



Annual report 2023

SKB Group and SKB Bank

We create the future together

April 2024

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I. General Information for the SKB Group for 2023



Number of employees **913**



Number of customers **227.345**

- SKB banka **193.129**
- SKB Leasing Group **34.216**



Number of outlets **48**

Evolution of SKB Group's main balance sheet items

	in million EUR	31. 12. 2023	31. 12. 2022	Change (%)
Balance sheet total		4,592	4,437	3.5
Loans to customers ¹		2,857	2,975	-4.0
Customer deposits		3,682	3,664	0.5
Equity		541	449	20.6
Loans to deposits ratio ²		64.20 %	68.43 %	-424 bp
Capital adequacy ratio		21.27 %	16.92 %	+435 bp

Strong capital base exceeds regulator's requirements.

Key results and indicators of SKB Group's performance

	000 EUR	2023	2022	Change (%)
Net banking income ³		182,003	131,379	38.5 %
Operating profit ⁴		94,992	59,677	59.2 %
Net profit ⁵		76,533	61,058	25.3 %
ROE		15.56 %	13.99 %	+157 bp
Cost/Income ratio		47.81 %	54.58 %	-677 bp

SKB Bank ranks among the most cost-effective banks in Slovenia

¹ Includes financial leasing

² Excludes financial leasing

³ Financial and operating income and expenses.

⁴ Financial and operating income and expenses decreased by administrative expenses, cash contributions to resolution funds and deposit guarantee schemes and amortization.

⁵ Net profit for the financial year.

Key result drivers

Individual clients ⁶ - activity indicators	Change (%)	December 22
Number of accounts	-2.3	171,319
Number of accounts with regular payment	-1.0	161,777
Number of E-banking users	2.8	154,881
Number of Moj@SKB users	4.6	123,214
Number of cards	-0.6	220,421
Volume of loans	0.9	1,358.0 M EUR
Housing loans	-1.2	1,066.5 M EUR
Volume of leasing	-0.6	222.2 M EUR
Volume of deposits	-3.9	2,076.5 M EUR

Corporate clients - activity indicators	Change (%)	December 23
Number of accounts	2.5	18,943
Number of E-banking users	2.6	18,186
Number of Moj@SKB users	15.1	15,579
Number of domestic payment transactions ⁷	4.9	16,303,010
Number of international payment transactions	7.6	1,550,961
Volume of loans	-13.4	1,005.7 M EUR
Loans to customers excluding loans to State	-13.7	898.4 M EUR
Volume of leasing	10.9	270.7 M EUR
Volume of deposits	6.9	1,605.5 M EUR

⁶Includes individuals conducting business activities.

⁷Paid transactions.

Overview in 2023

At SKB Bank, we support the Slovenian economy through efficient operations and by providing appropriate solutions for individuals and companies. We do this with a clear strategy of development projects, where we follow the realization of our vision, to remain the first choice for clients and to offer them the best user experience in all the segments we control, while at the same time constantly taking care of the environment and the sustainability of our operations.

Since we live in a very dynamic times with constant changes in the market and the global economy, we respond, and we adjust our business policy. We do our best to simplify and automate our channels and business. With the constant influence of the market and the economy in the field of crediting, we constantly adapt our offer, trying to ensure a high level of consideration of all risks, while at the same time making our offer as accessible as possible to our clients.

Our goal is to provide simple, stable, and secure services in all channels. We always strive to be a reliable and strong financial partner for individuals and the entire Slovenian economy and to provide appropriate and effective solutions. We are proud that our efforts are also recognised by the professional public. In 2023, we were thus awarded the best bank in Slovenia by Global Finance and The Banker. We are also recognised among consumers as a high-quality and trusted brand, and we are therefore part of the Supebrands Slovenia family.

In August 2023, Slovenia was affected by severe floods. SKB Bank, together with Nova KBM and OTP Bank, donated funds to help those affected by the floods and at the same time helped its own employees affected by this natural disaster. We have prepared a special offer for customers to take out a new loan, included deferred payments on existing loans, and enabled customers to operate smoothly with our daily banking products. We also helped them with banking and insurance documentation that was lost or damaged in the floods.



In accordance with risk management, we have focused our activities on the early detection of customer problems, through a specific customer handling process in order to avoid risks and at the same time help customers. In 2023, we automated and optimized the process and system in the operational risk management field. We were also active in the field of cyber security from a fraud prevention perspective, coordinating measures to mitigate the risk of the bank and its customers in this area, including customer awareness raising, new procedures and upgrading processes and applications. Thus, we also participated in the creation of the national campaign "pazi.se" under the auspices of the Association of Banks of Slovenia, which aims to raise awareness among the general public in the area of cyber security online and in digital banking.



Based on the market and customer preferences, we have improved our offering and increased the interest rates on some time deposits, in line with the Bank's strategic goals. We have also added savings within the SKB investment duo - fixed deposit and simultaneous investment in an equity or bond investment fund. In the area of savings and investments, we place particular emphasis on improving financial literacy. With this awareness, SKB Bank has developed activities to help each of us make effective and prudent financial decisions. People often think that it is not possible to save or invest small amounts of money. However, the key is to manage our or our family's budget in a planned way.

To improve the user experience when taking a home loan, we introduced the service of loan experts on the ground (mobile bankers), who are available to the end user and act as a link between the bank and the real estate agency that has access to potential buyers.



To reduce the percentage of clients who do not attend the agreed date of the meeting in the outlet, we started sending central SMS reminders for the meeting, thus ensuring greater realization of sales.

We participated in the creation of the campaign Slovenia pays digitally (Slovenija plačuje digitalno) with the aim of promoting and encouraging the use of card payments across Slovenia. At the end of the year, we were able to claim that the mobile application Flik is becoming an increasingly indispensable tool for instant payments in Slovenia, as it has exceeded half a million users. SKB clients use Flik to a greater extent than the average Slovenian Flik user.

Agriculture continues to be one of the important segments for SKB. We once again successfully appealed to buyers at the Agra fair, one of the largest Slovenian events dedicated to agriculture. We presented ourselves at the fair with an innovative stand and contributed to the additional visibility of SKB and established contacts with potential buyers from agriculture sector.



SKB Bank is well aware of and assumes full responsibility in its role of financing clients in their transformation to a sustainable business model as a response to climate and environmental pressures of change and to achieve social and management improvements. We started by organizing activities and disseminating information with the aim of raising awareness among our employees, our clients, and the community. Furthermore, we started offering green products in the area of housing loans for individuals and for improving electro-mobility and renewable energy use for legal entities. Sustainability is becoming one of the main pillars of the Bank's overall strategy.

Through partnerships, we expand our visibility, especially in the youth segment, and we work with local partners who help us acquire new clients. We have long-term relationships with insurance companies that allow us to cross-sell banking products with insurance products. In October 2023, we expanded the offer with the new insurance of residential real estate and movable property of Groupama Zavarovalnica - Varen dom insurance. After the natural disaster in August 2023, we are even more aware of the importance of property protection and insurance.



Groupama
Zavarovalnica

At SKB, we constantly follow technological trends and enable clients to use the bank quickly, easily, and smoothly – in person or remotely. That is why we place great emphasis on development, digitization and automation projects. We are aware of how important it is to have professionally trained colleagues in the bank who develop new technological solutions. We are also continuing with one of our biggest technology projects, the redesign of our digital banking channels, which will offer new, modern and flexible digital channels to customers from all segments. We have been developing digital channels in line with client needs, laws, regulations, and directives, and we place emphasis on the security aspect of digital business and environmentally friendly processes. Our development projects follow an agile methodology, as we believe this is the most effective response to the rapidly changing banking and digital environment. The ultimate goals of our development projects are to completely replace existing digital solutions for all segments, while becoming the bank with the best digital solution on the Slovenian market. With this project, we will pilot innovative digital solutions with the possibility of implementing renewed solutions at the level of the entire OTP Group.

We use our data in digital advertising and acquiring potential clients in the crediting segment based on customer-tailored targeted messaging. Online sales of consumer loans represent on average a 13-percent share of total sales. At SKB Bank, we have improved our digital advertising with a special technological solution based on first-person data stored and refined in a data warehouse. By buying targeted ad space based on the available data, the Bank increased direct response rate of advertising and reduced the cost of effective reach to the user of the relevant target group.

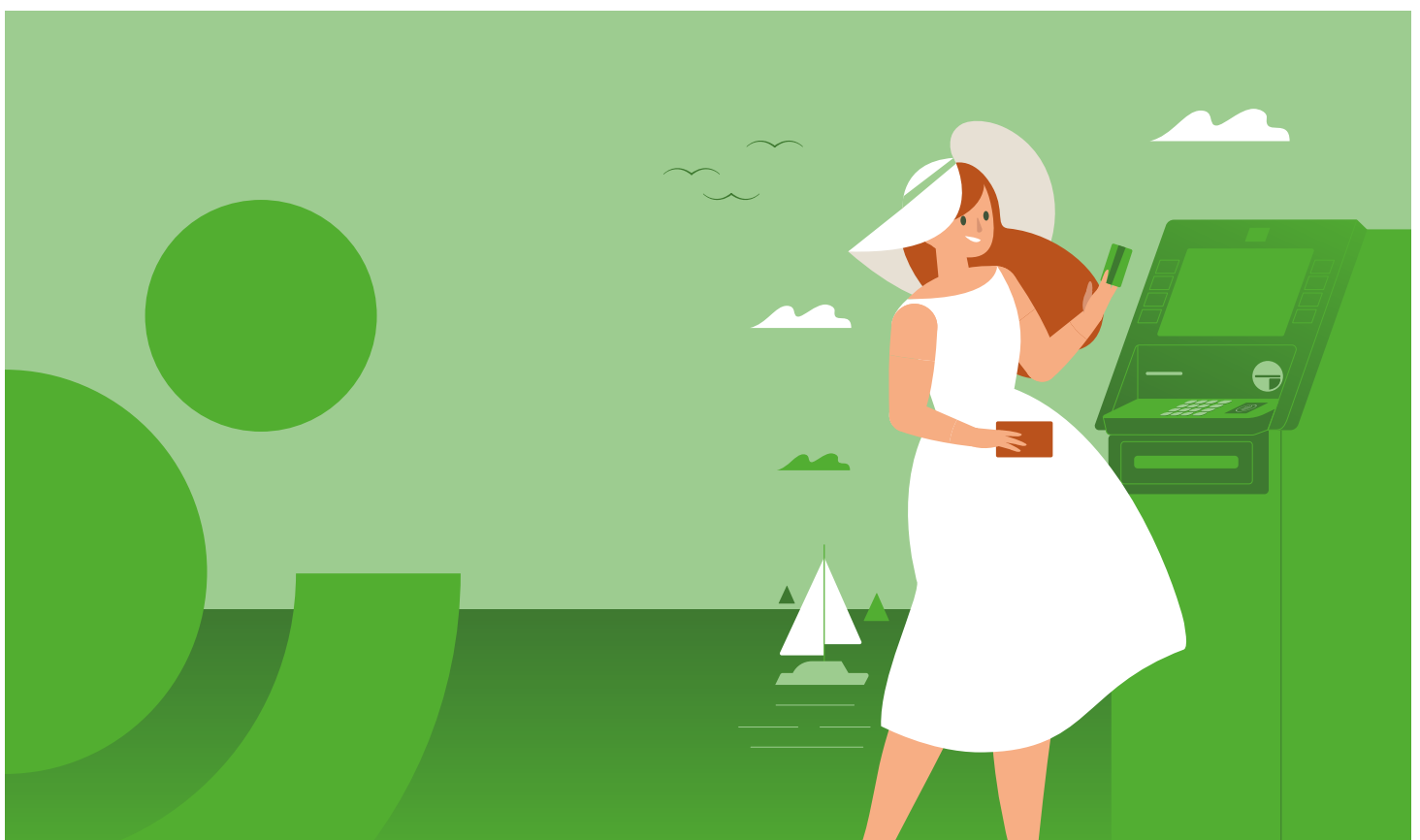
An important aspect of sales is the smart use of data and customer grouping, with the goal of identifying customer needs and opportunities for the bank. With agile marketing, we have developed tools for using insights from customer data (clustering), which help us in making strategic and tactical decisions to find a customer-tailored solution.

We also develop our own artificial intelligence solutions to optimise internal processes for analytics and direct campaign management. We have designed a new multi-channel and multi-phase direct modul to effectively reach and engage target audiences.

SKB Leasing Group increased its new business volumes despite the challenges related to the reluctance to buy passenger cars caused by the recession, high interest rates and inflation, as well as the reduction of investments in transport vehicles, machinery, construction and agricultural equipment. Thus, the Group ended the year 2023 with an operating profit higher than planned, but a lower profit mainly due to the payment of high tax on thin capitalization. Activities related to the implementation of climate and environmental risk management continued in 2023, especially in reporting to the parent OTP Group. In 2023, the data reveals an increase in the green investment portfolio, as more electric vehicles were financed, which is also the goal of the ESG project in the coming year. SKB Leasing has implemented an ESG assessment of each investment in its operating system, which allows the portfolio to be reviewed against the ESG criteria at any time.

Compared to the average in Slovenia, the SKB Bank's clients are above average satisfied with the user experience and offer of SKB Bank, and the SKB brand maintains its recognition and value. SKB Bank has been measuring customer satisfaction and loyalty every year since 2016 and it is regularly ranked among the banks in Slovenia with the highest rating (according to the Customer Experience Measurement survey). In addition, SKB Bank measures customer satisfaction during the visit (On the Spot / Service Quality Measurement), when clients visit a banker in an outlet or call the SKB contact center. In 2023, the average customer satisfaction when visiting a outlet (on a scale of 0-10) was rated 9.6, and a call to the SKB Contact Center was rated 9.0.

Clients of both banks can use their Visa personal account debit card and Visa business card to withdraw cash and check account balances at approximately 450 ATMs of both banks. As of 1 July 2023, cash can be withdrawn completely free of charge at more than 430 OTP Bank ATMs in Croatia with a personal Visa debit card.



The vibrant and unpredictable socio-economic environment brought about the need for constant internal and external communication and care for the wider community. As a reliable financial partner, we have shared our knowledge at numerous business and educational conferences, which we also sponsored. We showed our support for Slovenian sports in the projects of the Olympic Committee of Slovenia. We were particularly active at the Summer Olympic Festival of European Youth in Maribor and at the European Sports Week in September. Since it is important that our employees are also physically active, we have always included such projects in the internal activation program. We also continued to support culture and became a proud sponsor of the Ljubljana Opera House for the fourth consecutive season. We are aware of the importance of sustainable operations and nature protection. That is why we pay special attention to the urban beehive on the terrace of the SKB office building and teach our colleagues and the general public about the life and importance of bees. We also take care of preserving nature and ensuring that our company's carbon footprint is as low as possible by constantly raising awareness among employees regarding their behavior at work and in private life.

We strengthened the internal culture and cohesion of the employees through constant communication, exchange of information and knowledge, and at the same time, with selected projects, we helped to promote well-being and team spirit in the workplace. We read the SKB pulse every month. In the first half of the year we trained at SKB focuses, and participated individually or together in various challenges. We had particularly lot of fun and bonded at the spring picnic.

Through our work, we always keep in mind also the most vulnerable members of the society. In 2023, we thus donated significant financial resources to the fire brigade and mountain rescuers during the summer floods, we helped young promising athletes with a donation to the Sports Foundation, and at the end of the year, with a donation to the Red Nose Society, we contributed to the smiles of children patients in hospitals.



In 2023, SKB Bank received numerous recognitions and awards from the professional public: SKB Bank was the recipient of the prestigious "Best Bank 2023 in Slovenia" award in the category of Central and Eastern Europe, as reported by Global Finance. We were once again recognized as the "Bank of the Year 2023 in Slovenia" as selected by the professional magazine The Banker. In September, we participated in the Superbrands Slovenia 2023 award ceremony, where SKB Bank was recognized for the third year in a row as a trusted brand and one of the proud recipients of the Superbrands Slovenia 2023 title. We are also the recipient of the WAC (Workplace active certificate) award for an active workplace awarded by the European Federation for Company Sport.



Presentation of the SKB Group

SKB Group

Since 13 December 2019, SKB Bank has been part of the OTP Group, which is one of the largest, most stable, and reliable independent providers of financial services in Central and Eastern Europe and the largest commercial bank in Hungary. OTP Bank is present in 12 countries of Central and Eastern Europe and Asia. Since 1 February 2023 SKB Bank has been involved in the merger process with Nova KBM, which has been a part of the OTP Group. The merger will create the leading bank in Slovenia.

The SKB Group consists of SKB Bank and the SKB Leasing Group, which includes SKB Leasing and SKB Leasing Select, and, Bankart since the entry of Nova KBM into the OTP Group.

SKB Bank is a development-oriented universal bank that operates through various sales channels, including the following: 48 outlets and Private banking unit throughout Slovenia and through digital banking channels such as online and mobile banking, as well as a network of 76 ATMs, payment and credit cards, banking products and services. As of 1 March 2023, SKB Bank and Nova KBM have a shared ATM network.

SKB Bank conducts business with individuals and small, medium-sized and large companies, offers a wide range of financial services, but does not trade with financial instruments for its own account.

SKB Leasing and SKB Leasing Select upgrade banking services with leasing products. SKB Leasing and SKB Leasing Select offer all leasing products except real estate leasing, to individuals and companies through a network of bank outlets in all major regional centers in Slovenia and with the help of their commercial specialists. SKB Leasing, SKB Leasing Select and SKB Bank work in synergy.

Figure 1: Business network



OTP Group

The OTP Group is one of the fastest growing and leading banking groups in Central and Eastern Europe with exceptional profitability and a stable capital and liquidity position. The OTP Group ranks among the 30 largest banks in Europe both in terms of market capitalization and profitability⁸, and its balance sheet total exceeds 100 billion EUR.

It is present in 12 countries of Central and Eastern Europe and Central Asia. With more than 41,000 employees, it provides universal financial services to 17 million clients. OTP Group was ranked 4th among banking groups in Europe in terms of resilience to a reduction in the Common Equity Tier 1 (CET1) ratio under a three-year stress scenario in the pan-European banking stress test for 2023 coordinated by the European Banking Authority (EBA).

As the most active consolidator in the banking sector of the Central and Eastern European region, the OTP Group has successfully acquired and integrated 23 banks since 2000. The OTP Group is based in Hungary and has a diverse and transparent ownership structure, and it has been listed on the Budapest Stock Exchange since 1995.



⁸Bloomberg EMEA Banks Index

II. Statement by Chief Executive Officer



Against the backdrop of a turbulent macro-economic environment and a number of environmental influences, SKB Group closed the year 2023 with excellent financial results, achieving our targets and delivering a number of success stories, whilst showcasing our professionalism and commitment to our clients and business partners, as well as to the business community at large.

SKB Bank is a development-oriented bank whose business model is based on development and stability. We are well aware that we live in very fast-changing times, characterised by constantly evolving market and global economy, and we are therefore constantly adapting our business policy. The rising Euro Area Interest Rate, the impact of inflation and other factors have had a negative effect on investor optimism in making investments and reluctance to take on debt. In 2023, corporate clients showed less demand for sources of financing, which had a downward effect on the credit portfolio in this segment. However, demand for housing loans in the retail segment picked up again in the second half of the year, which contributed to the preservation of our market share in this segment.

With the support of our parent OTP Group, we continue to improve and evolve our products and services, all with the aim of providing our clients with the best possible customer experience. Our well-balanced risk policy and cost-effectiveness have enabled us to deliver outstanding business results and growth.

The SKB Group further improved its cost efficiency in 2023 and remains one of the most cost-efficient banks within the Slovenian banking system. We also maintain good liquidity and a solid capital position, which provides us with a solid foundation for business stability.

Automation and optimisation of processes and continuous digitisation are our main strategic objectives. Our goal is to provide simple, stable, and secure services across all channels.

In 2023, we continued to implement the Sustainable Development Project, which will contribute to the sustainable transformation of the Slovenian economy. SKB Bank understands and assumes full responsibility in its role of financing clients in their transformation towards a sustainable business model as a response to climate and environmental change pressures, and to deliver on social and governance improvements. We have started to organise activities and disseminate information to raise awareness among our employees, our clients and our communities. We have started to offer green products in the housing loans segment for individuals to improve electro-mobility and the use of renewable energy sources and the use of renewable energies to legal entities. Sustainability is becoming one of the main pillars in the bank's overall strategy. Our parent OTP Group is also working towards this goal, aiming to become a regional leader in financing a fair and gradual transition to a low-carbon economy and thus building a sustainable future by offering balanced financial products.

We continue to uphold the SKB Group's commitment to sustainability and care for the health of our employees, both through our sports initiatives and mental health programmes. We will also continue to build on our efforts in the area of employee education and skills development. Through projects focused on sports, culture, nature, the promotion of internal values and the building blocks of employee engagement, we foster interconnectedness and a sense of belonging to the environment in which we thrive as a business. We are proud to stand out in the market as a well-respected brand with strong values that our clients and employees can identify with. All the awards and recognitions we have received from the public are a good indicator that we are already heading in the right direction, as well as a further motivator and commitment to continue to strive to be better, more innovative and irreplaceable.

The year 2023 will certainly also be remembered for the devastation brought to Slovenia by the floods and landslides. The SKB Group immediately offered financial assistance to employees affected by the floods, while at the same time encouraging colleagues to help each other. Together with our sister bank, Novo KBM, and our parent bank, OTP Bank, we made substantial donations to the Firefighting Association of Slovenia, which unites all the country's volunteer firefighting associations, to the Mountain Rescue Association of Slovenia, whose members provide volunteer assistance in the most difficult areas during major natural disasters, and to the Slovenian Red Cross to help the inhabitants of towns and municipalities who have been left homeless, or whose homes have been damaged or rendered uninhabitable.

The lion's share of our combined efforts in 2024 will focus on the Perun project, as we are about to merge with Nova KBM, which will be the single most ambitious merger in the Slovenian banking landscape. However, before this merger can take place, we will be working to finalise the implementation of the AML/CFT compliance project. SKB Bank is committed to providing the highest standards of performance and customer experience to our clients, with compliance and integrity as core values of our business.

A handwritten signature in blue ink that reads "Stojčevska". The signature is fluid and cursive, written in a professional style.

Anita Stojčevska
Chief Executive Officer



Constant Development

We are development-oriented and we follow our ambitions.

With innovation, we effectively adapt our operations and strive for progress.

III. Report of the Board of Directors and Committees

Report of the Board of Directors in 2023

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

The corporate governance system at 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 the Committees regularly report on their work to the Board of Directors. The report of the work of the Board of Directors in 2023 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 rReport 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,
- Discusses the findings of the Bank of Slovenia or the European Central Bank (when in accordance with the EU regulation 1024/2013 European Central Bank performs the authorizations and tasks of supervision over the bank), the findings of other bodies when such 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,
- Reviews the reports prepared by the Internal Audit on a quarterly basis as well as monitors the implementation of necessary corrective measures, supports the activities of the Internal Audit with appointing external consultants, if necessary, and approves changes to the number of staff of the Internal Audit unit,
- Evaluates regularly whether the internal governance framework is appropriate by reviewing the suitability of the organisational structure, completeness of the decision-making competencies, and the transparency of the entire decision-making process within the organisation; by reviewing the effectiveness of the internal safeguards (internal lines of defence) at the Bank and the Group and proposing necessary measures in case of detecting potential deficiencies; and by assessing the short, medium and long-term effects of the ESG factors and to ensure that these considerations are clearly integrated in the relevant responsibilities in the organisational structure, both within business lines and within internal control functions;
- 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 related 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 related 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 Head of Risk Management department,
- The appointment, dismissal and remuneration of the Head of Internal Audit department,
- Plan of activities for the Risk Management in accordance with the strategies and policies of Risk appetite,

- 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 100.000 EUR, and for each further transaction whereby the overall exposure of the Bank against a single party from all transactions increase for the subsequent 100.000 EUR 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 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 General Management of the Bank regarding the formulation of:

- The Bank's business policy,
- The Bank's financial plan,
- The organisation of internal controls' system,
- The annual Audit plan for Internal Audit department.

