana providing assurance that the risk management systems put in place are adequate with regards to SKB banka d.d. Ljubljana risk profile and strategy on the group level.

By signing this statement, we, the undersigned members of the General Management and Board of Directors of the bank, hereby confirm, that SKB 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. General Management and Board of Directors of the bank acknowledged the path to fulfill the group's goal for sustainable risk appetite. Risk management in SKB banka d.d. Ljubljana is independent as a function and as such can properly assess and allocate economic capital among the relevant risks. Another part of risk management monitoring system are stress tests, which help risk management function to plan and optimize capital, liquidity and regulatory requirements. Furthermore, the way the Bank monitors its prudential ratios is stated in the Risk Appetite Statement by which SKB banka d.d. Ljubljana monitors and assesses performance in business lines. In relation to macroeconomic and financial environment and by keeping in mind group's strategic and financial objectives, the prepared Risk Appetite Framework controls and exercises risk appetite according to the determined limits.

The following documentation has been submitted by the SKB bank to the Bank of Slovenia:

- qualitative and quantitative ICAAP analysis with all appendixes,
- qualitative and quantitative ILAAP analysis with all appendixes.

Members of the Board of Directors

Signature

Imre Bertalan



Anna Mitkova Florova



Draga Cukjati



Miklós Németh



Attila Kovács



Anita Stojčevska



Vojka Ravbar



Place and date: Ljubljana, 31. 3. 2022



Anita Stojčevska
glavna izvršna direktorica

SKB banka d.d. Ljubljana risk management statement

Management of all material risks of SKB Group (SKB Bank and its subsidiaries SKB Leasing and SKB Leasing Select) is integrated in the overall risk and business strategy and is a part of Internal Capital Adequacy Assessment Process (ICAAP), Risk Appetite Framework (RAF) and Risk Appetite Statement (RAS), Recovery plan and Internal Liquidity Adequacy Assessment Process (ILAAP) for liquidity risk position and management.

Risk profile of SKB Group incorporates and identifies all important risks to which the Group is exposed and it is presented in the SKB Group risk catalogue. The SKB Group risk catalogue is used as a primary source to define all risks in SKB Group and to have the same approach in ICAAP, RAS, Recovery plan and ILAAP.

ICAAP process includes quantitative and qualitative elements of risk management process. The ICAAP process identifies the risks, that have a great impact on the SKB Group's risk exposure. The qualitative part represents the assessment of SKB Group's risk exposure and assessment of its control system, which is performed on an yearly basis.

The purpose of the risk assessment is to assess the residual risk among the relevant risks:

- credit risk including concentration risk, counterparty risk, country risk and residual value risk;
- operational risk including reputation risk, non-compliance risk, model risk, fraud risk, tax risk, legal risk, physical security risk, conduct risk, risk of new products and services, risk related to outsourcing, risk related to remuneration policy, risk of assessment of suitability of the Board of Directors members, risk of assessment of suitability of key function holders, ICT and security risk, risks related to data protection, AMLFT related risk, FATCA and CRS related risk and HR risk;
- strategic risk including profitability risk;
- interest rate risk including Credit spread risk from the banking book (CSRBB);
- liquidity risk and
- market risk.

As all the relevant risks were identified and assessed, the SKB Group is able to predict and establish additional controls to minimize the negative impact from above mentioned risks.

The total residual risk evaluation for SKB Group increased from 1,582 in 2020 to 1,583 in 2021. Average assessment of residual risk for interest rate risk and strategic risk increased, while assessment of credit risk and operational risk slightly decreased. Average assessment of residual risk for liquidity risk and market risk remained on the same level as in 2020.

SKB GROUP'S RESIDUAL RISK ASSESSMENT in year 2021	80,1%	6,5%	1,0%	10,4%	1,0%	1,0%
RISK AREA	CREDIT RISK	OPERATIONAL RISK	STRATEGIC RISK	INTEREST RATE RISK	LIQUIDITY RISK	MARKET RISK
BUSINESS ACTIVITY						
Retail business (RETAIL)	1.39	2.93	0.00	0.00	0.00	0.00
Corporate business - facilities and treasury (CORP)	1.79	2.76	0.00	0.00	0.00	1.00
Joint functions -finance (FIN)	0.00	2.63	0.00	1.78	1.45	0.00
Joint functions -central back offices and payment system (CBS)	0.00	2.69	0.00	0.00	0.00	0.00
Joint functions- management structure (general management and Board of Directors)	0.00	0.00	2.56	0.00	0.00	0.00
Joint functions - risks and bad debts (RISK)	1.20	1.17	0.00	0.00	0.00	0.00
Joint functions - informatics, technology, organization (GMS)	0.00	2.99	0.00	0.00	0.00	0.00
Subsidiaries - SKB Leasing	1.80	1.86	0.00	0.00	0.00	0.00
Subsidiaries - SKB Leasing Select	1.80	1.88	0.00	0.00	0.00	0.00
Average assessment by type of risk	1.50	2.36	2.56	1.78	1.45	1.00

Total weighted assessment by the type of risk	1.583	Calculated residual risk for 2021 (acceptable)				
	1.582	Calculated residual risk for 2020 (acceptable)				

The quantitative calculation of the internal estimate of capital needs is performed at SKB Group level on a quarterly basis and reported to the SKB Group's General Management through the ALCO Committee. The ICAAP is reported to the Board of Directors on a yearly basis. Internal estimates of capital needs are calculated for all relevant risks (credit risk, operational risk, concentration risk, counterparty risk, interest rate risk, strategic risk and model risk) from economic²⁵ and normative²⁶ 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 shows whether the level of the regulatory capital is sufficient to absorb all types of risks the SKB Group is exposed to, including stress test scenarios.