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

In the period from January 2023 till April 2023, the Board of Directors had six (6) members, of which four (4) female and two (2) were male. In April 2023, the Board of Directors got additional member and thus had seven (7) members, of which four (4) women and three (3) men. Since November 2023, the Board of Directors has eight (8) members, of which four (4) are women and four (4) men.

The Board of Directors has always consisted of members of different ages, 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

During 2023, 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 provided with professionally prepared material on time, enabling an in-depth discussion and professional decision-making.

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 in detail 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 Bank's General Management.

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 Bank's General Management. The President chaired the sessions of the Board of Directors in the way to enable the members of the Board of Directors to perform accountable and professional decision-making. The president of the Board of Directors was absent during one session, and she authorized another Board member to decide and vote on her behalf and to preside the session.

The communication and cooperation between the Board of Directors and the Bank's General Management 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 potential improvements in all segments and areas of operations and supervision in the Bank, also based on past experiences.

In order to supervise and manage the Bank even better, the Board of Directors was also actively involved in the Bank's operations through its four (4) Committees and it thus contributed to a better professionalism, safety and optimization 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 Risk 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 2023 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 and / or its Committees and were thus successfully guiding and supervising the operations of the Bank in 2023.

In accordance with the provisions of the Banking Act, the Board of Directors was regularly informed about the assessment of the suitability of its members, which has 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, separately executive members and separately non-executive members, 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 full trust and mutual respect of the members of the Board of Directors, which contributed to the successful operations of the SKB Group as a whole. This is evident from the report on operations of the Bank and SKB Group in 2023, as the Bank and the SKB Group achieved very good business results in the year 2023.

During the year 2023, the Board of Directors acted in compliance with the rules related to the prevention of 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 regularly followed. 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 2023, six (6) regular (on site, or MS Teams) and eleven (11) correspondent sessions of the Board of Directors were held. The quorum was met at all sessions, which is also noted in the minutes.

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

At its sessions held in 2023, the Board of Directors mainly:

- Discussed the report on the work of the Board of Directors and its Committees in 2022, and prepared a Work plan for the Board of Directors for 2023,
- Discussed the report on relations with members of the OTP Group for the financial year 2022,
- Was informed about the resignation of one member of the Board of Directors,
- Was informed about the resignation of the President of the Board of Directors in February 2023, who became the President of the Supervisory Board in another OTP Group entity, but stayed as a member of the Board of Directors at SKB,
- Appointed the new President and Deputy President of the Board of Directors,
- Regularly discussed and approved the changes of the composition of the Board of Directors and its committees in line 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,
- Reassessed the suitability of 4 members of the Board of Directors, whose mandates expired in mid-December 2023, and proposed their reappointment (the General Meeting of Shareholders reappointed all the proposed candidates for the next 4 years),
- Reappointed current Chief Executive Officer for additional 4 years mandate,
- Approved the annex to the contract on the performance of the function of Chief Executive Officer and Deputy Chief Executive Officer according to the changes,
- Appraised the proposed candidates for the new members of the Board of Directors of SKB and for performance of the function of Executive Director of SKB, and their contracts,
- Appointed a new (additional) Deputy Chief Executive Officer after his appointment and obtaining the licence / authorisation of the Bank of Slovenia,
- Was informed on other issues in line 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,
- Accepted the changes to the Rules of Procedure of SKB banka d.d. Ljubljana's Board of Directors and Rules of procedure regulating the work of the Executive Directors (General Management) of SKB Banka d.d. Ljubljana;
- Adopted a training plan for the members of the Board of Directors for 2023,
- Discussed, reviewed and, based on the positive opinion of the independent external auditor Ernst&Young Svetovanje d.o.o., passed the Annual Report on SKB Group's operations for 2022 and the Internal Audit Report for 2022,
- Was informed on the MREL decision for SKB Bank as non-resolution entity subsidiary,
- Discussed periodical reports on operations and on implementation of business policy in 2023, whereby 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 (special attention to RWA), cost management, as well as to strengthening of the position of SKB Bank and the SKB Group in the Slovenian banking sector,
- Was informed about 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 regularly informed of the work, discussion and proposals of the Audit Committee, Risks Committee, Remuneration Committee and Nomination Committee,
- Was regularly informed on information regarding risks linked with the Russian invasion of Ukraine and different international sanctions,
- 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,
- Discussed the report on ICAAP and ILAAP of the SKB Group in 2022 and agreed with the risk assessment regarding 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 the SKB Group regarding the risk appetite and regularly monitored its implementation and 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 2022,
- Discussed the report on compliance of operations for 2022 and annual plan for 2023,

- Regularly discussed all letters, decisions, orders, decrees, recommendations and information of supervisory institutions or regulators (Bank of Slovenia, Securities Market Agency, Financial Administration of the Republic of Slovenia),
- Discussed and passed the SKB Group's operational plan and financial budget for 2023 and guidelines for the period 2024 - 2025,
- Discussed the regular periodical reports of the Internal Audit Department,
- Was informed about the activities of preparation of the Audit Plan for the year 2023, which are in line with the OTP IAD group timeline, taking into consideration that the Audit Plan 2024 shall be discussed and confirmed at the first session of the Audit Committee and Board of Directors in 2024,
- Discussed reports on regular and extraordinary audits of individual units of the Bank and took note of key findings and recommendations from the performed audits,
- Was regularly informed about the implementation of the action plan within the framework of the project related to the inspection of the Bank of Slovenia in the area of information and communication technology risks (project BOSITR),
- Was regularly informed about the implementation of the action plan in the area of prevention of money laundering and financing of terrorism by the Bank of Slovenia, (AMLBOS project) related to the Bank of Slovenia's inspection and about the goals and ongoing tasks of newly established project in the same area (EMONA project),
- Approved the proposal to apply for a permission to include interim profits in the Common Equity Tier 1 capital,
- Confirmed credit limits for SKB d.d. towards subsidiaries SKB Leasing and SKB Leasing Select,
- Confirmed credit limits for SKB d.d. towards other OTP Group members / subsidiaries,
- Was acquainted with the SKB Group recovery plan,
- Was acquainted with the ESG strategic guidelines of the SKB Group and regularly followed the progress in this area,
- Was acquainted with the Rules for the performance measurement and assessment system for the SKB Group,
- Was acquainted with the personal scope for 2022 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 institution),
- Was acquainted with and adopted the updated Remuneration policy of the SKB Group,
- Approved the Key performance indicators (KPI) library for 2023,
- Was informed about the ongoing process of OTP regarding NKBM Bank acquisition at the beginning of 2023 and was regularly informed about the progress later during the year, when the merger process between two banks started (Perun project),
- Was regularly / on half a year basis, informed on Signed Commitments by the General management, over 0,2 M EUR,
- Approved limits exceeding 10 % of regulatory capital (large exposure) and for each subsequent increase by 5 p.p.,
- Was informed on floods that devastated Slovenia in August 2023, and approved a donation in the total amount of 1 million EUR to the Firefighters Association of Slovenia and Mountain Rescue Association of Slovenia,
- Approved a retention bonus and project bonus for Perun project, following the proposal of the Remuneration Committee,
- Was informed on the Bank of Slovenia findings from the review of operations in the area of credit risk and prepared action plan to resolve open issues,
- Convocated four General Meetings of Shareholders and prepared the proposals,
- Acknowledged and approved all items that were presented to the General meeting of Shareholders,
- Approved the Christmas bonus for all employees under collective agreement,
- Confirmed the Corporate Collective Agreement for SKB,
- Got acquainted with all other information as submitted, and
- Was also informed that SKB Bank had received The Banker magazine's award for the Best bank of the year in Slovenia in 2023 for the twelfth time.

In year 2023, SKB was strongly involved in the integration process with NKBM, preparing all necessary activities for smooth integration, which is planned for 2024.

The business environment in 2023 changed drastically compared to the previous years due to a series of reasons: the continuation of supply chain issues and other challenges related to the Russian invasion of Ukraine, Israel-Hamas war, energy crisis, inflation, rising EURIBOR and more expensive loans, lack of professional staff at the market, strong competition, limited demand from clients, etc. Faced with new challenges and constantly changing environment, SKB constantly adapted and complied with all the measures taken and tried to be competitive on the market.

During 2023 many activities related to the project Perun – merger of SKB and NKBM, were launched or executed, thus engaging a lot of employees who were part of the project and at the same time needed to perform daily business.

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, focus on clients, diligent control over operating costs and risks enabled the SKB Group to achieve very good business result in 2023.

During this period, the Bank's General Management 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 the Bank's operations, 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 Meetings of Shareholders of the Bank, the Board of Directors discussed all the materials and gave its consent for all the proposed resolutions that had been submitted to the shareholders for deciding at the 39th, 40th, 41st and 42nd General Meeting of Shareholders of SKB Banka d.d. Ljubljana, held on 7 February 2023, 31 March 2023, 28 June 2023 and 28 September 2023.

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

The SKB Group pays a lot of attention to stability, expertise, constant development, sustainability, connection among colleagues, 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 and experience in various areas of operations, in finance or in banking operations in particular, as well as the know-how related to operations and they perform their work diligently, professionally and in compliance with the highest ethical standards.

The Board of Directors estimates that cooperation with the Bank's General Management was carried out on a highly professional level and was constantly focused on a common goal - successful and secure operations of the Bank and SKB Group in the strained economic conditions, which is reflected in very good business results of the Bank and SKB Group as a whole. The Board of Directors congratulates the Bank's General Management and all its employees for the results achieved in 2023.

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 the SKB Group for their loyalty, and the shareholder for its strategic orientation and support.



Anna Florova Mitkova
President of the Board of Directors

Report of the Audit Committee in 2023

The responsibilities of the Audit Committee are above all the following:

- Monitoring the financial reporting process,
- Monitoring the internal controls system, permanent control system, internal audit and the risk management systems in the Bank,
- 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,
- Examining and verifying the preparation of the accounting policy,
- Examining and verifying the process of preparing the financial reports, the annual and the consolidated annual audit reports, and the required supplementary reports of the auditors,
- Proposing to the Board of Directors the appointment of a candidate for auditing the Bank's Annual Report,
- Supervising 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,
- Cooperating in defining the important segments to be audited,
- Cooperating in preparation of the agreement between the auditor and the Bank,
- Cooperating 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,
- Approving contracts concluded with the Auditor concerning non-forbidden, non-audit services,
- Other tasks defined by the Statute or by resolutions adopted by the Board of Directors.

The Audit Committee worked within the frame of the Board of Directors and assembled in 2023 at six (6) regular sessions.

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

At its sessions in 2023 the Audit Committee above all:

- Discussed the report on the SKB Group's operations in 2022 (Annual report) with enclosures and conducted an in-depth discussion in this respect with representatives of the external auditor Ernst & Young d.o.o.,
- Discussed the report of the external auditor to the General Management and to the Board of Directors together with the letter addressed to the Bank's General Management by the auditor as well as the Statement on the internal governance arrangements in the Bank (without the presence of the General Management),
- Discussed the report on the work of the Audit Committee in the year 2022, and plan of work for the year 2023,
- Discussed draft report on the work of the Internal Audit in the year 2022,
- Approved the regular annual Audit plan for 2023 and received information on the Strategic Plan 2023-2027,
- Discussed the executed and planned outsourced reviews of external outsourced activities within the initiatives taken by the Bank Association of Slovenia, Committee of Internal Auditors,
- Reviewed the report on relations with members of the OTP Group for the financial year 2022,
- Reviewed the proposal to apply for a permission to include interim profits in Common Equity Tier 1 capital for 2023,
- Was informed about other services to be provided by external auditor Ernst & Young d.o.o.,
- Regularly discussed periodic reports of the Internal Audit regarding their work, including reports on follow up of the 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), IT security, security mechanisms for persons and equipment of the Bank, the Bank's business continuity management (BCM) and crisis management; special attention was given to cyber security and established preventive measures,
- Regularly discussed and paid special attention to compliance and prevention of money laundering and financing of terrorism,
- Regularly discussed reports on performing different types of controls,
- Regularly discussed tax risks and also major legal risks, introduction of new products, operations with critical outsourced services (COS), risks related to human resources and other topics,
- Regularly discussed the information and requests received from the Financial Administration of the Republic of Slovenia (FURS),
- Regularly discussed in details the implementation of regulatory recommendations within the projects addressing the Bank of Slovenia findings from the inspection of Anti money laundering area (AMLBOS project, later EMONA project) and Information and communication technology risks (BOSITR project),

- Was informed about the management of risks associated with floods that devastated Slovenia in August 2023,
- Reviewed regular reports on the exposure of employees of the SKB Group,
- Discussed with the external auditors Ernst & Young regarding the Audited Annual Report for the SKB Group for the financial year 2023 and took note of the audit plan and the audit strategy for the review of financial statements,
- Took note of various reportings 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 Bank's exposure to various risks, with its activities in monitoring the management of these risks and with regular monitoring of implementation of recommendations of the Bank's Internal Audit and recommendations from the Bank of Slovenia, the Audit Committee significantly contributed to the efficient work of the Board of Directors.



Draga Cukjati
President of the Audit Committee

Report of the Risk Committee in 2023

The Risk 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,
- Monitors the implementation of the capital adequacy strategy and liquidity strategy as well as other inherent risks to the Bank (credit risk, operational risk, market risk, etc.),
- Without the intervention in the Remuneration Committee's tasks, quarterly examines and informs the Board of Directors whether it is assured that in the stimulations provided by remuneration system, the following issues are addressed: risk, capital, liquidity, probability and time scheme of the Bank's incomes are considered, with the intent to form deliberate remuneration policies and practices,
- Examines and informs the Board of Directors on quarterly basis whether the Bank products' prices are completely compatible with the business model and the Bank's risk management strategy and in case of the established discrepancies forms a proposal of measures in order to eliminate the discrepancies and present the proposal to the Management and Board of Directors,
- Evaluates and informs the Board of Directors on a quarterly basis about the ESG risks and the appropriate responses to these risks,
- Supports the Board of Directors in cases they are planning to hire external experts,
- Evaluates the scenarios to be used for tests regarding the impact of external and internal events on the prevalent risks,
- Formulates and initiates the necessary measures relating to risk management based on the findings and the recommendations of the internal and the external auditors as well as monitoring the implementation of the required corrective actions,
- As to the counterparty risks, the Risk Committee reviews the following:
 - the content of and changes to the credit portfolio per type of facility and debtor,
 - the key indicators (cost of risk, NPL, default ratios, recovery performance, etc.),
 - changes to the quality of commitments: sensitive, irregular, non-performing files,
 - compliance with the conditional authorizations issued by the parent company,
 - adequacy of the level of provision for the risks incurred,
 - the efficiency of debt collection,
 - changes in credit policy,
 - review of risk management.

The Risk Committee, comprised of three members, is a Committee of the Board of Directors, which met on five (5) regular sessions in 2023.

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 their behalf at the Committee's session. At some sessions other members of the Board of Directors were also present, which contributed to even better acknowledgment of the implementation of the risk policy at SKB.

At its sessions the Risks Committee discussed above all:

- Operational lending limits for different client segments,
- Report on the work of the Risks Committee in 2022,
- Work plan of the Risks Committee in 2023,
- Periodic reports on credit risk, with emphasis on the macroeconomic situation and the Bank's exposure to various risks and risk management,
- Reports on large exposure of the Bank towards individual clients, groups of clients or sectors, and proposals of the Bank's 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,
- Report on Risk Control Function,
- Risks & financial impact associated with the Act on the Limitation and Allocation of Currency Risk Between Creditors and Borrowers of Loans Denominated in Swiss Francs,
- Risks related to devastating floods in Slovenia in August 2023,
- Preparation and follow-up on Risk Appetite Framework and Risk Appetite Statement at the SKB Group,
- Review of structural risks,
- 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.

Through its work and regular reports to the Board of Directors, the Risks Committee significantly contributed to the efficient work of the Board of Directors.



Atilla Kovacs
President of the Risks Committee

Report of the Remuneration Committee in 2023

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,
- Provides advice to the Board of Directors for preparing and revising the remuneration policy of the Bank as well as for monitoring the remuneration system, considering the remuneration policy of the OTP Bank Group and applicable legislation,
- 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 remuneration of senior management performing the risk management function, compliance function and internal audit 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 at seven (7) sessions in 2023 of which two (2) were correspondence sessions. The quorum was met at all sessions; in case of absence of a member, another member was authorized to vote and decide on their behalf. 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 2023, the Remuneration Committee discussed the following:

- Report on the work of the Remuneration Committee in 2022,
- Work plan of the Remuneration Committee for 2023,
- The SKB Group's Remuneration policy,
- Information on the Internal Audit of the adequacy and practical application of the Remuneration System Rules,
- Confirmation of the annex to the Employment Contract for the CEO and Deputy CEO – adjustment to the inflation,
- Confirmation of monthly fees of members of the Board of Directors and members of its Committees,
- Confirmation of change in the amount of reimbursement of housing rental costs and utility costs for seconded employees,
- Employment Contract for the Chief Executive Officer (reappointment),
- Employment Contracts for new Executive officers,
- Remuneration of the new Deputy Chief Executive Officer,
- Confirmation of retention bonus and project bonus,
- Confirmation of personal scope for 2022,
- Confirmation of personal scope for 2023,
- Change in the remuneration of identified staff,
- Approval of the KPI library for 2023,
- Settlement of variable part of the remuneration for 2022,
- Rules of performance measurement and assessment system,
- Christmas bonus for employees under Collective agreement in 2023.

In its professional work, the Remuneration Committee focused mainly on the implementation of all legal obligations of the Bank in the area 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 the SKB Group. All this has a positive impact on stable and secure operations of the Bank and SKB Group. The Committee paid additional attention to the activities related to the Perun project – the integration with Nova KBM.



Imre Bertalan
President of the Remuneration Committee

Report of the Nomination Committee in 2023

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

- Defines and recommends candidates for the positions of 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,
- Reviews the absence of any external influence on the decisions of the Board of Directors on a regular basis,
- 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 potential 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, it 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 2023, the Nomination Committee, with three (3) members, had two (2) sessions where all the Committee members were present; in case of absence of a member, another was authorized to vote and decide on their behalf and at which they discussed:

- report on the work of the Nomination Committee in 2022,
- work plan of the Nomination Committee in 2023,
- 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 the Rules of SKB banka d.d. Ljubljana on assessment of suitability of members of the Board of Directors,
- appraisal of the proposed candidates for the new members of the Board of Directors of SKB and for performance of the function of Executive Director of SKB, in line with the Rules of SKB banka d.d. Ljubljana on assessment of suitability of members of the Board of Directors,
- reassessment of the suitability of 4 members of the Board of Directors, whose mandates expired in mid-December 2023,
- training plan for the year 2023 for the 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.

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. 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, 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, the Bank's strategy 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 organisation, 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.



Imre Bertalan
President of the Nomination Committee

The Board of Directors' view on the Report on the SKB Group Operations

In January 2024, the Board of Directors received the draft report on the work of the Board of Directors and its Committees in 2023. 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 43rd session, held on 30 January 2024 and approved them.

On 5 March 2024 the General Management of SKB d.d. submitted to the Board of Directors, for preliminary consideration, the Annual Report on operations of the SKB Bank and SKB Group in 2023.

The report on operations in 2023 shows that both the SKB Group and SKB Bank performed very well. The SKB Group thus reports a net profit of 76,532,507.06 EUR and SKB Bank a net profit of 82,873,142.80 EUR, whereby the distributable net profit of SKB Bank amounts to 369,047,590.10 EUR.

The report on operations of SKB d.d. and the SKB Group in 2023 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 7 March 2024, the General Management of SKB d.d. submitted proposal to the members of the Board of Directors to adopt the audited Annual Report of the SKB Group for 2023.

In the period between the submission of the 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 of 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 Annual Report positively.

At its 44th regular session held on 11 March 2024, 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 the SKB Group shows comprehensive contents of operations of SKB Bank and SKB Group in 2023 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 Bank's General Management and Board of Directors met all the legal requirements in the Annual Report for 2023 and it has thus adopted the Annual Report of the SKB Group for 2023.

The Board of Directors also examined the proposal of the SKB Bank's General Management for distribution of distributable net profit for which the final decision will be made by the shareholders at 43rd session of the General Meeting of Shareholders that will be held on 18 March 2024. Distributable net profit for the year 2023 amounts to 369,047,590.10 EUR, with a net profit for the year 2023 in amount of 82,873,142.80 EUR. An amount of EUR 31,117,032.00 is used to pay dividends, while an amount of EUR 51,756,110.80 is transferred to retained earnings. The Board of Directors fully agrees with the proposal of the General Management and proposes to the General Meeting of Shareholders to approve this proposal.

The Board of Directors establishes that in 2023 the economic situation was strained and complex due to quick changes in business conditions - the supply chain issues, issues regarding the energy supply and prices, impacts of the Russian invasion of Ukraine and the Israel-Hamas war, etc. Sanctions that were introduced were frequently updated which caused additional work and several controls across the banking sector. The liquidity in the Bank, as well as in the entire banking system, was still high. Other factors also contributed to the complexity of business environment, such as growing inflation, rising EURIBOR, interest rates were increasing, consumption and investments became more limited, unemployment rate was very low and it was difficult to find and employ people with adequate knowledge, especially for some deficient profiles. The global economic situation and environment became more unpredictable. Strong competition among the banks continued.

At SKB, we launched several activities related to the expected integration with NKBM.

In 2023, the SKB Group has therefore intensified its activities even more, leading to restructuring and optimization of operational processes, digitalization, different trainings, 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.

Prompt response to the mentioned conditions in the economy and on the market as well as prudent management of the Bank's operational costs in 2023 have led to good business result. The main contributors to the Bank's sound performance in 2023 were above all 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 the SKB Group operated successfully and proved that its business model was adequate also for stable operations in the toughest economic circumstances in the last few years. Such working method and the achieved results prove that the Bank is on the right way in its development, that it is capable to ensure safe banking operations and is capable of facing the challenges lying ahead.

The Board of Directors estimates that the cooperation with the Bank's General Management was performed on a high professional level and permanently focused on the common goal - successful and secure operations of the Bank which was reflected in strong performance of the SKB Group.

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

We would like to thank also to all of the SKB's clients for their loyal business cooperation as well as to the shareholder for their adequate strategic orientation and support.

A handwritten signature in blue ink, appearing to read 'Anna Mitkova Florova', with a stylized flourish at the end.

Anna Mitkova Florova
President of the Board of Directors

Who we are

SKB Bank is strong and reliable financial partner, supporting personal and business finances.

Vision

Become always present, but invisible financial partner who addresses client's needs and enable best user experience on the market.



Mission

Customer first, digital first.

We are determined to provide simple, convenient and accessible finances with the best advice and multichannel support.



Brand values

- Team spirit
- Innovation
- Responsibility
- Commitment
- Sustainability



Brand personality

Caring and stable partner.



IV. SKB Group Strategy

The strategy of the SKB Group is focused on well-being of everything and everyone affected by our actions. We are committed to creating value for all stakeholders, through responsible business management, with committed teams and their talent, that exceeds customer's expectations, generating long-term value for our shareholder and supporting their communities in which we operate. By acting with purpose and focus on achieving the goals, through overcoming challenges and leveraging on opportunities, we empower each employee of the SKB Group to achieve even more.

Our strategy has three strategic pillars: customer focus and experience, operational excellence and allocation, and sustainability. These are our guiding principles in acting with purpose.



1. Customer focus & experience

Customers are the center of our world and we are available to them anytime and anywhere in an easy and fast digital way.

Our aspiration and focus

Our aspiration is to provide the best customer experience in every situation, with personalized solutions. Our segment-based value proposition and service as well as customer-focused processes and service development, enable us to support our clients in every important financial moment.

Our focus is to provide fast and stable services across all channels and to develop of core operational processes with digitalization. We accelerate profitable growth by increasingly digital banking daily experience.

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Following development dynamics, trends and changes in banking

For several years, banking has been affected by constant changes, the dynamics of development and growth, and by diverse clients' needs. We are aware of the responsibility that we, as a banking group, have – to be always and everywhere available for our clients, in an easy and fast way. Our strategy of constant development is thus focused on accepting new challenges and ensuring that we offer our clients the latest solutions and follow trends, but at the same time ensure a high level of security.

Digitalization as a response to the bank of future

At the SKB Group, we continue to develop and upgrade digital channels. We carry out the development in accordance with laws, regulations and directives, and we also place great emphasis on the security aspect of digital business.

Our ambition is to offer clients the best digital solutions on the market and to be a role model as a banking group, with high quality and innovative products and services, which in addition to its sound operations and strengthening its profits also cares about the environment in which it operates. We provide our clients with high level of security and discretion in the management of personal and corporate finances, as well as constant availability of all 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

The SKB Group's balanced business model means finding and operating synergies among all the Group's entities: SKB Bank, SKB Leasing and SKB Leasing Select, as well as selected insurance companies and other business partners. Through a wide range of banking, leasing and insurance products and services of the SKB Group, we can meet all the financing and investment needs of our clients. For each segment of our clients, we have customized sales approaches and 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.

Profitable growth

A client-centric approach places clients at the heart of our world. We want to bring our solutions and opportunities closer to the clients and for many different financial situations – from everyday banking needs to investment advisory services. The development of digital technologies that will enable the growth of clients and our 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.

Quality of service comes first

Clients recognize us as a stable and trustworthy brand, which is to a large extent a result of our diverse range of products and services, based on providing quality to our clients. At the same time, we are aware of the importance of professionalism and advisory to clients, provided by our employees. Despite always available digital channels and growing volume of remote operations, our clients can also meet highly qualified, professional and responsive employees in SKB branches throughout Slovenia, who always try to find the best financial solution and opportunity for each client.

2. Operational excellence & allocation

We provide comprehensive and diverse banking and leasing services and constantly digitally improve our business processes.

Our goal is to operate cost-efficiently, with optimized processes and channel usage, allocating resources where they are needed.

Operational Excellence

Operational excellence ensures effective and efficient processes that improve productivity and enable us to deliver high-quality services. Operational excellence leads not only to a better customer experience, but also improves productivity and drives cost basis ratio below industry average.

The SKB Group is a development-oriented universal group that provides comprehensive and diverse banking and leasing services, through various sales channels – online and mobile banking, a network of the most advanced ATMs in the country, payment and credit cards. The Group'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 digitalization of traditional banking, the SKB Group has responded to the rapidly changing banking environment and the growing needs of clients by improving its digital and other 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 conduct the following:

- Establish business relationship with a client and open accounts for individuals,
- Implement KYC knowledge and regular client reviews,
- Introduce procedure for granting retail loans and loans to micro and small enterprises.

The SKB Group works on development projects according to an agile methodology, which will enable efficient and 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 banking group of the future. We will thus offer modern services to clients looking for simple, fast and high-quality products.

Allocation

An integral part of our strategy is to allocate capital, investments, talent and management attention only where it really matters. Allocation decisions are in line with our vision. We are determined to go after any business opportunity, always having an eye on the downside, understanding the risk/reward trade-offs, recognizing our important role in the financial stability.

Strategic management of resources

- Capital: Capital is allocated to businesses in a way that optimizes the long-term value of the Group, while serving the Group's strategic objectives. In the capital allocation process, both risk-based and non risk-based return parameters are considered, taking into account economic and regulatory capital requirements. This process ensures that the Group meets its return targets, while maintaining a moderate risk profile in line with its risk appetite.
- Capital expenditures: we seek for any new business opportunities which will enable us to improve our product offering, customer experience and efficiency.
- Talent: we define talent requirements for the most important value-creating roles. We ensure dynamic match of roles with people with the right skills.
- Management's attention: we keep our focus where it really matters, not only for us, but also for all of our stakeholders.

3. Sustainability

We are a responsible provider of financial solutions, which is why we are committed to reducing environmental risks and creating a diverse workforce to create a fair society.

Sustainability is our main focus

Our focus is on contributing to the mitigation of climate change, acceleration of circular business practices and creation of positive social impact.

We recognize our responsibility towards society to define new ways of doing business that align economic growth with positive environmental and social impact. We create an inspiring and likeable workplace and community based on our values and we bring in new talents, aiming at creating more inclusive working environment and ensuring gender diversity.

We act responsibly

As a responsible provider of financial services, we are introducing green solutions aiming to foster green transition of our clients and thus also the economy. We offer products and services that facilitate the transition to increase investments in a sustainable economy. We adopt active ESG risk management practices in our activities.

As a responsible employer, we adopt active ESG management practices in our governance model and activities and have taken the commitment to strengthen employee's well-being and development, inclusion, diversity and employee engagement.

As a responsible member of the society, we set ambitious environmental goals in terms of our own operations, including the reduction of our own emissions. We take active steps to remain and improve our position as responsible actor in the society through products and services which we responsibly offer to our clients, support in any kind of finances we deliver to the society, by being a sponsor, donator or any other kind of supporter.

Our ESG governance

We have introduced our ESG governance and when situations require we will adapt to the needs of efficient business decisions, risk management and credit approval processes, and other management and monitoring activities. We are working towards fully integrating sustainability mindset both in our daily operations and when making business decisions, backed by strong executive commitment.

We are committed to reducing environmental risks wherever we are involved, to helping our clients in their transition of business models into long-term sustainable ones and to contributing to the financial and social improvement of our local communities through socially and environmentally responsible operations, fostering social inclusion, and financial education.

Gender and cultural diversity

We are committed to creating a diverse workforce. We strongly believe that diversity enables better decision-making processes and brings us closer to our clients. We work to improve diversity and inclusion within the SKB Group ensuring that our people feel confident and proud of their employer.



Stability

Due to tradition and capital adequacy, we achieve excellent business results.

We lead a balanced business policy and prudently manage risks.



V. Business Report

1. Economic Trends in the Year 2023⁹

The economic developments in Slovenia and the euro area in 2023 have been marked by the challenges associated with high inflation, a deterioration in export competitiveness and uncertainty in the domestic and geopolitical environments. The aforementioned factors influenced a significant decrease in foreign trade and the cooling of domestic consumption, which, after a strong post-pandemic recovery, led to a slowdown of GDP growth in 2023 in Slovenia to an estimated 1.6 %.

Due to the contraction of world trade and the economic cooling of the main trading partners, foreign demand for Slovenian products and services stagnated in 2023. Exports thus declined by 2.0 %, with a significant contribution from the weakening price competitiveness of our exporters. Nevertheless, the contribution of foreign trade to GDP growth in 2023 remained positive, as the -5.1 percent decline in imports, due to a simultaneous decline in inventories and private consumption, was even stronger than the decline in exports.

With increased uncertainty, price pressures, tighter loan conditions and caution in spending on non-essential goods and services, growth in private consumption began to slow down visibly in 2023. After a 3.6-percent increase in 2022, growth in private consumption reached 1.3 % in 2023. The growth in government consumption was 2.4 %, higher than in the previous year. Thee growth was significantly influenced by the increase in employment, the strengthening of expenditure in healthcare and the increase of expenditure on goods and services related to reconstruction following the floods in the second half of the year.

Investment activity was relatively strong in 2023 (9.5 % growth), mainly due to an increase in investment in buildings and structures, partly driven by higher public investment. Growth in construction activity increased and was also partly influenced by the reconstruction following the August floods. However, under the influence of slowdown in growth and increased uncertainty in the international economic environment, as well as higher interest rates, investment in equipment and machinery declined.

In 2023, the number of unemployed continued to decline. The survey unemployment rate in 2023 was the lowest on record. The shortage of human resources has recently also been reflected in the large contribution of the recruitment of foreign workers to overall employment growth, which exceeded 90 % in June 2023. The number of registered unemployed at the end of 2023 fell below 50 thousand people for the first time, a decrease of 9.1 % compared to the end of 2022. The estimated real unemployment rate according to the ILO was 3.7 %.

The real growth of the average gross salary in 2023 was modest in a high inflation environment, while nominal growth of the average salary is visibly strengthening as compared to the mid-year of 2022. The strengthening of growth in the private sector was influenced by rising labour market pressures due to labour shortages, the increase in the minimum wage and the tendency of employees to maintain income growth in a high inflation environment. In the public sector, the agreement with the public sector unions in October 2022 had an impact on strengthening growth after an otherwise sharp decline due to the impact of the elimination of COVID-19 allowances in the first half of 2022. Nominal growth of the average gross salary was 9.7 % in 2023, but due to increased inflation, it was modest in real terms (2.1 %).

In 2023, annual inflation amounted to 4.2 %, while the average annual price growth was 7.4 %. The prices of services were on average higher by 6.0 % and the prices of goods by 3.3 %. Daily consumption goods rose in price by 4.5 % and semi-durable goods by 2.1 %, while prices of durable goods went down by 0.3 %. Higher prices of food and non-alcoholic beverages (by 4.6 %) contributed the most to annual inflation, 0.8 percentage points. Price increases in the recreation and culture group (by 6.3 %) had an impact of 0.6 of a percentage point. Higher prices in the groups alcoholic beverages and tobacco (by 9.4 %), health (by 8.5 %), restaurants and hotels (by 7.9 %) and miscellaneous goods and services (by 6.2 %) each added 0.5 percentage points of impact.

The Bank of Slovenia estimates the government deficit at 3.7 % of GDP (2.3 billion EUR) and the consolidated government debt at 69.5 % of GDP (43.8 billion EUR) in 2023.

⁹Source: BoS (Review of macroeconomic developments and projections, December 2023), IMAD (Autumn forecast of economic trends 2023, September 2023; Spring forecast of economic trends 2024, February 2024); SORS (Consumer price indices, December 2023; Gross domestic product, 4th quarter 2023; Earnings of persons in paid employment by legal persons, December 2023); Employment Service of Slovenia (Monthly trends in registered unemployment, January 2024)

Important macroeconomic indicators for Slovenia for the period from 2021 to 2023

Real growth rates in %, unless otherwise indicated	2023	2022	2021
GDP**	1.6	2.5	8.2
GDP per capita in EUR**	29,753	27,040	24,803
Inflation (end of year)**	4.2	10.3	4.9
Final consumption**	1.3	3.6	10.3
Investments**	9.5	3.5	12.6
Unemployment rate (ILO)*	3.7	4.0	4.7
Export**	-2.0	7.2	14.5
Import**	-5.1	9.0	17.8
Gross wage per employee**	2.1	-5.6	4.1
Government deficit (% GDP)***	3.7	3.0	4.6
Government debt (% GDP)***	69.5	72.3	74.4

The following data for 2023 are estimates: survey unemployment rate, government deficit, government debt.

Source

* BoS

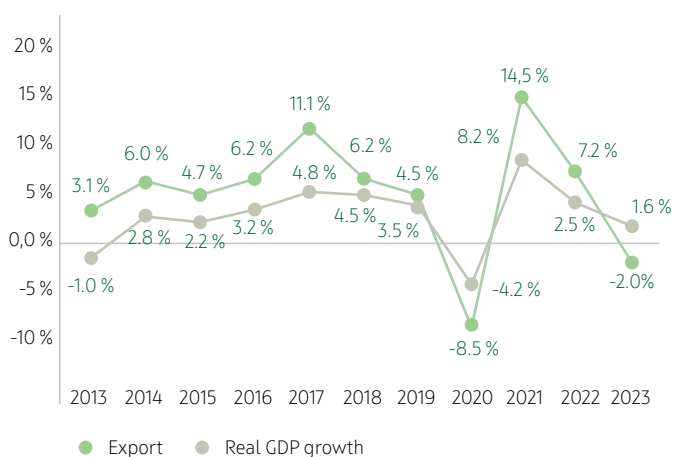
** SORS

*** BoS and SORS

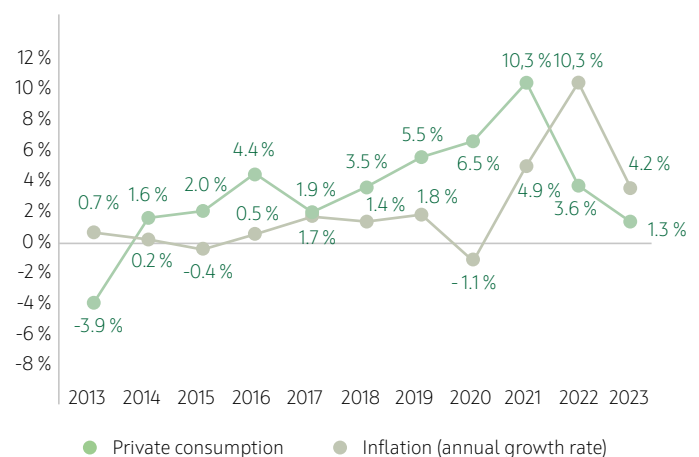
Based on preliminary data, the balance sheet total of the Slovenian banking system at the end of December 2023 amounted to 53.1 billion EUR (84.3 % of GDP), which is 2.5 billion EUR (5.0 %) higher compared to the end of the previous year. On the assets side, primary liquidity increased the most, as the funding obtained by banks via deposits and issued debt securities was not fully directed into lending and other investments, but instead remained in accounts at the central bank and placements with banks. Investments in securities also increased. Loans to customers declined in the face of higher interest rate levels, with lower loans to corporates being the main contributor to the decline. In the retail segment, consumer loans accounted for most of the increase in loan volumes, while housing loans remained almost flat. Current individuals lending through consumer loans continued to strengthen, in particular since early July, when the amended macroprudential restrictions on consumer lending entered into force. On the liabilities side, customer deposits and debt securities increased the most. The loan-to-deposit ratio declined to 65.6 % in 2023 from 69.3 % at the end of 2022.

Moderate growth in economic activity and the higher level of interest rates brought an additional improvement in the performance of the Slovenian banks in 2023. On the income side, net interest income increased significantly in 2023, driven by significantly higher market interest rates or by positive price effects from the increase in interest rates on assets. On the other hand, the adjustment of deposit interest rates has not been significant. Net non-interest income was lower than in the previous year due to the abolition of safekeeping fees on deposits. Banks' operating expenses increased mainly on account of higher labour and administrative costs. Operating profit more than doubled. In 2023, based on preliminary data, the banking system reports a net profit of 1,103 million EUR, which is 119.9 % higher than the previous year. Banks' profitability is well above the average of previous years, mainly due to the increase in market interest rates.

Decline in the growth of economic activity and export in 2023



Decline in the growth of private consumption due to relatively high inflation in 2023



¹⁰ Unaudited financial results.

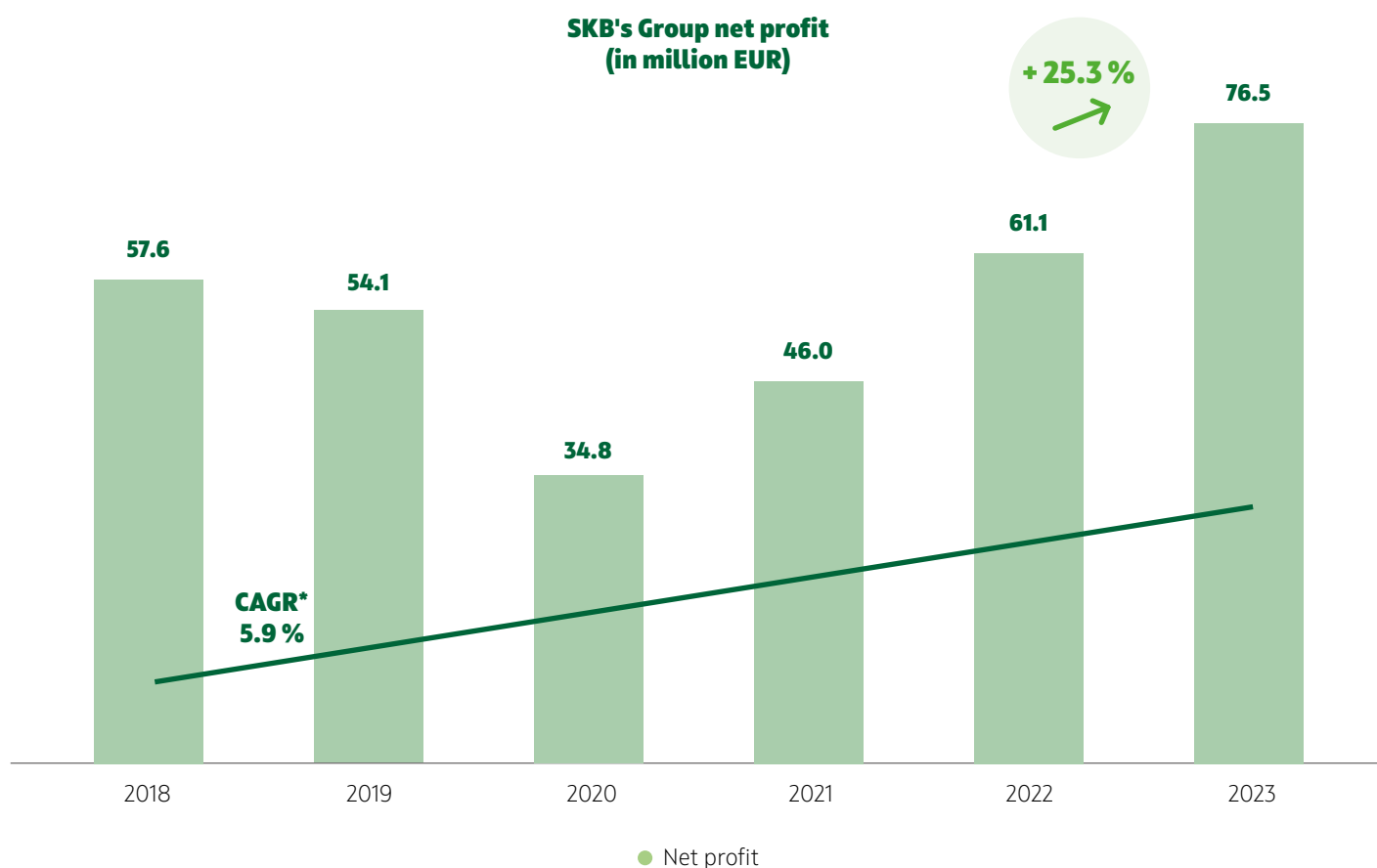
¹¹ Unaudited financial results.

2. Financial Review of the SKB Group

2.1. The SKB Group's Financial Results for 2023 under the Influence of Macroeconomic Developments (interest rate increases, high inflation, increase in energy price)

The SKB Group¹² reports strong performance in 2023 and it concluded the year with a net profit of 76.5 million EUR, which represents an increase of 15.5 million EUR compared to the previous year (+25.3 %).

	EUR 000	2023	2022	Change	Change (%)
Net interest income		139,723	85,161	54,562	64.1
Net non-interest income ¹³		42,280	46,218	(3,938)	-8.5
Net banking income¹⁴		182,003	131,379	50,624	38.5
Overhead expenses ¹⁵		(87,011)	(71,702)	(15,309)	21.4
Operating profit¹⁶		94,992	59,677	35,315	59.2
Provisions and impairments		(1,966)	15,873	(17,839)	-112.4
Other (including share of profit of subsidiaries - equity method)		336	55	281	510.9
Profit before tax		93,362	75,605	17,757	23.5
Tax		(16,829)	(14,547)	(2,282)	15.7
Net profit		76,533	61,058	15,475	25.3



*CAGR: Compound Annual Growth Rate

¹²SKB Bank and the companies SKB Leasing, SKB Leasing Select and Bankart are collectively referred to as the "SKB Group". Since the entry of Nova KBM into the OTP Group on 6 February 2023, the two banks have been acting in a coordinated manner in relation to the management of the Bankart investment. As a result, Bankart became an associate company and we reclassified the investment in Bankart from "Non-trading financial assets mandatorily at fair value through profit or loss" to "Investments in subsidiaries, associates and joint ventures."

¹³Net banking income reduced by Net interest income

¹⁴Financial and operating income and expenses

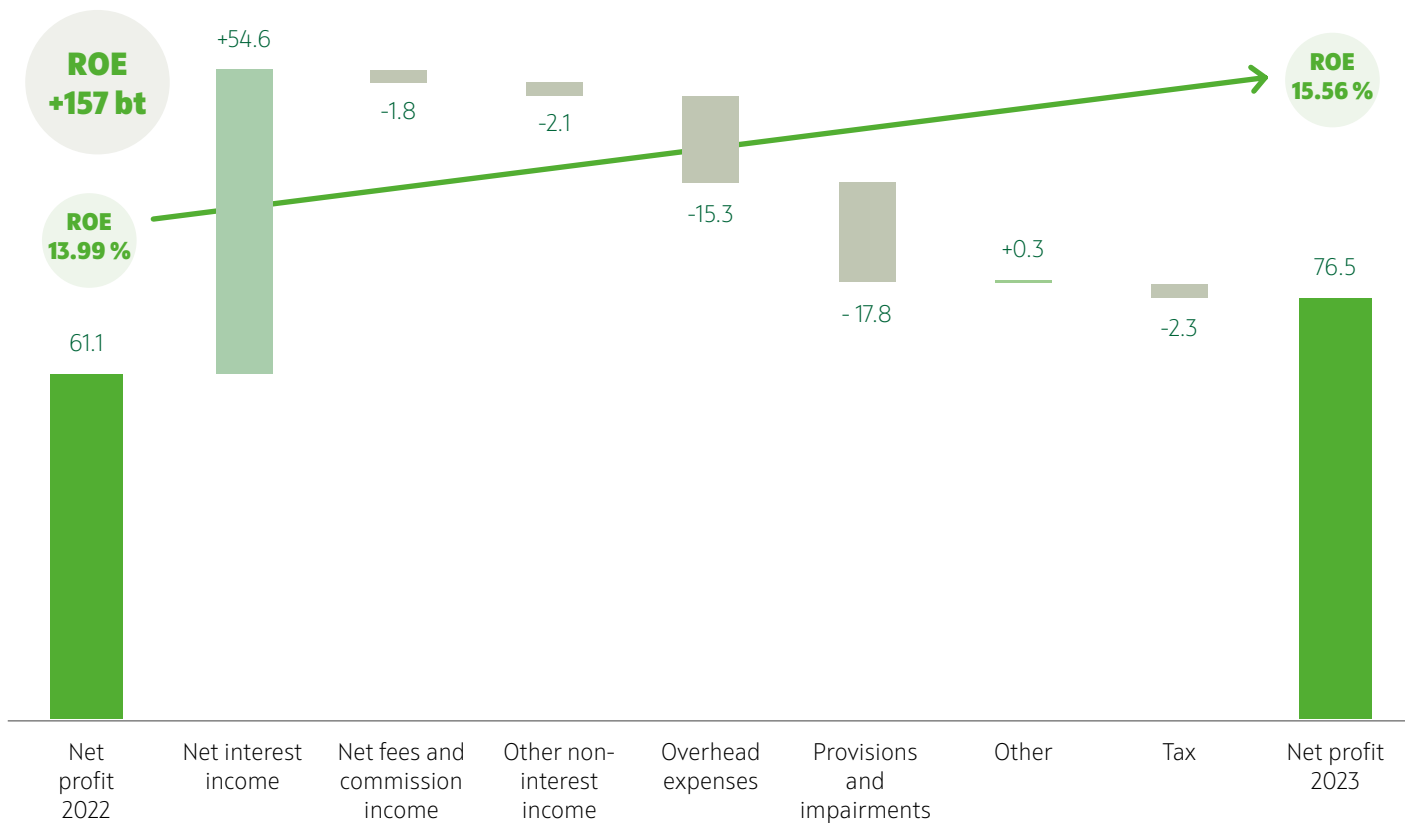
¹⁵Administrative expenses and Cash contributions to resolution funds and deposit guarantee schemes and Amortisation

¹⁶Financial and operating income and expenses reduced by Overhead expenses

¹⁷Modification gains or losses and Net gains/losses from investments in the capital of subsidiaries, associates and jointly controlled companies in the case of using the equity method

The generated net profit provides a 15.56 % return on equity, which is by 157 basis points higher as compared to 2022. The net profit was to a large extent influenced by high interest income as a result of favourable movements in market interest rates.