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 SKB Group is exposed, including stress test scenarios.

SKB GROUP	Economic perspective	Normative perspective - base scenario			Normative perspective - adverse scenario		
		31.12.21	31.12.22	31.12.23	30.12.24	31.12.22	31.12.23
CAPITAL ADEQUACY (in %)							
Total capital ratio (in %)	15.03 %	15.90 %	16.60 %	17.44 %	16.14 %	16.86 %	17.05 %
Capital in MEUR							
Tier 1 capital of which	391.8	440.1	483,7	529,7	420,8	438,8	460,2
• Common equity tier 1 capital	391.8	440.1	483,7	529,7	420,8	438,8	460,2
• Additional tier 1 capital	391.8	440.1	483,7	529,7	420,8	438,8	460,2
Tier 2 capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tier 1 capital of which	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Internal estimate of capital needs in MEUR							
	31.12.21	31.12.22	31.12.23	30.12.24	31.12.22	31.12.23	30.12.24
Material risks	246,7	237,7	251,3	264,5	232,7	233,3	244.0
Credit risk	193.0	205.7	216.6	225.8	193.3	192.9	200.6
Operational risk	15.7	15.2	15.1	15.1	15.1	14.7	14.4
Concentration risk	7.7	8.2	8.7	9.0	15.5	15.4	16.1
Counterparty risk	3.1	3.2	3.4	3.6	3.1	3.1	3.1
Interest rate risk		3.5	5.8	9.2	3.2	4.6	7.3
Strategic risk	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Model risk	0.8	1.7	1.7	1.7	2.5	2.5	2.5
Stress tests	43.8	63.7	94.8	112.6	56.9	75.8	77.7
Overall capital requirements / internal estimate of capital needs	290.5	301.4	346.1	377.0	289.6	309.1	321.7
Capital buffer	101.3	138.8	137.5	152.7	131.2	129.7	138.5

The ICAAP process is intertwined with the ILAAP process (Internal Liquidity Adequacy Assessment process) by which the Group analyzes liquidity position from qualitative and quantitative perspective, taking into account the overall liquidity risk management and measurement. ILAAP outcomes were presented within the Self-assessment documentation and evaluated in line with the bank's overall liquidity risk management framework considering liquidity risk tolerance limits in accordance to the Risk Appetite Framework and Risk Appetite Statement.

As seen from the table below, the Liquidity coverage ratio (LCR) and Net stable funding ratio (NSFR) were and will be in line with the regulatory required limits under economic and normative perspective.

LIQUIDITY RATIOS for SKB Bank standalone	Economic perspective	Normative perspective - base scenario			Normative perspective - adverse scenario		
		31.12.21	31.12.22	31.12.23	30.12.24	31.12.22	31.12.23
(in %)							
LCR	218 %	232 %	228 %	226 %	218 %	225 %	223 %
NSFR	153 %	147 %	146 %	146 %	145 %	146 %	145 %

²⁵ 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.

²⁶ 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.

By signing this statement, we, the undersigned members of the General Management and Board of Directors of the bank, hereby confirm, that SKB Bank d.d. Ljubljana has in place a sound risk management system in line with its risk tolerance and limits set within the Risk Appetite Framework, Risk Appetite Statement and in accordance to its business strategy on the Group level.

Members of the Board of Directors

Signature

Imre Bertalan



Anna Mitkova Florova



Draga Cukjati



Miklós Németh



Attila Kovács



Anita Stojčevska



Vojka Ravbar



Place and date: Ljubljana, 31. 3. 2022



Anita Stojčevska
Chief Executive Officer

VII. Addresses & contacts

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4240 Radovljica
tel.: 04 537 08 11