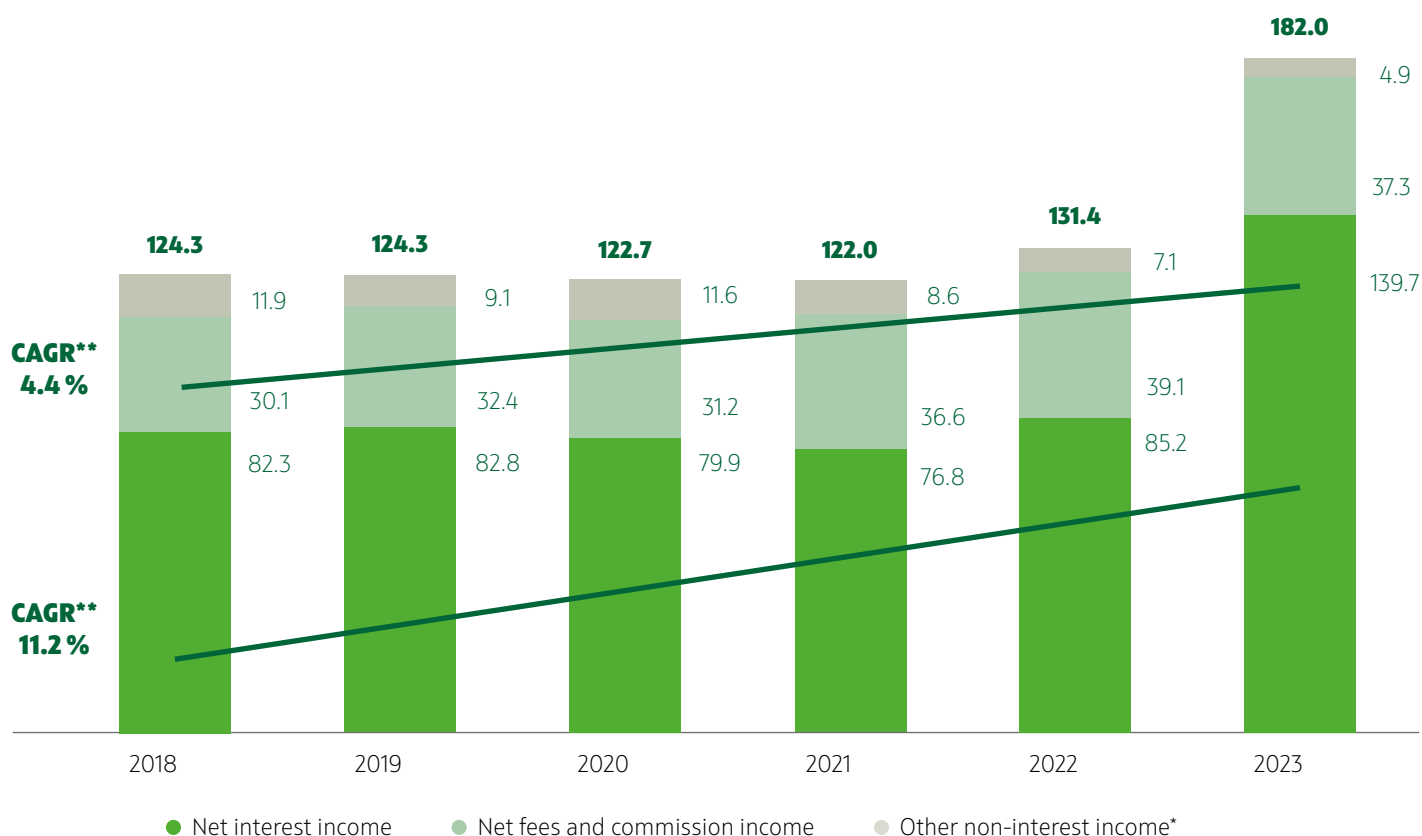
Impact of individual P&L items on SKB's Group net profit (in million EUR)



The Slovenian banking sector continues to remain highly liquid, with interest rates on excess liquidity in the interbank market gradually increasing over the course of 2023, reaching its peak at the end of the third quarter. Also, EURIBOR strengthened rapidly, pushing up the interest rates. In November 2023, its growth slowed down and a slight decline was detected until the end of the year. Financing the corporate segment remained fairly active in the first half of 2023, but started to slow down in the second half of the year. The private sector saw a reduction in demand for housing loans and an increase in demand for consumer loans. The volume of other banking services remained at a high level in 2023. The SKB Group generated higher interest income in 2023 than in the previous year. Due to the elimination of safekeeping fees on deposits in August 2022 and lower volumes of housing loans in 2023 non-interest income declined. On the other side, the SKB Group faced an increase in operating costs as a result of high inflation, expensive energy products and additional costs from the expected merger with Nova KBM within the OTP Group.

The SKB Group generated net banking income of 182 million EUR in 2023, representing an increase of 50.6 million EUR (38.5 %) compared to the previous year. The main contributor to the growth was net interest income, which increased by 54.6 million EUR (64.1 %), successfully offsetting a 3.9 million EUR decrease of non-interest income.

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



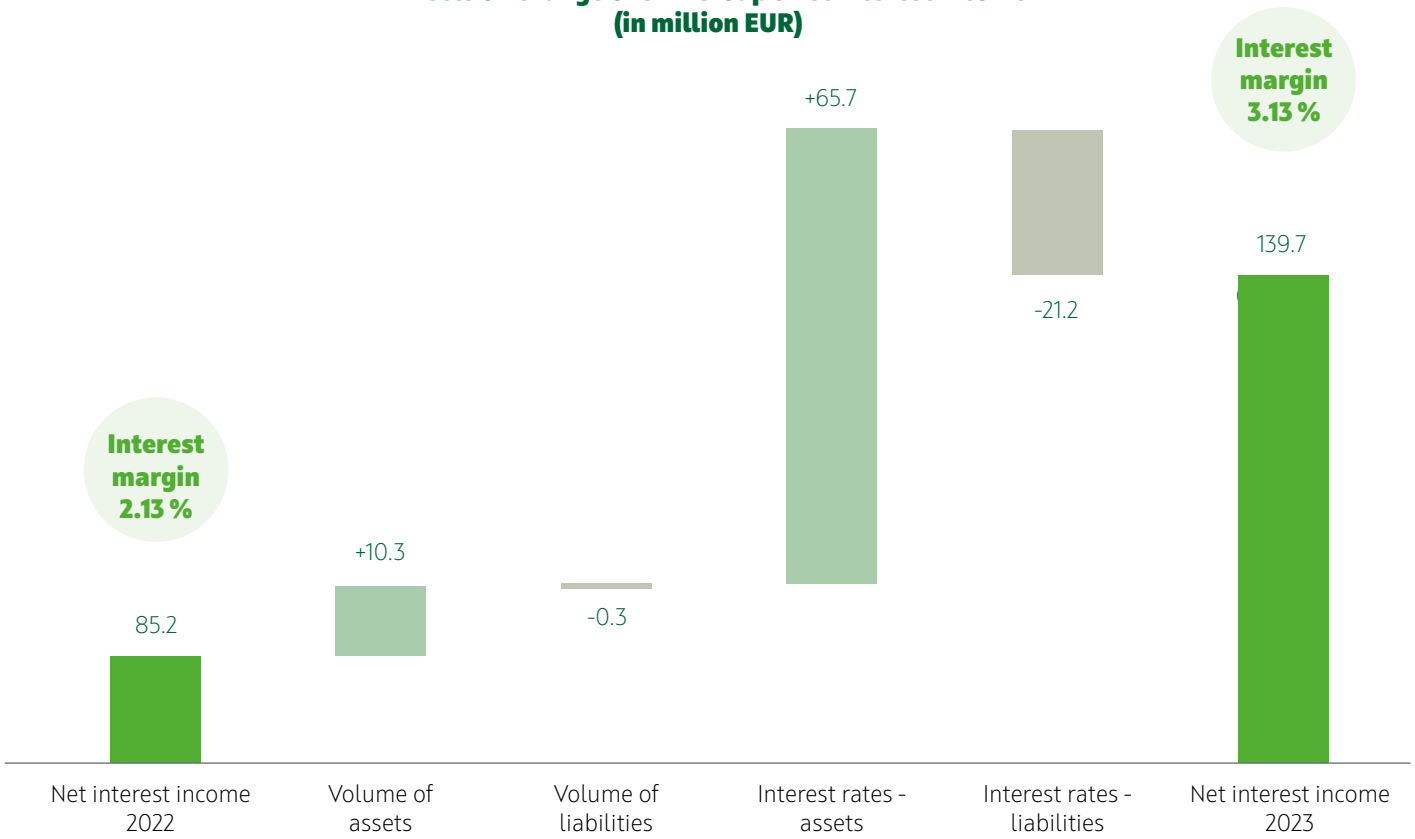
*Including extraordinary income from the sale of equity investments and loans measured at fair value.

**CAGR: Compound Annual Growth Rate.

Net interest income, which represents 77 % of net banking income (65 % in 2022), amounted to 139.7 million EUR in 2023. The rising EURIBOR was a key element in the growth of net interest. Positive EURIBOR and its growth since the end of the first half of 2022 has led to a rise in loan interest rates in all segments. Both floating and fixed interest rates on loans have been increasing. The rising EURIBOR also made funding sources, in particular interbank funding, which the SKB Group needs to meet the MREL¹⁸ regulation, more expensive. Customer deposits represented a stable lending base in 2023. At the same time, the SKB Group optimised its assets and funding sources by channelling a large part of its excess liquidity into short-term placements with the parent OTP Group, and the rest into overnight placements with the Bank of Slovenia. All of this had an impact on the SKB Group's interest margin, which increased by 100 basis points to 3.13 % in 2023. Compared to the Slovenian banking sector, the interest margin achieved by SKB Bank in 2023 is still above the average of the banking sector.

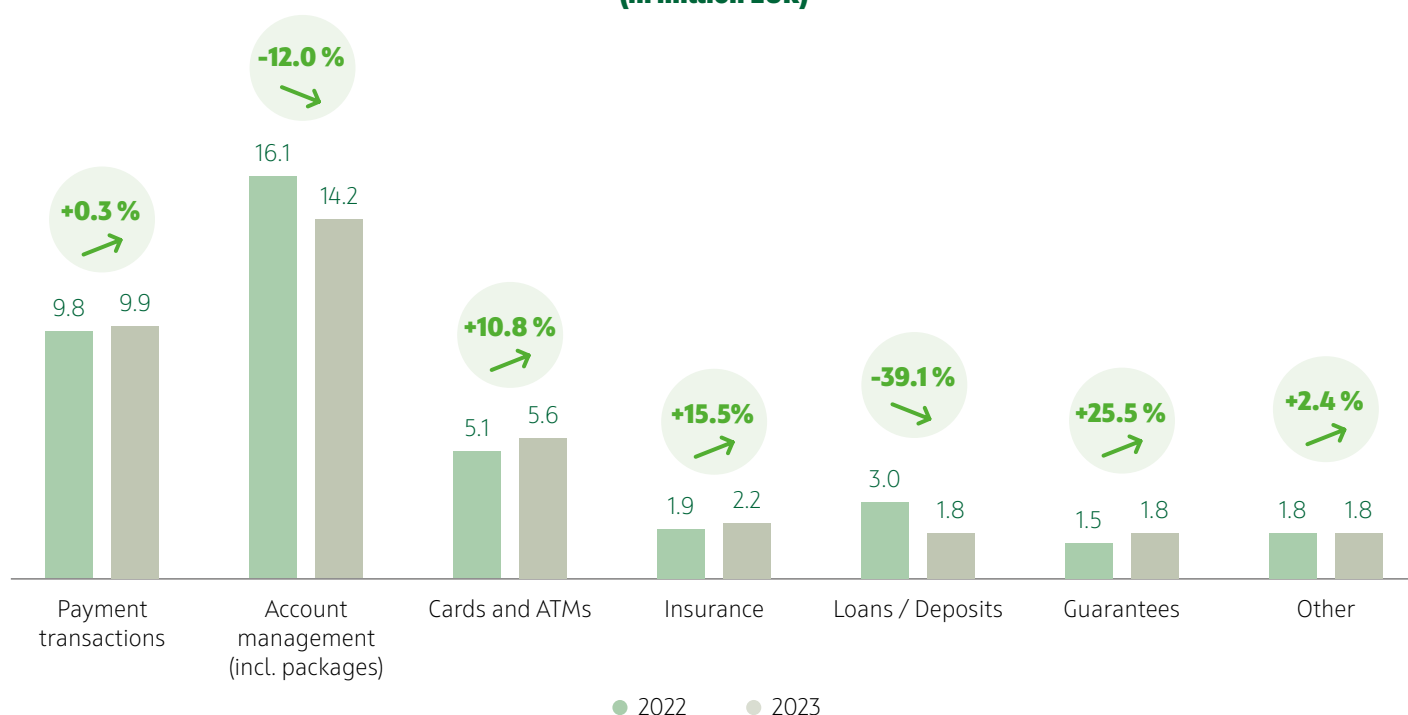
¹⁸ Minimum Requirement for Own Funds and Eligible Liabilities.

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



In order to further enhance customer satisfaction and accessibility to banking services, the SKB Group has upgraded some of its existing products and sales channels with new functionalities, expanded its offer and entered into new partnerships in 2023. A major focus has been on increasing the security of digital banking. Upgrade of the banking service Flik with the possibility to pay in e-commerce attracted new users. The SKB Group complemented its insurance offer with property insurance from Groupama. The Group was actively involved in equipping new merchants with POS terminals. It developed a specialised offer of green housing loans and a loan offer for victims of the August 2023 floods. With a favourable offer, the SKB Group guided customers' savings, especially households', to alternative savings in Amundi and Moorea funds and structured products. It also offered customers the possibility of subscribing to treasury bills of the Republic of Slovenia.

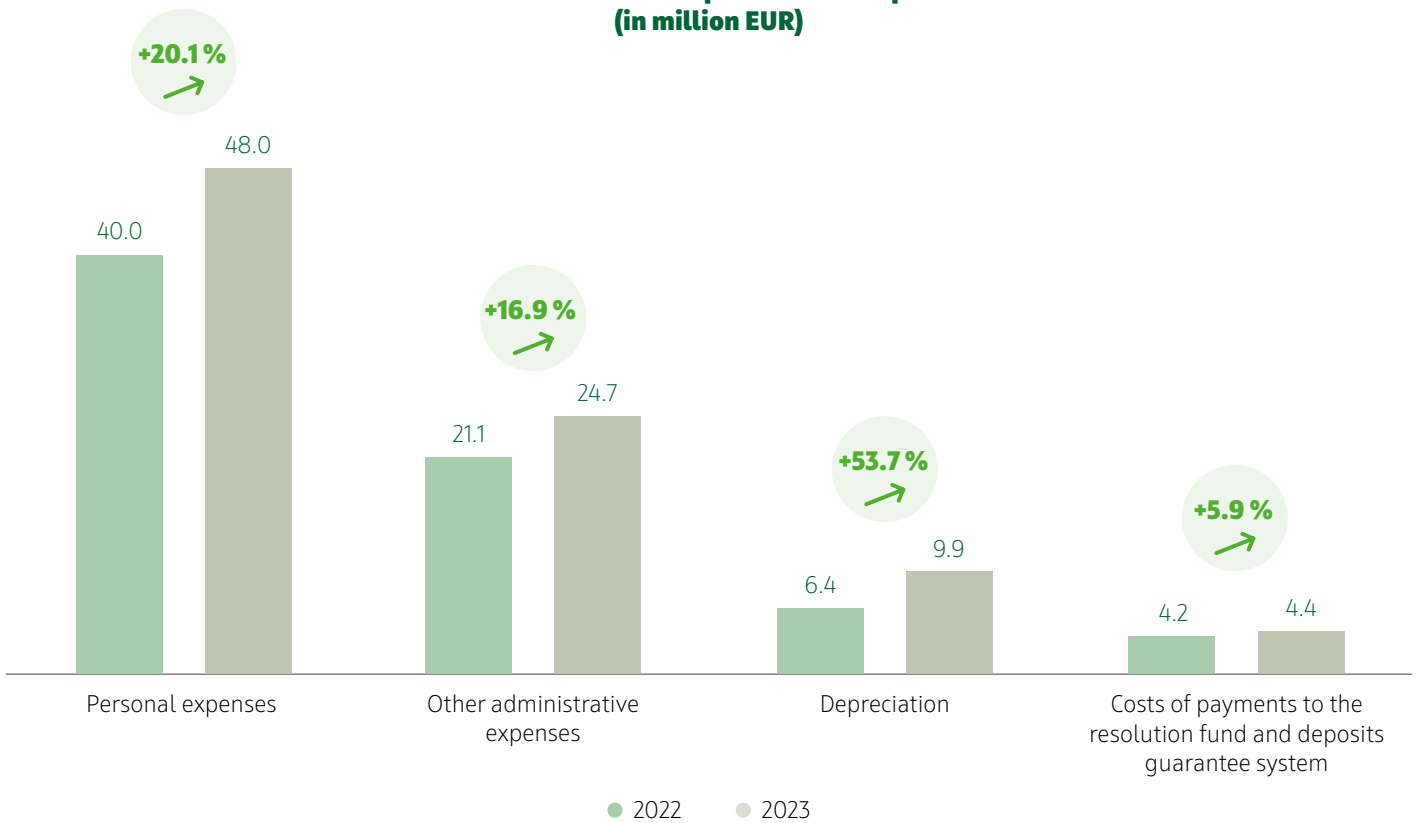
Elements of SKB Group's net fees commission income (in million EUR)



The SKB Group's net fee and commission income decreased by 1.8 million EUR (4.6 %) to 37.3 million EUR in 2023, mainly due to the elimination of safekeeping fees on deposits and lower income as a result of lower lending activity. Account management and payment transactions remain the largest fee generators, together accounting for 64 % of fee income. Account management revenues decreased due to the elimination of safekeeping fees in August 2022 (effect of 3.2 million EUR), which the SKB Group successfully replaced by package account management. Package account management, which, in addition to account management, includes other banking services in one single price, has a positive impact on the growth of account management income, but in reality, it is only a diversion of income between payment transactions and cards and ATMs. Lower lending activity, especially in the housing loans segment, resulted in lower fees from the reimbursement of costs initially settled by the Bank for borrowers. Other net non-interest income from financial and non-financial assets and liabilities and other activities has been very volatile in recent years. It is significantly influenced by equity investments valuation and other extraordinary income and expenses. In 2023, the SKB Group donated 1 million EUR as a sign of social responsibility following the floods in August. As a result of lower extraordinary income and higher extraordinary expenses, the SKB Group reports 2.1 million EUR less of other net non-interest income in 2023 than in the previous year.

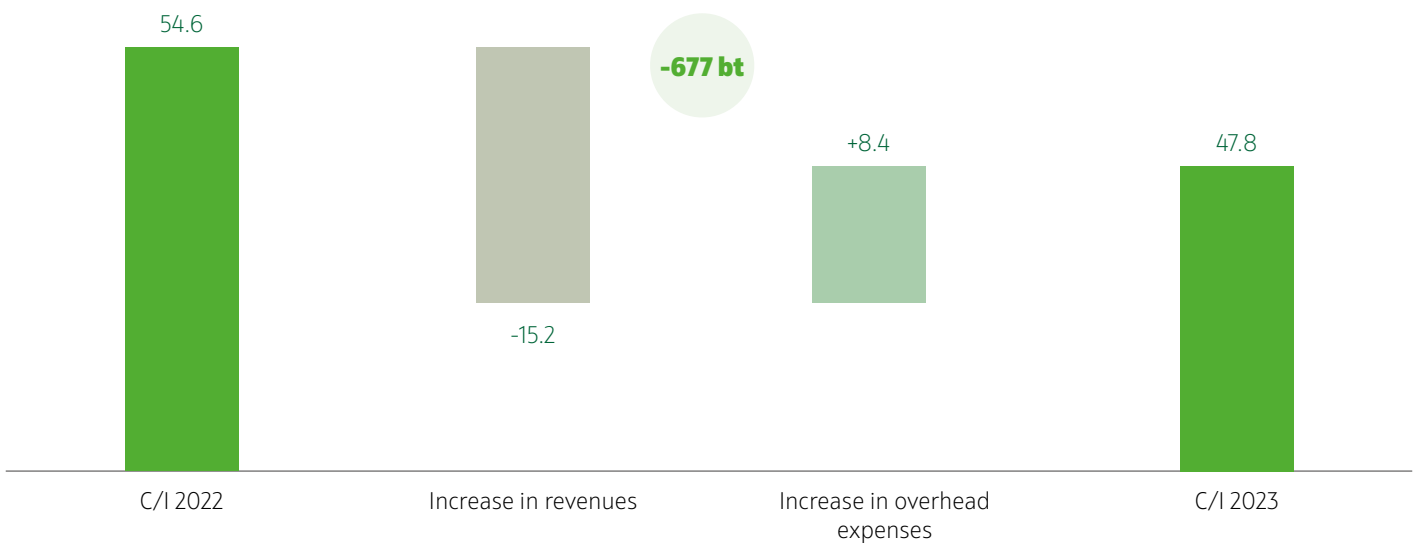
The SKB Group's operating expenses increased by 15.3 million EUR (21.4 %) to 87 million EUR in 2023.

Elements of SKB Group's overhead expenses (in million EUR)



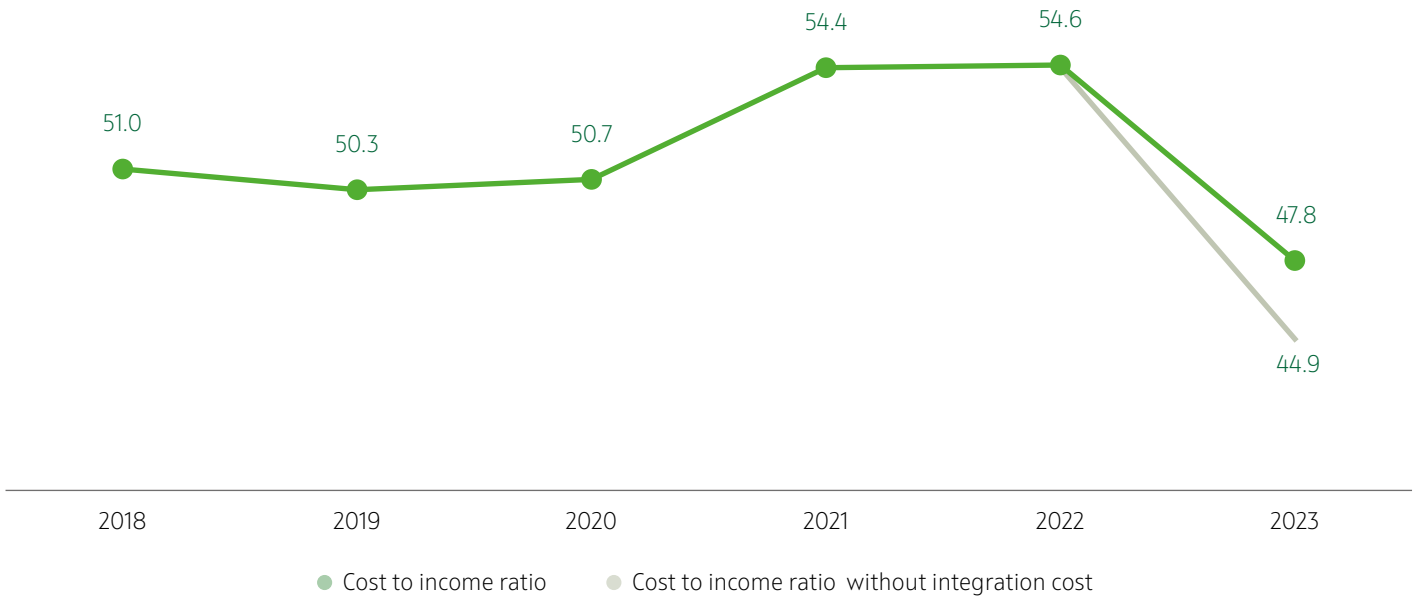
Higher personnel expenses (8 million EUR) contributed the most to higher operating expenses, as the SKB Group adjusted salaries and meal allowances due to the rising inflation and, in the light of the expected merger with Nova KBM, harmonised certain employee rewards for business performance. General administrative expenses increased by 3.6 million EUR, mainly due to higher information technology costs, consultancy costs and increased supplier prices. Depreciation costs are also higher, mainly due to the depreciation of hardware and accelerated depreciation of projects related to the upcoming merger with Nova KBM.

Impact of changes in revenues and overhead expenses on C/I ratio of SKB Group (in %)



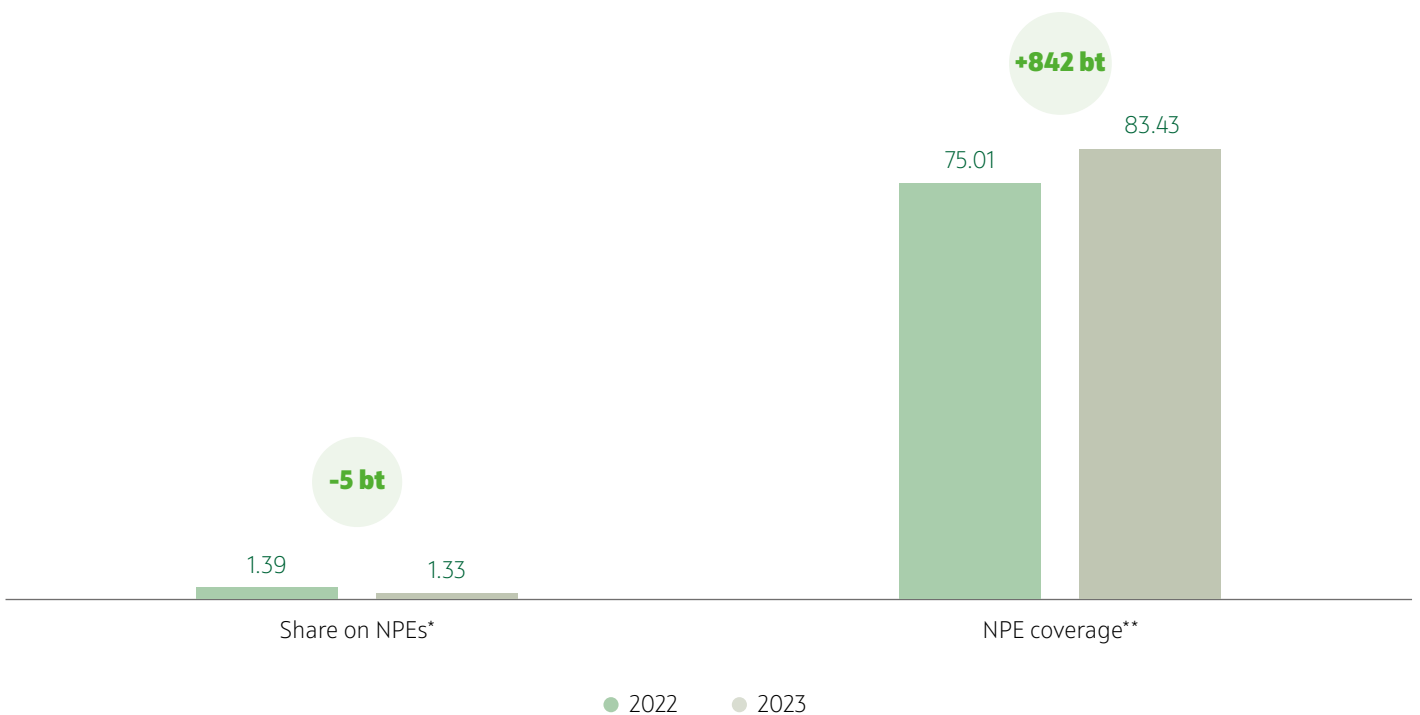
The SKB Group's cost efficiency improved in 2023, with the cost-to-income ratio decreasing from 54.6 % to 47.8 % in 2023. Excluding costs of the integration with Nova KBM within the OTP Group, the cost-to-income ratio would have been 44.9 % in 2023.

Cost to income ratio of SKB Group (in %)



In 2023, the SKB Group recorded an impairment and provisions expense of 2 million EUR, while in 2022, due to favourable economic trends and the changed methodology for calculating expected credit losses in relation to IFRS 9 standard, it released impairments and provisions in the amount of 15.9 million EUR. The SKB Group's non-performing exposures ratio was 1.33 % in 2023, which represents a decrease of 5 basis points. The SKB Group increased its non-performing exposures coverage from 75.01 % in 2022 to 83.43 % in 2023. The quality of the 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)

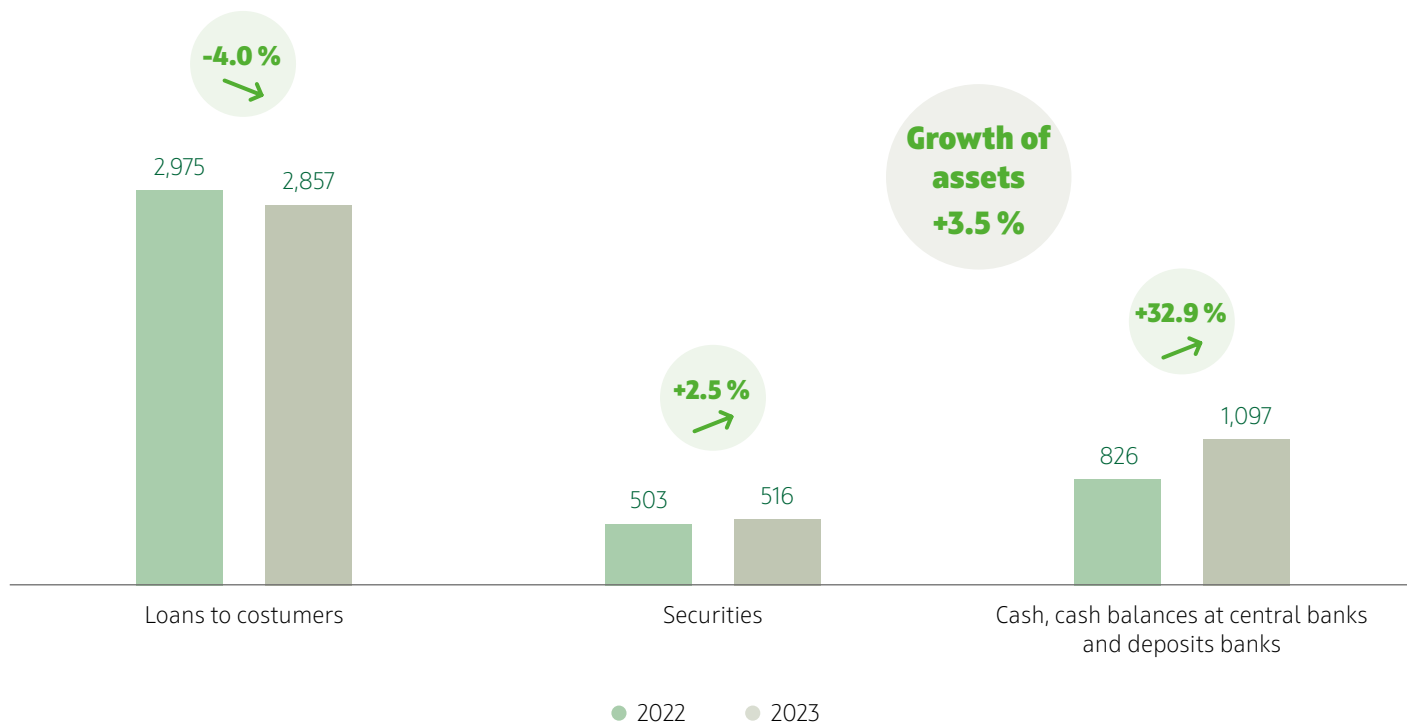
**All impairment and provisions / non-performing impairment and provisions (without cash balances at central banks and other demand deposits)

2.2. SKB Group's Financial Position

SKB Group	(in millions of EUR)	2023	2022	Change	Change (%)
Cash, cash balances at central banks and other demand deposits at banks		1,097	826	271	32.9 %
Financial assets - securities		516	503	13	2.5 %
Financial assets at amortized cost - excluding securities and banks		2,867	2,983	(116)	-3.9 %
• Loans to customers		2,857	2,975	(118)	-4.0 %
• Other financial assets		10	8	2	25.9 %
Other assets		112	125	(13)	-10.3 %
TOTAL ASSETS		4,592	4,437	155	3.5 %
Financial liabilities measured at amortized cost		4,011	3,953	58	1.5 %
• Banks and central banks' deposits and loans		278	251	28	11.0 %
• Customer deposits		3,682	3,664	18	0.5 %
• Other financial liabilities		51	39	13	32.3 %
Other liabilities		39	35	4	12.7 %
TOTAL LIABILITIES		4,051	3,988	63	1.6 %
TOTAL EQUITY		541	449	92	20.6 %
TOTAL LIABILITIES AND EQUITY		4,592	4,437	155	3.5 %

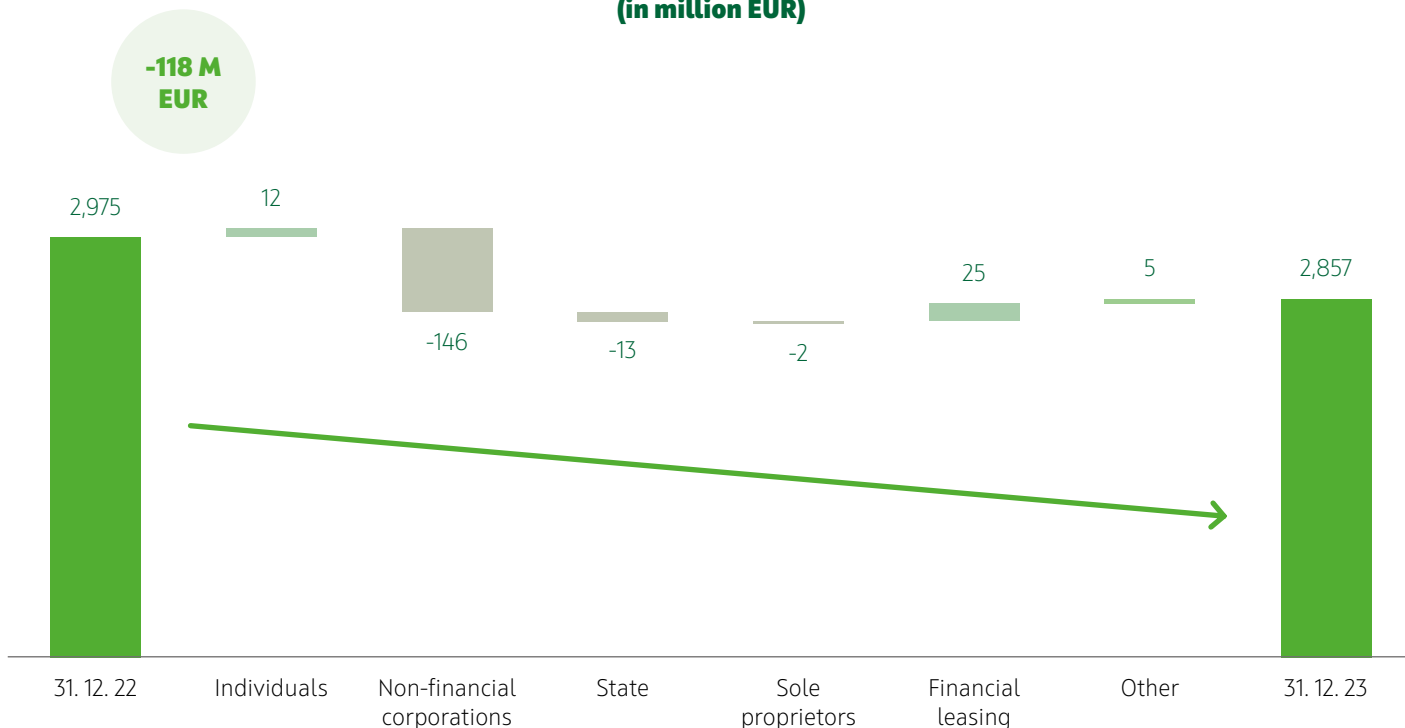
In 2023, the SKB Group reached a balance sheet total of 4,592 million EUR, which represents a 3.5-percent increase compared to the end of the previous year. The SKB Group's assets increased in 2023 mainly due to excess liquidity.

Movement of key elements of the SKB Group's assets (in million EUR)



Loans to customers amounted to 2,857 million EUR at the end of 2023 and decreased by 4.0 % compared to the end of the previous year. They represent 62.2 % of the SKB Group's total assets.

Evolution of customer loans (in million EUR)

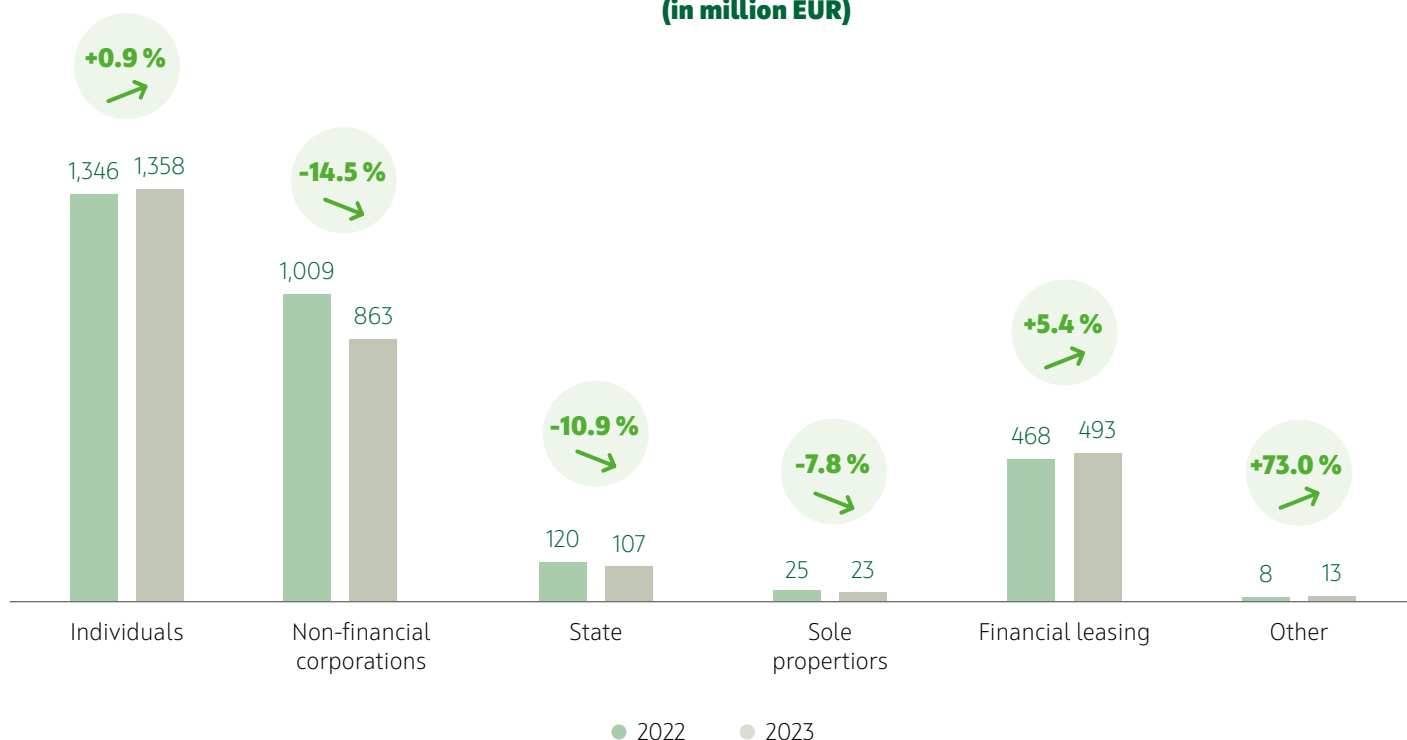


Due to the accelerated growth of market reference interest rates, as a result of the increase of the European Central Bank's key interest rate, the interest rates for loans also increased. These, in addition to the unstable economic environment, affected the lower demand for loans in 2023 and, consequently, a decline in the SKB Group's loan portfolio¹⁹. As a result of the general level of interest rates, decreasing investments and lower short-term liquidity needs, loans to non-financial corporations decreased by 14.5 % (146 million EUR) and contributed the most to the decline of the SKB Group's loan portfolio. In 2023, loans to individuals²⁰ remained almost at the same level as in the previous year (higher by 0.9 % or 12 million EUR), with the entire growth of the portfolio represented by consumer loans (up by 8.3 % or 17 million EUR), while housing loans decreased (down by 1.2 % or 13 million EUR). The financial leasing portfolio increased by 5.4 % (25 million EUR).

¹⁹ Includes financial leasing.

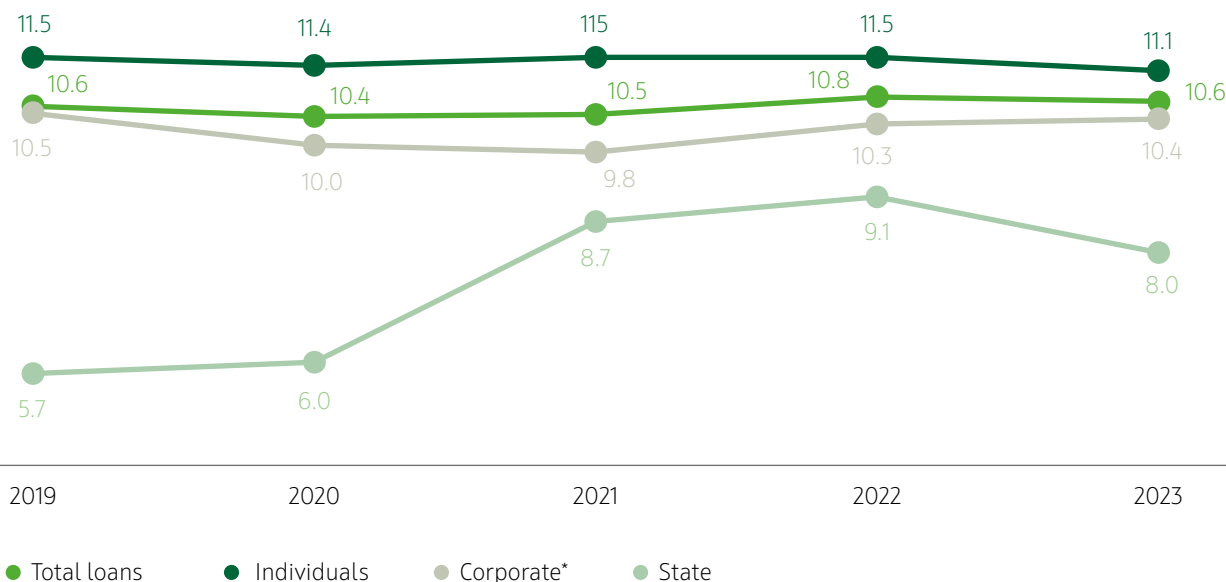
²⁰ Includes loans to individuals conducting business activities.

Customer loans structure (in million EUR)



The SKB Bank's market share measured by customer loans was 10.6 % at the end of 2023, i.e. 17 basis points lower than in the previous year. The SKB Bank's market share measured by loans to corporates increased, while its market share measured by loans to individuals and by loans to state decreased in 2023.

Customer loans market shares (%)

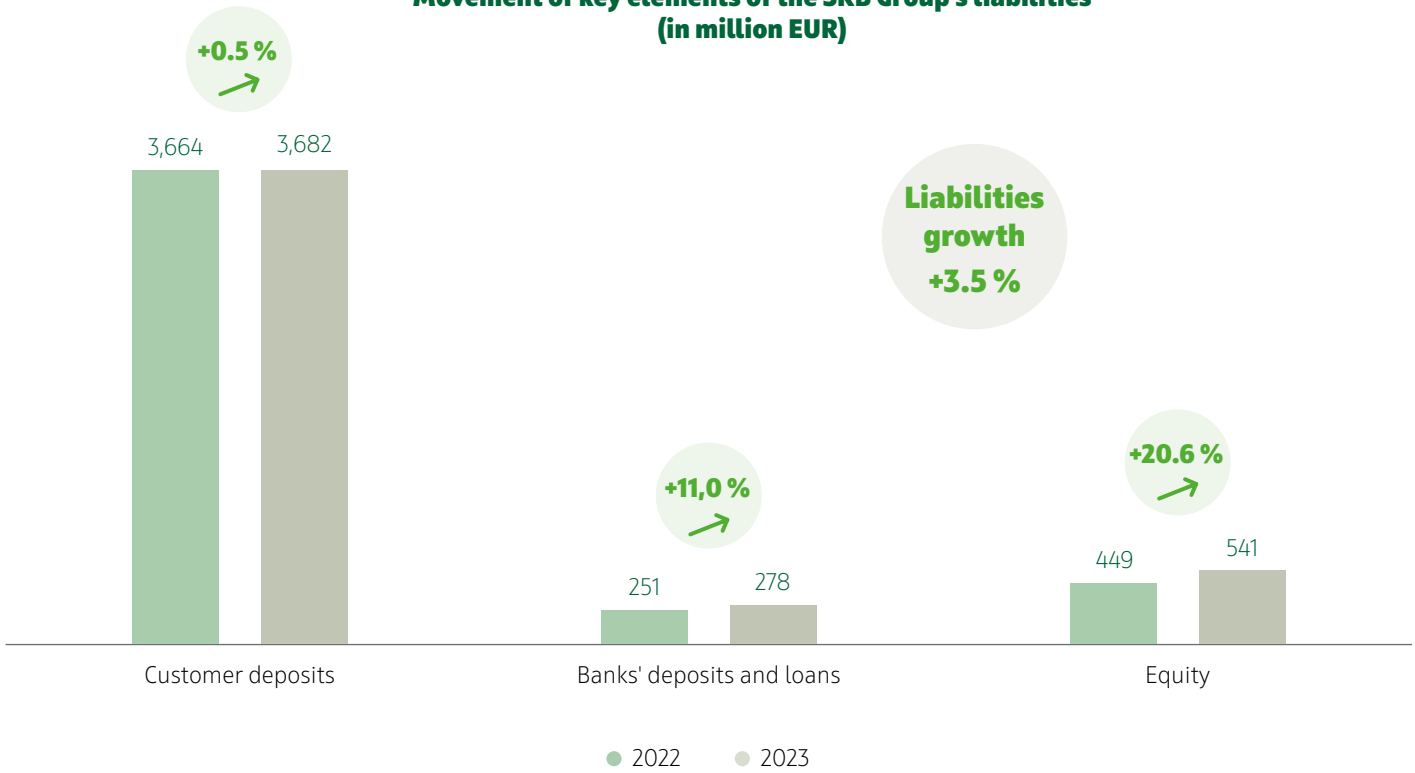


*Corporate includes non-financial corporations and sole proprietors.