Škofja Loka
Kapucinski trg 4
4220 Škofja Loka
tel.: 04 518 40 40

Gornja Radgona
Partizanska cesta 22
9250 Gornja Radgona
tel.: 02 564 33 86

Ljutomer
Stari trg 7
9240 Ljutomer
tel.: 02 583 13 12

Maribor - I
Ljubljanska ulica 9/b
2000 Maribor
tel.: 02 333 85 22

Maribor - II
Ulica heroja Bračiča 1
2000 Maribor
tel.: 02 234 77

Maribor - Tabor
Kardeljeva cesta 94
2000 Maribor
tel.: 02 333 85 44

Murska Sobota
Kocljeva ulica 9
9000 Murska Sobota
tel.: 02 522 31 20

Ormož
Vrazova ulica 4
2270 Ormož
tel.: 02 719 89 60

Ptuj
Puhova ulica 21
2250 Ptuj
tel.: 02 749 29 00

Brežice
Ulica prvih borcev 39
8250 Brežice
tel.: 07 620 23 40

Črnomelj
Zadružna cesta 16
8340 Črnomelj
tel.: 07 305 64 91

Ljubljana - Center
Ajdovščina 4
1000 Ljubljana
tel.: 01 471 59 58

Vrhnika
Ljubljanska cesta 29
1360 Vrhnika
tel.: 01 757 12 00

Krško
Cesta 4. julija 42
8270 Krško
tel.: 07 488 26 30

Ljubljana - Šiška
Bravničarjeva ulica 13
1000 Ljubljana
tel.: 01 500 17 82

Zagorje
Kopališka ulica 14
1410 Zagorje ob Savi
tel.: 03 566 47 90

Metlika
Naselje Borisa Kidriča 4
8330 Metlika
tel.: 07 369 15 40

Ljubljana - Vič
Jamova cesta 105
1000 Ljubljana
tel.: 01 252 87 50

Novo mesto
Novi trg 3
8000 Novo mesto
tel.: 07 373 15 60

Ljubljana - WTC
Dunajska cesta 156
1000 Ljubljana
tel.: 01 560 72 49

Sevnica
Kvedrova cesta 31
8290 Sevnica
tel.: 07 814 16 07

Ljubljana - Zupančičeva jama
Železna cesta 14
1000 Ljubljana
tel.: 01/239 69 02

Trebnje
Gubčeva cesta 16
8210 Trebnje
tel.: 07 348 25 50

Private Banking:
Dunajska cesta 56
1000 Ljubljana
tel.: 01 620 44 28

Cerknica
Partizanska cesta 1
1380 Cerknica
tel.: 01 709 11 05

Domžale
Ljubljanska cesta 85
1230 Domžale
tel.: 01 729 89 10

Idrija
Ulica Sv. Barbare 3
5280 Idrija
tel.: 05 374 10 11

Grosuplje
Taborska cesta 2
1290 Grosuplje
tel.: 01 788 87 10

Ilirska Bistrica
Kosovelova ulica 2
6251 Ilirska Bistrica
tel.: 05 714 22 80

Kamnik
Glavni trg 13
1240 Kamnik
tel.: 01 831 85 62

Koper
Ferrarska ulica 6
6000 Koper
tel.: 05 666 33 02

Kočevje
Trg zbora odposlancev 18
1330 Kočevje
tel.: 01 893 18 70

Nova Gorica
Ulica Tolminskih puntarjev 4
5000 Nova Gorica
tel.: 05 335 05 16

Ljubljana - Zalog
Zaloška cesta 275
1000 Ljubljana
tel.: 01 527 20 14

Postojna
Tržaška cesta 59
6230 Postojna
tel.: 05 726 45 27

Litija
Jerebova ulica 14
1270 Litija
tel.: 01 890 02 30

Ljubljana - City Park
Moskovska ulica 4
1000 Ljubljana
tel.: 01 546 69 62

Trzin
Blatnica 1 (Piramida)
1236 Trzin
tel.: 01 562 10 10

SKB Leasing d.o.o.

Ajdovščina 4, 1000 Ljubljana
Telephone number.: 01 300 50 00
E-mail: info@skb-leasing.si
Website: <http://www.skb-leasing.si>
Bank account number: SI56 0310 0101 2002 555
VAT number: 31037038
Identification number for VAT: SI 31037038
Registration number: 5808596000

Branch Ljubljana
Ajdovščina 4
1000 Ljubljana
Tel.: 01 300 50 30

Branch Celje
Vrunčeva ulica 2a
3000 Celje
Tel.: 01 300 50 61

Branch Novo mesto
Novi trg 3
8000 Novo mesto
Tel.: 01 300 50 71

Office Maribor
Ulica heroja Bračiča 1
2000 Maribor
Tel.: 01 300 50 75

Office Koper
Ferrarska ulica 6
6000 Koper
Tel.: 01 300 50 80

SKB Leasing Select, d.o.o.

Ajdovščina 4, 1000 Ljubljana
Telephone number.: 01 300 50 10
E-mail: select-info@skb-leasing.si
Website: <http://www.skb-leasing.si>
Bank account number: SI56 0310 0100 2108 167
VAT number: 63452359
Identification number for VAT: SI 63452359
Registration number: 2366878000

SKB d.d.
Ajdovščina 4, 1000 Ljubljana
SKB Banka d.d. Ljubljana, Ajdovščina 4, is registered with the
Regional Court of Ljubljana • Registration number: 10148300 • Share capital: 52.784.176,26 EUR
www.skb.si / SKB TEL (01) 471 55 55, facebook.com/BankaSKB