The securities portfolio represents 11.2 % of the SKB Group's total assets. It consists of bonds of the Republic of Slovenia, France, Hungary, Croatia, Romania and Serbia. In 2023, the portfolio increased by 2.5 % to 516 million EUR due to the higher market value of government bonds. The average remaining maturity of the portfolio was 3.5 years.

Cash, cash balances at central banks and other deposits at banks represent 23.9 % of the SKB Group's total assets and amounted to 1,097 million EUR at the end of 2023. In 2023, the SKB Group placed its excess liquidity in the form of deposits with OTP Bank and the Bank of Slovenia: as of 31 December 2023, the SKB Group's deposits with the Bank of Slovenia, including compulsory reserve, amounted to 781 million EUR and with OTP Bank 276 million EUR. The remaining assets consist of cash in hand and demand deposits with various banks.

Movement of key elements of the SKB Group's liabilities (in million EUR)



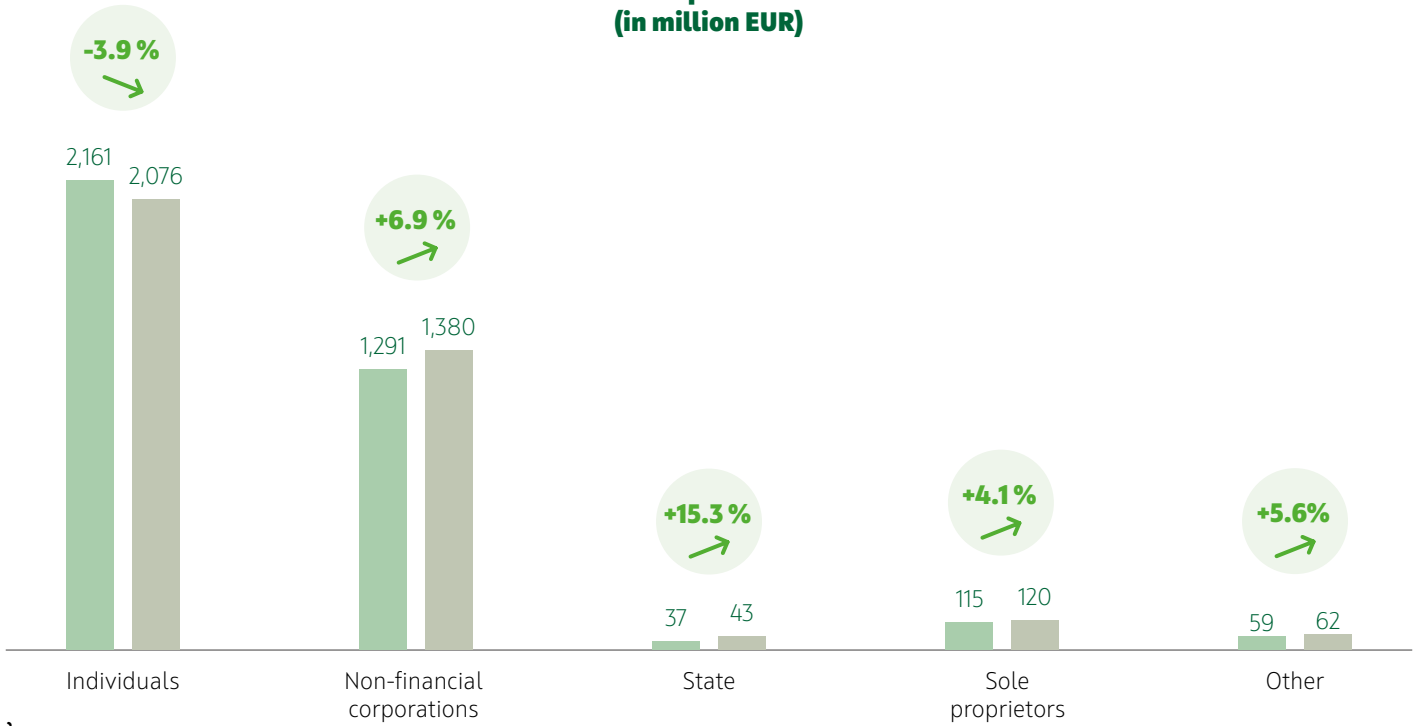
Customer deposits dominate the structure of the SKB Group's total liabilities, accounting for 80.2% of total liabilities. At the end of 2023, customer deposits amounted to 3,682 million EUR and did not change significantly compared to the previous year (up by 0.5% or 18 million EUR).

Evolution of customer deposits (in million EUR)



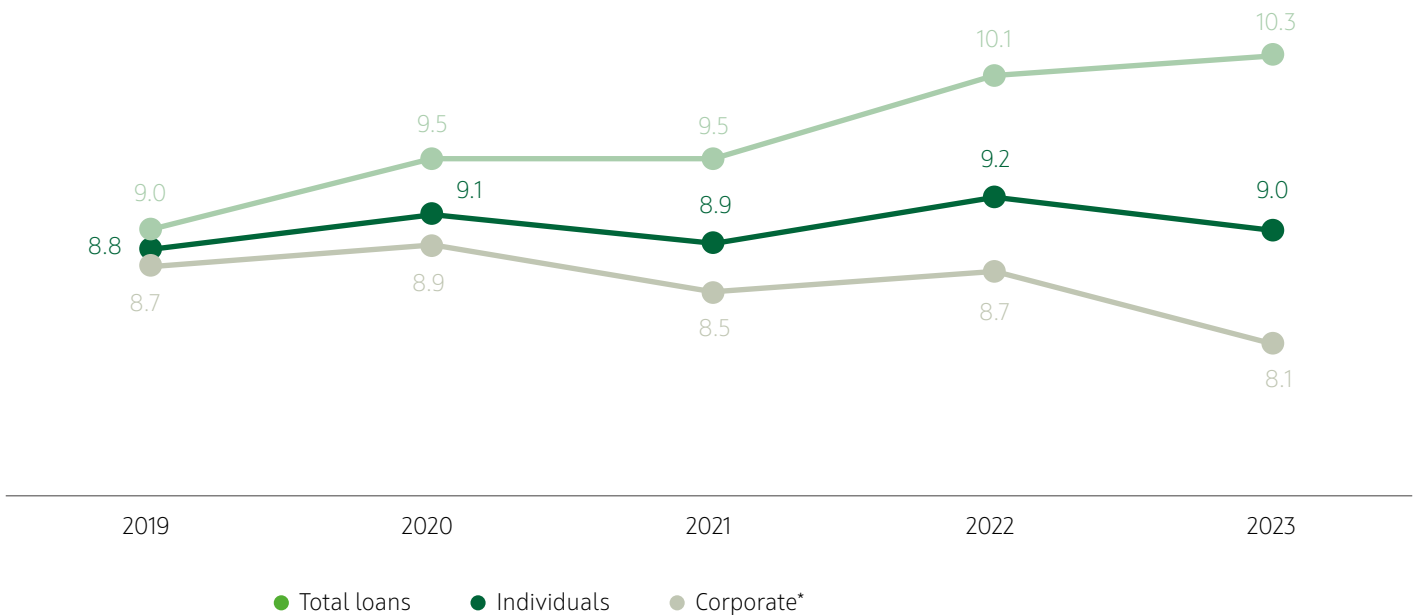
Individuals and non-financial corporations represent the key savings segments at the SKB Group. Due to high inflation and, as a result, higher living costs and low interest rates for savings, individuals' deposits²¹ decreased by 3.9% (85 million EUR) in 2023, while non-financial corporations' deposits increased by 6.9% (89 million EUR), on account of lower corporate investments and excess liquidity. The portfolio is still dominated by sight deposits, which accounted for 65.5% of total deposits in 2023. Due to the gradual increase in interest rates term deposits have also started to increase.

Customer deposits structure (in million EUR)



The SKB Bank's market share, measured by customer deposits from non-banking customers, was 9.0% at the end of 2023, or 26 basis points lower than at the end of the previous year. The SKB Bank's market share in the corporate segment increased, while market share in the retail segment decreased in 2023.

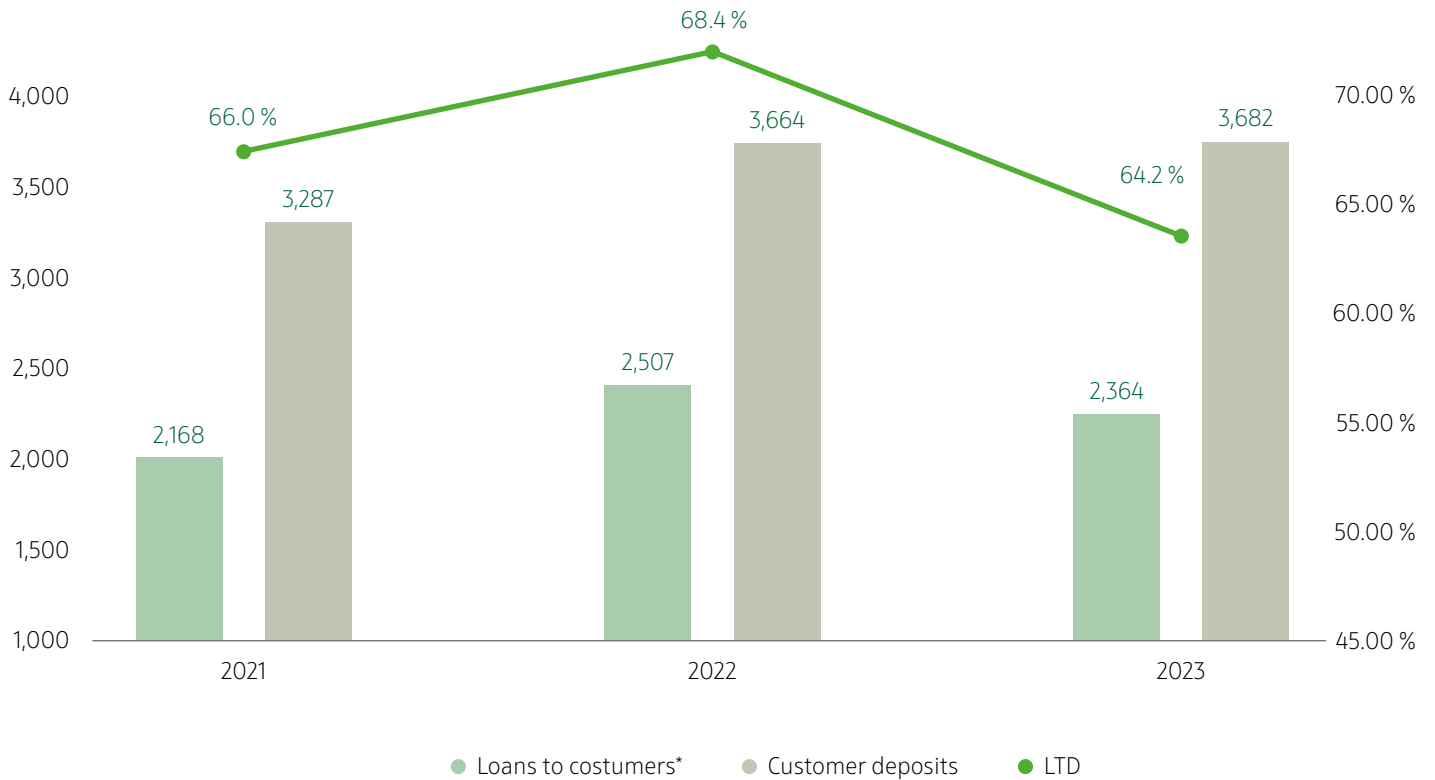
Customer deposits market shares (%)



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

²¹ Includes deposits from individuals conducting business activities.

Loans to deposits ratio



*Financial leasing excluded.

Loans²² to deposits ratio decreased to 64.2 % in 2023 due to lower loan portfolio.

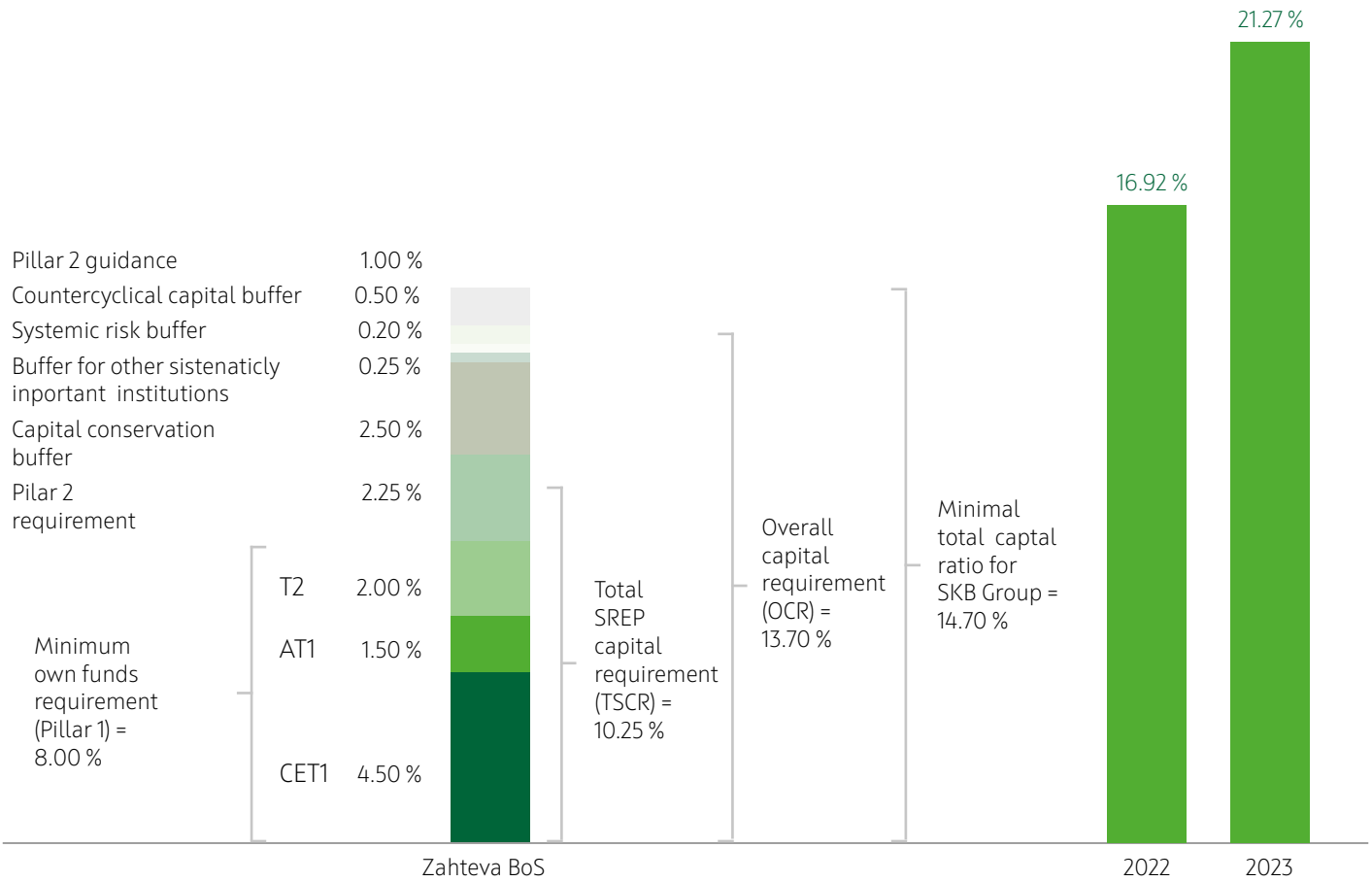
At the end of 2023, the SKB Group's liabilities to banks amounted to 278 million EUR. To ensure appropriate capital adequacy, 80 million EUR of subordinated debt and 170 million EUR of MREL eligible loan are borrowed from the parent bank OTP. The remaining 27 million EUR is a loan from SID banka.

The SKB Group's accounting equity increased by 20.6 % to 541 million EUR in 2023, due to the inclusion of the balance sheet profit in equity and due to a positive effect from the valuation of bonds. The minimum total capital requirement for the SKB Group as of 31 December 2023 was 14.70 % and the minimum requirement for own funds and eligible liabilities (MREL) was 19.91 % (non-binding interim MREL target).

The SKB Group's capital met all current and also announced regulatory requirements. The capital adequacy ratio for 2023 was 21.27 % and the MREL ratio was 27.49 %.

²² Excludes financial leasing.

Capital adequacy of SKB Group



2.3. Significant Events After the End of a Financial Year

No significant circumstances or events occurred after the balance sheet date.



Connectedness

We promote team spirit, respect, understanding and trust.

We care about the sincere connection of all of us, clients, partners, and the environment.

3. Human Resources

3.1. Human Resources Management

2023 Employee structure

At the end of 2023, the SKB Group employed 913 employees at; 825 at SKB Bank and 88 at SKB Leasing and SKB Leasing Select.

Employees of the SKB Group	2020	2021	2022	2023
All employees (31 December 2023)	932	908	925	913
Operational employees (31 December 2023)	893	867	876	869

In 2023, we hired 68 new employees, while 80 employees left the Group.

Compared to 2022, the number of employees decreased by 1.3 %.

Many position were filled in 2023 through internal employee mobility. With this practice, we promote professional and personal development of employees and ensure growth and development of knowledge and competences.

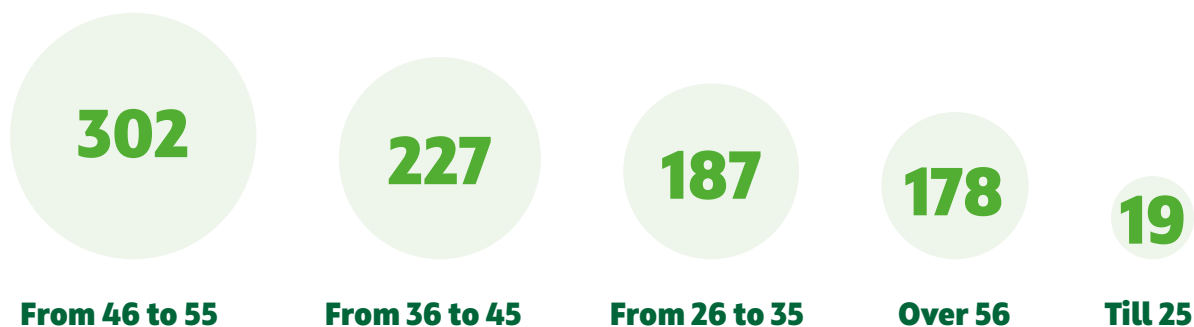
We continued with the program of internal recommendations of new candidates for employment from our employees, which represents an important employment channel and an opportunity for the active inclusion of colleagues in the recruitment process and building the culture of the SKB Group.

To promote the SKB Group as an employer of choice, we also participated in two employment career fairs and continued with the implementation of college and high school student internships. In this way, we are bringing the SKB Group closer to young potential employees who are entering the labour market and present them with opportunities for employment and career development within our Group.

The average age of employees at the SKB Group is 45.16 years.

The average age of new employees who joined the SKB Group in 2023 was 32.6 years.

Age structure in SKB Group



At the SKB Group, 64 % of employees have a third level education, and 35 % have a secondary level education.

Education structure in SKB Group



Gender representation

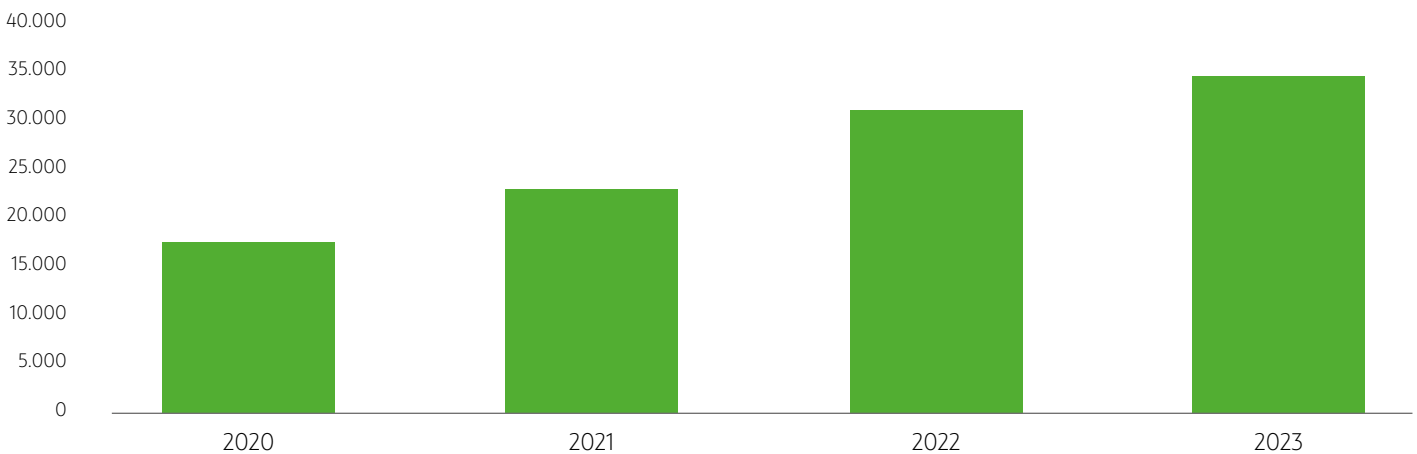
The SKB Group strives for a balanced representation of both genders at all levels. Among all employees at the SKB Group, women represent 70 %. The share of women in the SKB's Board of Directors is 59 %, in the Bank's Management 67 %, and in the middle management 61 %.

Training and learning

In 2023, the employees of SKB d.d. were able to attend live trainings, on-line trainings or e-learning courses. Employees from SKB Leasing, SKB Leasing Select and students were also included in the same training programs. Following the practice from 2022, we continued in 2023 with a combination of internal and external trainings.

In 2023, we maintained the trend of increasingly emphasizing the importance of investing in employee education, which is evident from the 33.665 hours of training that were provided during the year. On average, each employee received 40.76 hours of different trainings. In 2022, the average number of hours of training per employee was 36.23 hours.

Number of training hours



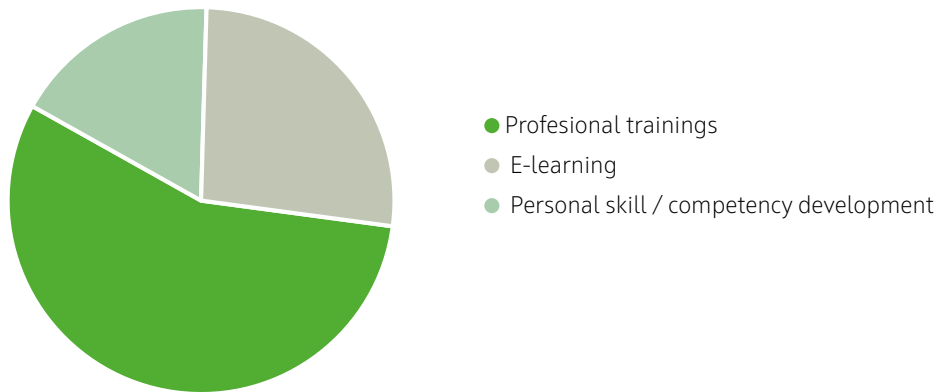
Professional training category dominated in 2023 was, with a total of 18.826 hours of trainings. Professional training includes various professional topics such as banking and insurance products, risk management, customer development, business compliance and the prevention of money laundering and financing of terrorism. Many trainings included knowledge of various legislative changes, as well as the acquisition of new professional skills in the field of information technology development and digitization. The employees spent 2.316 hours of education in the field of sustainable development (ESG). Our employees also attended a number of professional conferences in different fields, where they gained professional knowledge, opportunities for exchange of good practices, collaboration and networking. Professional trainings were also organized by the OTP Group, especially in the field of risk management.

In the e-trainings format, employees acquire the knowledge they need for their work. Each employee receives his/her individual training plan. The total number of completed hours of e-training in 2023 amounted to 9.027 hours. In 2023, we upgraded the mandatory educational trainings for employees with 18 e-classrooms. Employees were able to participate in over 33 e-classrooms.

In 2023, employees devoted 5.812 hours to the development of personal skills. This category includes, among other topics, the development of soft skills, development of managerial competences, skills in the field of communication and mutual collaboration.

In 2023, we continued with SKB Fokus meetings, gatherings of managers and representatives of employees, where topics such as managing changes, finding personal balance, as well as effective practical aspects of speaking up, were presented. We also focused on the future and the vision of the OTP Group.

2023 Training by category



Due to numerous changes in the working environment, we organized a series of lectures and workshops on the topic of change management and leadership for employees in managerial positions. The external partners introduced the managers the tools for managing their teams in times of change, guidelines for successful leadership, the principles of emotional intelligence and also the principles of stress management, work life balance and prevention of burnout in times of change and increased uncertainty.

As part of health promotion initiative, we also organized informative workshops for employees on the topic of "Pink October" and "Movember", to promote the awareness of cancer. We cooperated with various Slovenian oncology associations in raising employees' awareness of cancer and the importance of prevention.

Culture and employee engagement

At the SKB Group, we proudly follow our core values: stability, connectedness, expertise, sustainability and constant development.

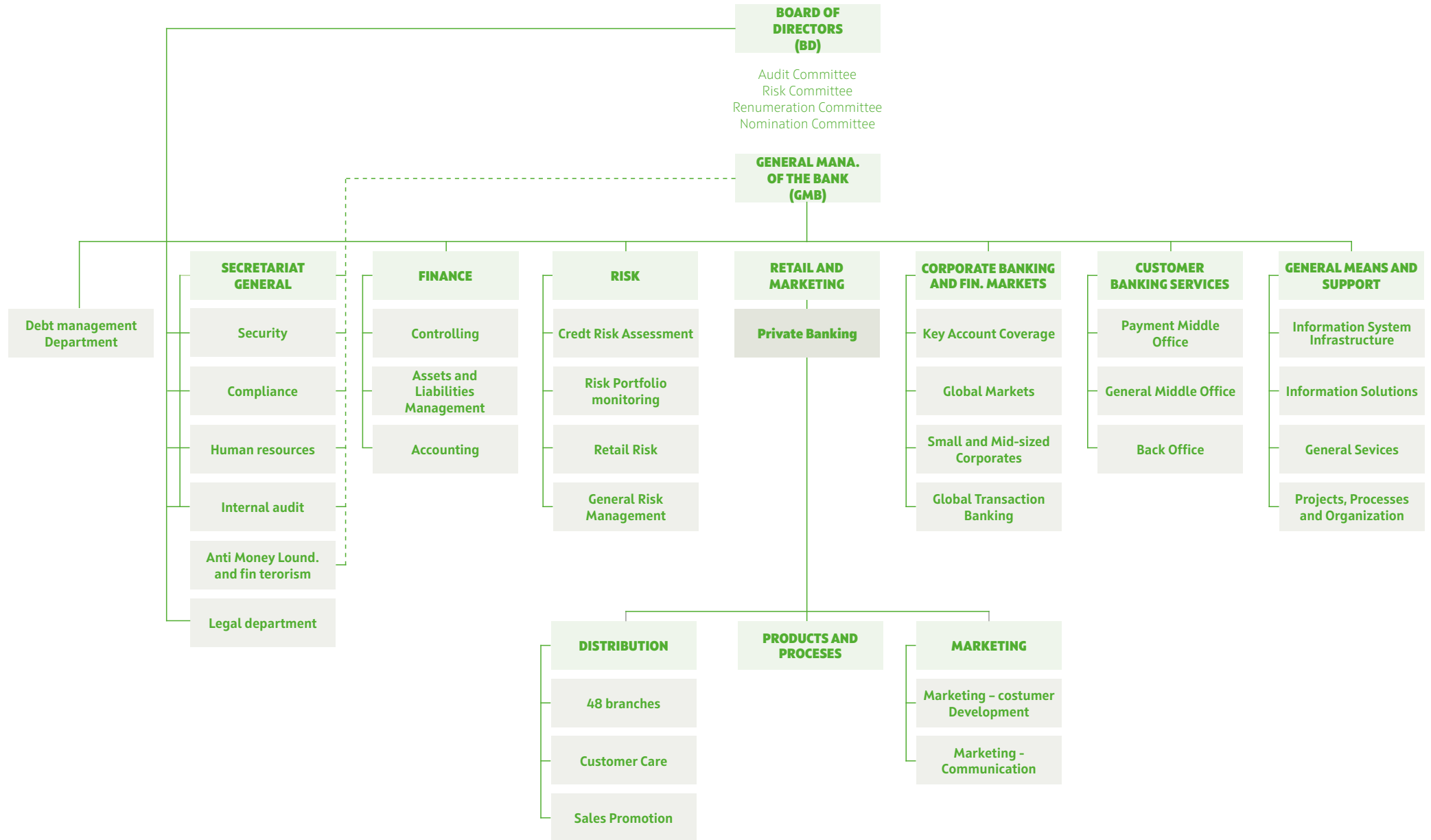
In the field of human resources, in 2023 we paid special attention to connectedness, by ensuring a greater flow of information, more intensive communication and connecting colleagues between departments, areas and within the banks of OTP Group. We organized many events, team buildings and meetings where colleagues from different groups met and interacted.

For our new colleagues, we continued with the practice of mentoring and an internal "buddy" system, which facilitates the introduction of colleagues into a new work environment and mutual connection.

In addition to the annual measurement of employee engagement through the Employee Engagement Survey in October 2023, we checked the well-being of employees and organisational culture with two additional surveys; Pulse check survey in May 2023 and Cultural survey in June 2023. The surveys were followed by workshops and the development of action plans to upgrade the organizational culture and employees' commitment.

When focusing on organizational culture, we didn't forget the children of our employees, for whom we organized a New Year's gift giving and a festive performance. The children were invited to the theater, where Santa Claus visited them after the play with greetings and presents.

3.2. Organisational Chart of SKB Bank (as of 31 December 2023)





Sustainability

We are socially and environmentally responsible.

We support a sustainable approach and a fair and ethical society.

4. Statement about Non-finance Operations

4.1. ESG (E-environmental, S-social, G-governance) Commitments

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. We show our support and commitment to the environment in which we operate through various forms of support, sponsorships, donations and other initiatives. Since the SKB Group operates in Slovenia, which is a member of the European Union, 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 the SKB Group'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. Given the SKB Group's awareness of its responsibility to the environment, we are pursuing the goals of environmental policy in the Republic of Slovenia and beyond. The SKB Bank's goal is to provide clients with affordable and efficient banking products tailored to their customers' needs.

Our first priority in 2024 is successful merger of Nova KBM and SKB Bank. Thus, all other activities are subsidized to this one, including the ESG strategy and action plans.

4.2. Environmental and Social Policy (ESG)

ESG view on banking business has been gaining in importance for several years and consequently affects the Bank's strategy, policies, organisation, procedures, investment approval criteria and, in fact, all areas of banking business. The "S" and "G" elements of ESG have already been decently developed at SKB over the past years, and we continue to build on them with ongoing activities on a well-laid foundation. Activities and results from these two areas are described in more detail in specific chapters of this Annual Report.

Due to rapid and significant environmental and climate changes, we devote a special focus to "E" environmentally oriented part of our ESG work. The environmental part of the ESG field is also the most dynamic one, as it is affected by growing legislative requirements, expectations of the market and customers, of owners and, last but not least, employees. Under the influence of clearly expressed environmental and climate changes on our environment and living conditions, it is necessary to raise awareness and the scope of activities to achieve environmentally sustainable initiatives and goals of preserving life on our planet. The role of banks as the main financiers and thus promoters of sustainable transformation of economic activities and population investments is crucial. SKB is facing various growing challenges related to the transition to a long-term sustainable operating business model while impacting banking processes, product range, risk management, client relations - practically all banking units and their activities are affected.

4.2.1. ESG at the SKB Group

In 2021, we set up the coordination function and since then we have conducted a series of actions: initiated the ESG project, organized various trainings, opened a digital ESG library and started sharing knowledge and awareness of climate and environmental risks and opportunities among employees and especially managers on all levels. We emphasized the importance of the "tone from the top" with defined accountabilities of Management members. Detailed ESG tasks and responsibilities are split among SKB divisions and firmly written in their directives. The ESG Committee was established at the beginning of 2023 headed by the CEO of SKB to strengthen the governance of ESG related and agreed action plans and to have a better overview and transparency over all the ESG activities including deeper information on particular ESG related topics.

4.2.2. Meeting the Challenges of Tomorrow

At the beginning of 2022, in line with the OTP guidelines, the environmental strategy focused on governance, products and volumes of green loans was prepared. At the end of 2023 – also as part of the preparation for the upcoming merger with our sister bank, NKBM Bank – we updated our ESG strategy, confirming the forward looking ESG principles defined and again setting more ambitious goals related to the environmental, social and governance factors. The Bank's ESG Strategy defines the objectives and priorities that support the achievement of the Vision, Mission & Business Strategy of the Bank, and partially also of the OTP Group's strategy. It reflects the short-/mid-/ and long-term ESG ambitions to support and to enable achieving the Bank's business and financial plans, and defines the KPIs to track our success.

Pillar Objective	Environmentally Sustainable Growth Enable net-zero transition of own and financed activities	Social Sustainability Develop our environment through outspreading social initiatives & engaging with all stakeholders	Robust ESG Governance Ensure transparent governance and secure functional ESG data
Stream /sub-stream Objectives / focus areas	1 Sustainable Portfolio 1.1. Paris Agreement aligned corporate portfolio <ul style="list-style-type: none"> Align the corporate portfolio to Paris Agreement 1.2. Paris Agreement aligned retail portfolio <ul style="list-style-type: none"> Shift product portfolio to be more sustainable Align retail portfolio to Paris agreement 1.3. Paris Agreement aligned treasury portfolio & sustainable financing <ul style="list-style-type: none"> Align treasury portfolio to Paris Agreement Secure sources of sustainable financing 	4 Social Responsibility & Alliances <ul style="list-style-type: none"> Support ESG topics through partnerships, donations, sponsorships & charities Boost financial literacy of its client and wider society through developing and delivering various educational content Engage with and take active role in various associations that push forward the ESG transformation Align ESG communication and messages across all channels 	6 ESG Data Governance <ul style="list-style-type: none"> Upgrade data models with all required ESG data points from all sources Secure accessible and reliable use of the ESG data its incorporation in relevant data models and reports
	2 Climate, Environmental & Social Risk Framework 2.1. CES risk framework & control <ul style="list-style-type: none"> Continuously improve CES (ESG) risk management framework & processes Assess and monitor CES risks, its impact on our business environment and integrate them in our business strategy 2.2. CES risk in credit risk <ul style="list-style-type: none"> Enhance CES (ESG) risk management in credit risk management & portfolio analysis 	5 Corporate culture, employee well-being and diversity <ul style="list-style-type: none"> Strive for greater employee commitment and improvements to the organisational culture Promote inclusion & equal opportunity across the organization through providing equal opportunities in remuneration, promotion, and benefits for its employees Provide for employee well-being 	7 Governance & Organization <ul style="list-style-type: none"> Ensure effective governance structure for dealing with ESG topics, also incorporating the right incentives through clear metrics and targets Incorporate ESG in internal policies & procedures Build up ESG culture & competence across the organization, incl. MB
	3 Sustainable Operations <ul style="list-style-type: none"> Reduce our impact: decrease scope 1, 2, and 3 emissions from own operations (Net-zero transition of own operations) Source only from ESG compliant vendors 		

ESG strategy and its implementation in banking operations

An important part of the strategy is also our “walk the talk” in terms of our attitude towards the environment being the nature, society and our employees. We show our determination to be an important and influential institution in various activities:

- We are actively managing waste produced by our business operations by cautious sorting, collection and delivering waste for recycling to our contracted partners. We regularly remind our employees of proper awareness on importance of sorting waste and on decreasing production of waste in general. Consequently, the percentage of properly sorted waste in the Bank has been increasing year after year.
- Due to careful usage of energy and other resources, we constantly decrease our greenhouse gases footprint and other environmentally harmful substances. Energy consumption (specially electricity) has significantly decreased over the last 10 years. In 2022, we started purchasing electricity from renewable sources and its share in our total electricity consumption has increased to the level of 75 % in 2023. In 2023, we additionally reduced electricity consumption in the Bank's premises by replacing existing outdated lighting with LED lighting which will bring reductions also in the following years. We completed energy audits in 16 locations, while major investments in real estate energy efficiency, including renovation of headquarter premises will be decided after bank merger project is completed.
- To minimize business travel expenses and CO2 emissions from transport we are increasing alternative ways of business communication (tele conferences, videoconferences, e-learning, etc.).
- Work from home as a partial alternative way of work offered to SKB employees whose tasks and nature of work allow it, makes it easier for employees to coordinate their work and private lives while with less commuting to work, while the Bank's CO2 footprint has been decreasing.
- More and more client communication is digitalized including document management aiming to decrease paper usage and postal costs.
- We are regularly informing employees (via events, digital meetings, internal news, etc.) about different activities contributing to sustainability awareness, environmentally friendly behavior at the Company and individual level (e.g. transportation, importance of biodiversity, food purchase and consumption, healthcare activities, etc.).
- Our main environmental and biodiversity-oriented project is urban beehive, located on the roof of the headquarters premises. By caring for beehives and raising awareness of the importance of bees for the life on the planet, we contribute to a cleaner and greener environment and to the preservation of natural resources and biodiversity in urban environments.
- We actively participate at the roundtables and other discussions regarding regulatory developments, data collection, methodologies of CO2 emission analysis, mobility best practices - with the aim to ensure strong and fair representation of the banking sector in the green transition process.

ESG strategy in our financing role

- In our primary role of a financial institution, we are aware that we need to gradually decarbonize our loan portfolio. In this aspect, we have prepared the necessary foundation including the following:
- Review of standards and regulatory requirements related to scope 3 financed emissions as for initial knowledge set.
- In order to learn where we are, we started with systematic data collection and measurement associated to our financial investments.
- Initial analysis of key portfolio focuses started (especially high CO2 emissions contributors) to be able to prepare action plan for decarbonization.
- To start building green part of the Bank's portfolio and to prepare initial green and sustainable products and finances, the EU taxonomy and other taxonomies defining the guidance of green and sustainable finances were studied as well as other relevant regulatory requirements.
- With the help of OTP Bank, we prepared the tool with criteria of alignment with the EU Taxonomy and Climate Bond Initiative Taxonomy (Technical Screening Criteria and Do not Significant Harm) as a help in identifying green finances in Corporate segment of loan approval process.
- Green corporate products for corporate segment were initiated to promote electromobility and increase of projects enabling the use of renewable energy resources.
- For retail segment, we launched the green housing loan for purchase and renovation of housing premises.
- Since data management is becoming more and more important to meet the needs of modelling, analysis, stress testing and reporting, SKB established the ESG related data mart within DWH structure with increasing number of relevant and needed data points.
- We have started adapting the risk management policy to the new environmental requirements and strategy of the parent bank. We carried out the analysis of the materiality of environmental and climate impacts on important banking risks, which is becoming a permanent annual practice within the framework of the stated criteria for risk-taking.

Responsive to client needs

Green and sustainability financing represents new opportunities for banking sector. At SKB, we are aware of the impacts following climate and environmental changes as well as social initiatives driving our changes in responses to the needs of our clients. We have prepared many initiatives, from product range, loan approval process changes, to communication with clients and risk assessment.

Large Corporate clients have strong awareness of ESG, therefore they have started investing in sustainability projects supporting environment protection. Some of them have already received the ESG rating. Some suppliers/buyers started requiring the sustainability related issues over their whole value chain and introduced various projects for transitional green products, services and thus searching for corresponding financing. These are therefore the opportunities for the Bank to offer transitional and green financing either in the form of standardized products or in a form of a project financing adapted to specific needs of a client.

Small and medium sized clients are primarily investing in electro mobility and solar technology projects. Exporters, involved in suppliers'/buyers' chains have more requirements since they are monitored through the whole production cycle; therefore, they must adapt to changes fast and are aware of the importance of ESG trends. Majority of them are aware of initiatives for supporting environment protection, however due to their size and other opportunities/issues, they still do not consider it the highest priority. Consequently, the support of institutions, including banks, will be important in the future.

Responsive to regulatory requirements

Our environment and regulatory requirements are constantly and rapidly changing. Banks as financial institutions have a major impact on the economy through their role of providing financial solutions. Also, banks play an important role in supporting the European objectives of carbon neutrality and the European Green deal and are expected to take over their roles in the lead of transitioning the economy to a more sustainable one by helping their clients to change their business models and decrease their CO2 footprints. The aim of the Bank is to transform its portfolios by providing green financing that supports economic actors with their own sustainable transition journeys. Thus, defining decarbonization pathways together with the OTP Group and further development of green financing and sustainability enabling products are two key tasks of SKB and its sister bank Nova KBM in the next period.

The European Central Bank has also set out clear expectations in its Guide on climate-related and environmental risks. Thus, SKB is continuously improving its climate and environmental risk management framework to ensure compliance with the developing regulatory requirements.

Another very important and upcoming regulation is CSRD (Corporate Sustainability Reporting Directive) with its technical criteria (ESRS –European Reporting Sustainability Standards) entering into force for financial reporting for end of 2024 year. According to it, the banks will be required to provide detailed and standardized reporting on the strategy, goals and execution of sustainability linked progress on their overall operations.

4.2.3. Main Achievements in 2023




Due to rapid and influential regulatory and market developments triggered by environmental and climate changes, we focused our efforts on the "E" component, i.e. environmentally oriented part of the ESG work.

Trainings and awareness sharing

In 2023, we organized an internal Fokus event, a presentation for senior and middle managers, and they also participated in a well prepared and extensive ESG related training program organized by OTP Bank. Internally, we prepared digital learning content with a knowledge test for selected employees of the Bank focused on the CO2 emissions scope and measurement. Since the beginning of the e-learning campaign at end of 2021 till the end of 2023, 94 % of all employees successfully passed the test of introductory education on the impacts and consequences on the environment, the goals of climate conferences, the European Union and Slovenian numerous initiatives and regulatory requirements. In addition to these trainings, individual employees of the Bank also took part in other mostly external trainings and webinars related to the ESG topics. In 2023, OTP organized the ESG Summit with participants and representatives from all the OTP subsidiaries discussing various ESG-related topics.

In 2023 2,316 educational hours were dedicated to the ESG field (of which 1,386 hours were ESG e-learning).

Table: The main achievements of the SKB Group's ESG education in 2023

	94 %	of all employees have participated in an introductory training on environmental impacts and consequences, in line with the objectives of the climate conferences, the European Union and Slovenia, and on a number of regulatory requirements.
	2,316	educational hours held in 2023 on ESG topics
	3,200	units of ESG material in the ESG library with all relevant documents

In order to speed up the flow of information on innovations, regulatory requirements and the OTP guidelines in the field of ESG, the ESG coordination group with representatives of almost all organisational units of the SKB Group met almost every month. Digital ESG library with all relevant documents was regularly updated with latest documents and information, and its scope already exceeds 3,200 documents.

At the beginning of 2023, the ESG Committee was established to facilitate sharing of all the issues, novelties, progress follow up and decisions proposed with the members of Management and relevant experts working on the ESG topics.

ESG project objectives and achievements

At the end of 2021, we started the ESG project and in 2022 and 2023 continued to carry out operational tasks, primarily focused on new strategic orientations, guidelines, operations, product set up and processes related to the E-environmental part of ESG. Its scope of tasks is approaching its final phase, thus the project as defined in 2021 is approaching its closure.

A significant part of the project was devoted to the implementation of EU Taxonomy requirements and preparation of green products aligned with the Taxonomy, its technical screening criteria for climate mitigation and climate adaptation. For practical usage GAAT (Green Loan Assessment Tool) was prepared together with the parent bank OTP, as a tool for technical compliance verification and adapted to screening criteria aligned documentation available in Slovenia.

In 2023, we have initiated two standard products for individuals: green mortgage loan for renewal of the housing premises and green mortgage loan for purchase of housing premises.

For corporate clients we have prepared green loans in the area of renewable energy sources, namely solar energy production and solar panels installation as well as a product financing electromobility. Our leasing company, SKB Leasing is already offering leasing on electric personal and commercial vehicles.

Our offer is open also for our clients' projects in a non-standardized manner, meaning customized assessment of alignment with the EU Taxonomy is to be performed based on client's project documentation.

For the future, we plan to develop products for all customer segments, which already indicate or will indicate a demand for such needs.

As part of the ESG project scope and its adopted initiatives, we are increasing activities for our own reduction of the CO2 footprint as an example of transformation into an environmentally sustainable entity. We are following a transparent emission measurement based on a preliminary selected methodology. In 2023, we hired Bureau Veritas, an independent external agent, to verify our methodologies and calculations of scope 1, 2 and 3 upstream items.

Within the formed working group at the Slovenian Banking Association, based on the GHG protocol and PCAF standards, we have started preparing guidelines for measuring emissions from the Bank's scope 3 investments (which, given the bank's financing activity, represents the majority of emissions). In 2023, we prepared the initial measurement of our top 20 CO2 emitters, housing loans and car leasing portfolio. The measurement of all bank portfolio emissions will be the basis for the gradual redirection of the Bank's investments into sustainable financing.

Our risk management policy is gradually adapting to the new environmental requirements and strategy of the parent bank. We carried out the risk materiality of environmental and climate impacts on important banking risks. SKB amended its Risk Appetite with physical risks caused by floods, wildfires and extreme heat caused by climate and environmental changes. OTP performed environmental stress testing for all subsidiaries. The SKB's approval process was also amended by introducing exclusion list of businesses the Bank is no longer financing. In addition, climate and environmental level of harmful emission industries are ranked in the heat map and loan approval criteria are adapted to client and transaction ranking defined by the heat map.

By introducing the ESG aspects, we gradually adapt to the requirements of regulators expressed through directives, adopted legislation, guidelines and the European Taxonomy, including transparent reporting and disclosures.

SKB Bank joined as a member several environmentally oriented associations, which we expect to expand further. We have established and have a permanent communication channel with the parent bank OTP, we have meetings to check progress and exchange information. OTP helps us with guidelines and the dissemination of best practices through a special organisational unit of the ESG Directorate with employees who are assigned individual ESG tasks.

We report quarterly on the implementation and planned activities to the Bank's Board of Directors. The Chief Executive Officer, Anita Stojčevska was appointed as the responsible member of the Bank's Board of Directors for the ESG field.

Disclosure under Article 8 of EU taxonomy

The table below shows the disclosures of the SKB Group as per 31 December 2023 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 EU taxonomy eligible and EU Taxonomy aligned, therefore associated with economic activities that may qualify as environmentally sustainable under the Taxonomy Regulation.

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

Ref.	in million EUR	3	4	Ratio on total GAR assets (4/1)	Ratio on total assets (4/2)	5	Ratio on total GAR assets (5/1)	Ratio on total assets (5/2)	Share in total assets (3/2)
		Gross carrying amount	Of which assets eligible for taxonomy			Of which assets not eligible for taxonomy (3-4)			
Assets included in the numerator and denominator									
	Financial assets other than held for trading	1,964	132	4.08 %	2.84 %	1,832	56.56 %	39.43 %	
	Of which Slovenian NFCs subject to NFRD disclosure obligations	295	132	4.08 %	2.84 %	163	5.03 %	3.51 %	
	of which HH Housing loans collateralised by residential immovable property	874	0	0,00 %	0.00 %	874	26.98 %	18.81 %	
	Total assets used for the eligibility analysis (Included in the numerator and the denominator)	1,964	132	4.08 %	2.84 %	1,832	56.56 %	39.43 %	42.27 %
	Total assets used for the eligibility analysis (Included in the numerator and the denominator) excluding eligibility of HH Housing loans collateralised by residential immovable property	1,090	132	4.08 %	2.84 %	958	29.58 %	20.62 %	
	Other assets only included in the denominator								
	Outstanding to EU non-financial companies (not subject to NFRD)	810							17.43 %
	Outstanding to non-EU non-financial companies (not subject to NFRD)	10							0.22 %
	Derivative instruments	0							0.00 %
	Cash on hand and other demand deposits	40							0.86 %
	Other assets	415							8.93 %
1	Total assets included in the denominator (total GAR assets)	3,239							69.72 %
	Assets excluded in the numerator and denominator								
	Outstanding with central governments and supranational issuers	616							13.26 %
	Outstanding with central banks	781							16.81 %
	Financial assets held for trading	10							0.22 %
	Total assets excluded in the denominator (total GAR assets)	1,407							30.28 %
2	Total assets before recognition of provision and impairment	4,646							

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 NACE²³ codes that can be attributed to activities in the Delegated act. Exposures to taxonomy-eligible activities were examined among non-financial corporations, companies bounded by the NFRD (listed companies with more than 500 employees). Out of them only those with NACE codes listed on Taxonomy Compass as contribution to mitigation or adaptation to climate and environmental sustainability objectives are taken as eligible.

Relatively low GAR ratio (Eligible assets/GAR covered assets) is explained by the fact that the SKB Group as a retail bank is to great extend focused to SMEs (small and medium size enterprises) and individuals' loans which according to NFRD represent Taxonomy non-eligible assets.

At SKB we have started to prepare our products aligned with EU Taxonomy and communication with clients with whom we can agree project financing based on available documentation meeting requirements of technical screening criteria of EU taxonomy including meeting requirements of Do not significant harm and minimum social safeguard. As per end of 2023 we have no outstanding loan which would completely meet these criteria.

According to the EU taxonomy, companies bound by the NFRD are required to include data related to net revenues and fixed asset investments, namely:

- (1) The proportion of income from European Taxonomy eligible activities, and
- (2) Share of investments in fixed assets in European Taxonomy eligible activities, all based on Annex II to Commission Delegated Regulation (EU) 2021/2178.

In accordance with the aforementioned regulations, banks as lenders are obliged to publish the share of income from credit assets and other financial assets acceptable for the European Taxonomy and the share of their borrowers' investments in their fixed assets eligible according to the European Taxonomy.

In the framework of those liable for NFRD, we obtained very limited data of those that are according to NACE code listed on Taxonomy Compass, thus not disclosed.

4.2.4. Reducing our Operational Footprints

The Bank has embraced the path leading towards net zero emissions. SKB Bank and its subsidiaries are therefore continuing their efforts to reduce the greenhouse gas emissions linked to their own operations, and to improve its energy efficiency. These efforts started by extending and refining the measurements in its operations, disclosing in the form prescribed by the European Sustainability Reporting Standards.

Table: GHG emissions (tCO₂e)

GHG emissions (tCO ₂ e)	2023	2022	Difference (%)
Gross Scope 1	171	181	94 %
Percentage of Scope 1 GHG emissions from regulated emission trading schemes	NR	NR	NR
Gross location-based Scope 2	1.407	1.537	92 %
Gross market-based Scope 2	945	1.441	66 %
Gross Scope 3 - upstream	4.460	3.589	124 %
Total location ²⁴ based	6.038	5.307	114 %
Total market ²⁵ based	5.575	5.211	107 %

The GHG emissions calculation is based on the requirements of the GHG protocol Corporate Standard (2004).

SKB Bank prepared the greenhouse emissions calculation of 2022 and 2023 together with independent agent Bureau Veritas. The methodologies used were aligned with NKBM, a sister bank in Slovenia. The 2022 data will be used to calculate the baseline for the future merged Bank.

²³Statistic Classification of Economic Activities in the European Community

²⁴ Location based is considering emission factor of the national grid.

²⁵ Market based is considering emission factor from selected suppliers and selected contractual instruments.

The assumptions and emissions factors used for calculation includes latest available and most accurate data at the time of the report. External sources used were:

- ARSO 2022 characteristic net calorific values and emission factors.
- DEFRA 2022 Conversion factors
- Institute Jožef Stefan CO₂/GHG emissions per unit of electricity and district heating
- Specific calorific values and vendors' emission factors

Within Scope 2 GHG emissions, the percentage of consumed energy from renewable source in total energy consumption increased from 20 % to 40 %, principally associated to the increase of renewable source in our electricity mix, thanks to the purchase of electricity with Guarantee of Origin.

The Scope 3 GHG emissions included in the inventory correspond to the upstream categories "S3-1 purchased goods and services", "S3-2 capital goods", "S3-5 waste generated in operations", "S3-6 business travels" and "S3-7 employee commuting". 100 % of Scope 3 upstream GHG emissions was based on primary data, based on activity or spend based data.

The main changes in SKB GHG emissions inventory between 2022 and 2023 include a reduction of Scope 1 and Scope 2 emissions due a combination of effect of reduction of consumption and increase of share of renewable energy in the energy mix. The total GHG emissions are nevertheless increasing, those driven by an increase of Scope 3 emissions, associated to the increase of purchase of goods and services or capital goods and business travel that we attribute to the preparation of merger activities.

Table: Energy consumption (MWh)

Energy consumption (MWh)	2023	2022	Difference (%)
Total energy consumption related to own operations	5.224	5.493	-5 %
Total energy consumption from renewable sources	2.075	1.097	89 %
Fuel consumption from coal and coal products	-	-	
Fuel consumption from crude oil and petroleum products	512	511	0 %
Fuel consumption from natural gas	210	218	-4 %
Fuel consumption from other fossil sources	N/A	N/A	N/A
Consumption of purchased or acquired electricity, heat, steam, or cooling from fossil sources	2.428	3.667	-34 %
Consumption of purchased or acquired electricity, heat, steam, and cooling from renewable sources	2.075	1.097	89 %
Percentage of renewable sources in total energy consumption	40 %	20 %	109 %
Percentage of fossil sources in total energy consumption	60 %	80 %	-25 %
Non-renewable energy production	-	-	N/A
Renewable energy production	-	-	N/A

Our voluntary contribution to carbon neutrality

Beside efforts to reduce energy consumption and GHG emissions within its value chain and considering that reduction alone is unlikely to be enough, SKB Bank has decided to further mitigate its remaining GHG emission beyond its value chain, we opt for purchase of carbon credits verified against recognised quality standards (Verra). In 2023 we select a technology-based project supporting the development of renewable energy sources in the European Union (the Saint Nikola Wind Farm project in Bulgaria) and aiming at reducing GHG emission in the atmosphere. The level of our voluntary contribution is set at the level of our gross Scope 1 and Gross Scope 2 market based.

4.3. Customer Relation

Fair marketing, factual and unbiased information, and fair contracts - LARA

When engaging with our clients, we adhere to our corporate values of stability, cohesiveness, professionalism, sustainability, and development. Our tradition and capital adequacy have enabled us to deliver excellent results, pursue a balanced business policy and exercise prudent risk management. We foster team spirit, respect, understanding and trust, and ensure that all of us, our clients, our partners and the environment, are genuinely connected. We build on our potential and never cease to improve on our education. We have the relevant expertise, which translates into a caring and fair attitude towards our clients and the environment. We are committed to social and environmental responsibility, sustainability, and a just and ethical society. We are development-oriented and pursue our ambitions. We innovate, adapting our operations accordingly and striving for continuous progress.



Stability



Connectedness



Expertise



Sustainability



Constant development

Customer Services, Support and Resolution of Complaints and Disputes

With our clients always at the forefront of our focus, we also run and manage a system for handling customer complaints and disputes. Our attention to how customer complaints are handled helps us build good customer relationships and deliver a great customer experience. We conduct quarterly reviews of the Customer Complaints Report, which are carried out with the participation of the Customer Experience Committee and in the presence of the bank's Management. We also keep up-to-date on the state of customer satisfaction through brief weekly reports. Customer experience is also routinely tracked and measured through a post-contact survey at the outlet office or contact centre.

Security of customers, employees and property

In accordance with the Private Security Act, we take care of the security of customers, employees and property. We take care of defining and implementing the security policy, security standards, protocols and procedures, in accordance with the local legislation and guidelines of the parent bank OTP. As part of ensuring an adequate level of security, mechanical, technical, organizational and control measures are implemented, which together establish a comprehensive and efficient security system.

We ensure a safe and healthy working environment by consistently observing the provisions related to Occupational health and safety. We also pay a lot of attention to the introduction and implementation of measures to prevent pandemics.

In accordance with the Fire Protection Act and good practices, we provide fire protection measures. We implement normative, organizational, technical, control and educational measures that effectively reduce the risk of fire.

Customer Data Protection and Privacy

The SKB Group is aware that strict protection of customer's confidential information is one of the most important requirements for a confidential relationship between the customer and the service provider, therefore we treat customer data carefully and in accordance with the regulations governing the protection of personal data. The SKB Group regularly monitors novelties and changes in the protection of personal data and is responsible for ensuring compliance in this area. Internal rules for personal data proceeding are established and employees are obliged to handle with data by employment contract and additional declaration on the protection of personal data. In accordance with the General Data Protection Regulation, a Data Protection Officer has been appointed in 2018 and customers can turn to DPO in the event of any questions concerning the processing of their personal data and in the event of the exercise of their rights under the regulations.

4.4. Human Resources Policy

The scope of human resources policy of the SKB Group, as a responsible employer, is to adequately understand and anticipate the challenges and upcoming changes both in the business and banking environment. In 2023, in the field of human resources, we focused primarily on the following areas: employee development of skills and competences, culture development and change management, flexible working environment and employee dedication and commitment.

Developing of knowledge

The development of knowledge and skills is a key activity for the successful development of the group, key both for performing quality work and for implementing changes brought about by changes in the environment, legislation, business trends and changed processes. With changes in the banking and global environment, the expectations from our customers, business processes and technology also changed. With the aim of developing knowledge and skills, we increased the number of training hours to a total of 33.665 hours in 2023, enabling employees to receive an average of 40.76 hours of training.

Within the framework of leadership development, we paid special attention to change management skills, which are becoming key management skills in today's fast-changing environment.

Cultural development and change management

The organizational culture of the SKB Group is based on common values, behaviors and skills that put our customers and their needs at the center. Our values of stability, connectedness, expertise, sustainability and constant development are included in our management model, and we encourage employees to develop the desired behaviors, skills and knowledge.

In 2023, we paid special attention to cooperation and integration. We took care of greater transfer of information, more intensive communication and connectedness of colleagues between departments, areas and subsidiaries of OTP bank in Slovenia. We organized many events, meetings and gatherings where colleagues from different groups met. In addition to three major events for all employees, we organized numerous meetings of employees from different sectors and divisions, and for the first time we introduced cross bank team building within the OTP Group. Our associates also participated in several cross bank functional meetings and gatherings within OTP Group.



Flexible working environment

At the SKB Group, we enable hybrid work, which contributes to employee satisfaction and the reputation of the employer. We enable employees, whose nature of working position allows it, to work from home up to three days a week or 12 days a month. With this approach, we want to make it easier for workers to coordinate their work and private lives and to be more satisfied with the work environment.

Employee dedication and commitment

We pay special attention to the dedication of our employees, as this is of key importance for the success of the Bank. In recognition of individual contribution, the SKB Group follows internal guidelines for rewarding employees, which are based on achieved results, demonstrated values and behaviors and encourage individual progress. The SKB Group rewards the best employees for their successful work and motivates them to continue their performance and rewards successful employees through different incentives.

With the aim of active two-way communication, we conducted three different surveys to measure employee satisfaction and commitment and adapted the action plan to the actual needs and suggestions expressed by our employees. Key activities relate primarily to improving communication and mutual collaboration, care for health and well-being, and employee development.



4.5. Respect for Human Rights

The SKB Group ensures and promotes respect for human rights arising from the Universal Declaration of Human Rights. It also operates in accordance with the United Nations Guiding Principles on Business and Human Rights, which are also binding for all SKB employees and its partners. The SKB Group aims to create a working and business environment in which individual differences are accepted and appreciated. All forms of discrimination based on person's true or presumed characteristics, including but not limited to race, gender, nationality, religious or ideological beliefs, gender identity, ethnicity, disability, sexual orientation, political or other views, marital status, etc. are prohibited.

4.6. Ensuring Ethical Business Conduct, Strengthening Integrity and Preventing Corruption

The SKB Group has adopted the Code of Ethics, which sets out clear and unambiguous guidelines and requirements relating to the ethical business and strengthening of integrity, both for the SKB Group and for everyone associated with it. In accordance with the Code of Ethics, the SKB Group is committed to ensure compliance, zero tolerance to corruption, the prevention of conflicts of interest, protection of whistleblowers and respect for human rights. Internal rules, established by the SKB Group on the prevention of corruption, prevention of conflicts of interest and the provision of business ethics are based on the internationally established best practices and anti-corruption principles of the OTP Banking Group.

Compliance with the rules of ethical conduct within the Bank is supervised by the Ethics Committee in accordance with the principles and expected forms of conduct set out in the Code of Ethics, while the topic is also included in the work of the Committee on Operational Risks and Compliance, which meets quarterly.

SKB Bank conducts and regularly updates special internal training on the content of anti-corruption, the prevention of conflicts of interest, the Code of Ethics and the protection of whistleblowers. These trainings are mandatory for all employees, and additional targeted and in-depth trainings are provided for management and more risk prone positions at the SKB Group.

The SKB Group has, in accordance with applicable legislation and good practices, an established whistleblowing system, which protects the identity of whistleblowers and prevents from possible retaliation against them. The SKB Group regularly educates its employees and raises their awareness, strengthening the culture of zero tolerance for corruption and retaliation against whistleblowers, thus nurturing the speak up culture.

4.7. Social Inclusion and Development of Society

At SKB Bank, we believe that even a small incentive can make it possible for those individuals and groups who work hard and persevere to achieve their dreams and goals. That is why SKB Bank is committed to being actively involved in the wider community in a multitude of ways. Our support is consistently demonstrated in the form of long-term sponsorships, donations, and other forms of involvement in cultural, sports, educational, humanitarian and philanthropic organisations and their projects. At the end of 2023, more than 200 of our employees took part in an in-house charity challenge campaign, which resulted in a number of charitable actions: we gave presents to children and the elderly, donated to various associations, helped homeless cats and dogs, made donations and provided assistance to the homeless, carried out an outdoor clean-up campaign, took part in blood drives, and reached out to the elderly. SKB Bank honoured the good work done by our employees and made a donation of 10,000 EUR to the Red Noses Association.



Education and culture

At SKB Bank, we are committed to continuous personal and professional development of our employees and to their education. We know that investing in our employees' talents is also an investment in our business and in the Bank's future success. We are also a supporter of the Slovenian culture and will continue our season sponsorship of the SNG Opera and Ballet Ljubljana in the 2023/2024 season. We also encourage the SKB Group's employees to enjoy the performances and engage in the arts by providing them with a discount on the regular ticket prices for the performances. With the thriving Slovenian cultural environment in mind, we continued our sponsorship of the 30th Manager's Concert for Talented Musicians in 2023, which amazed us once again with its young musical talents, its repertoire of selected masterpieces and its inspiring performances.



In 2023, we also put a special emphasis on improving financial literacy. Although research shows that Slovenians are among the most financially literate nations, there is still room for improvement. Knowing your basic banking products, especially savings and personal finance management, is definitely the first priority.

With this in mind, we have launched activities aimed at improving the financial literacy of Slovenians. Financial literacy is the key to effective and prudent financial decision-making for each and every one of us. People commonly believe that it is impossible to save or invest with small amounts of money. This is, of course, a misconception - managing your budget or your family's budget in a systematic way is the key. We have tried to shed light on these and similar topics with a series of animated videos, starring the Bogataj family. In the videos, each member of the family faces important decisions at different times and in different circumstances in their lives, all with the desire to ensure their financial well-being and future as worry-free as possible. And by taking a few important steps, they all succeed in their endeavours.



Job creation and skills development

The current labor market is very dynamic and offers a range of different opportunities for desired candidates. At the SKB Group we are aware of strategic importance of recognizable employer brand. In 2023, 68 new employees joined our bank and they were successfully integrated in our culture and work environment, through our onboarding and mentoring processes. We are aware that the recognizable employer brand is crucial for the visibility and attractiveness in the labor market, so we prepare various activities to ensure the satisfaction of our employees, who are the ambassadors of our brand.

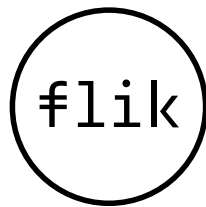
At the SKB Group, we offer employees a flexible work environment, with the possibility of working from home, while taking care of their personal and professional development. In addition to professional expert development, we ensure the development of soft skills, management and leadership skills and also for interconnection. Last year, we paid special attention to the skills of change management, which are becoming key management skills for collaboration in the changing environment.

In 2023, special attention was paid to the communication and collaboration, both by providing greater information flow, more intense communication and connecting colleagues between departments, areas and within the OTP Group. We also offer employees involvement in many projects, events, sports activities that connect us and consolidate our employee engagement.

Technology development and accessibility

At SKB, we are always on top of trends in technology, providing our clients with a fast, easy, and flawless way to use the bank – in person or remotely. This is why we have put great emphasis on development, digitisation and automation projects. We recognise the importance of having technically skilled employees in our bank who can develop new technological solutions. We are also moving forward with one of our biggest technology projects of all time, the Digital Banking Channel Redesign, which will offer new, modern, flexible digital channels to clients from all segments. Our digital channels are designed to meet the needs of our clients, as well as to comply with laws, regulations, and directives, and we also place great emphasis on the security aspect of digital business and environmentally friendly processes. Our development projects are guided by the agile methodology approach, which we believe is the optimal response to the fast-changing banking and digital environment. The ultimate objectives of our development projects are to completely replace the existing digital solutions for all segments and to allow us become the bank with the best digital solution on the Slovenian market. One of our projects will pilot innovative digital solutions, with the possibility of implementing the redesigned solutions at the level of the entire OTP Group.

We have participated in the creation of the Slovenia pays digitally campaign to promote and encourage the use of card payments across Slovenia. At the end of the year, we were proud to report that the Flik mobile application is becoming an increasingly indispensable tool for instant payments in Slovenia, with more than half a million users. SKB Bank's clients use Flik more than the average Slovenian Flik user.



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An important aspect in sales is the smart use of data and customer clustering to identify customer needs and opportunities for the bank. Through agile marketing, we have developed tools to use insights from customer data (clustering) to help us make strategic and tactical decisions to find tailored solutions for our clients. We are also developing our own artificial Intelligence (AI) solutions for optimising internal processes in analytics and direct campaign management. Our new multi-channel and multi-phase direct campaign model is designed to effectively reach and engage target audiences.

Wealth and income creation

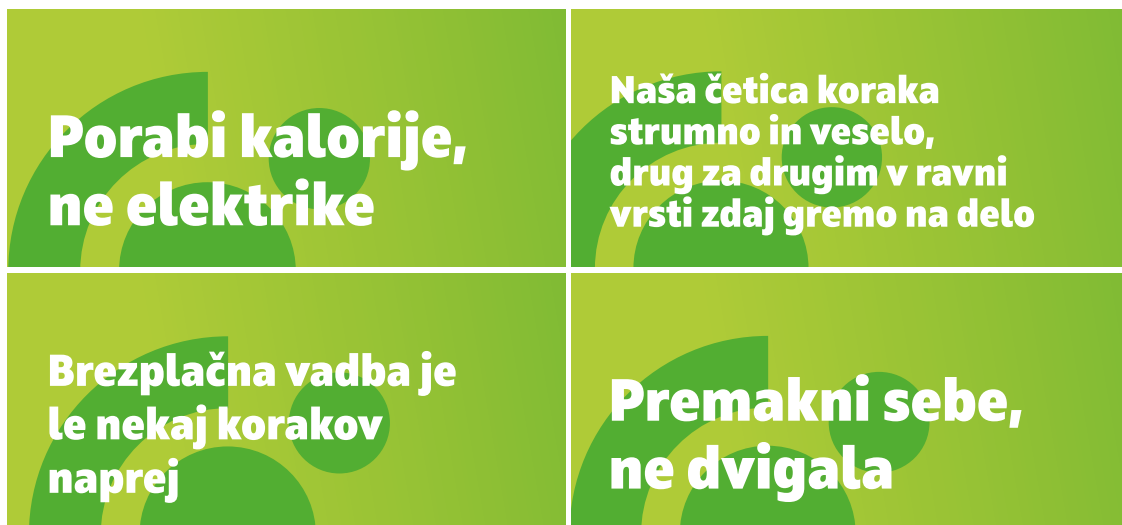
Through our partnerships, we are expanding our visibility, especially in the youth segment, and working with local partners to help us attract quality clients. SKB Group is committed to engaging and involving local suppliers in our ongoing projects and challenges. Our goal is to play our part in supporting the development and growth of the Slovenian professionals and companies. With a view to cooperation and involvement in our local environment, we monitor and support local projects and community initiatives. We are constantly asking ourselves what more banks can and should do, as we are aware of our important role in the economy. As institutions primarily engaged in the financing of the economy, we have an extremely important influence on the structure of economic activities and, consequently, on their impact on the environment.

Health

At SKB Bank, we recognise that only healthy and satisfied employees can also be productive individuals, who collectively create a goal-oriented and supportive work environment. That is why we encourage our employees to keep physically active, which benefits both our health and well-being and strengthens our sense of connection and belonging.

Our sports ambassadors are also instrumental in reinforcing and raising awareness of the importance of a healthy and active workplace. One of our ambassadors is Maruša Mišmaš Zrimšek, a top Slovenian athlete who has been working with us for several years with great results. Maruša is always keen to join our in-house initiatives, where she works with us to encourage our employees to exercise and lead a healthy lifestyle. As part of the European Week of Sport events, Maruša helped us run an active break session for our employees, where they were able to learn some simple exercises for a quick workplace workout. Employees also took part in an in-house challenge, encouraging staff to hold regular exercise sessions within their teams. To assist with the organisation and execution of the exercise sessions, we have provided our staff with workout videos.

We also encourage employees to use the stairs instead of the elevators and to take care of their health wherever and whenever they can. To this end, we have put up some friendly and funny signs on the walls and lifts of our office building, reminding people to stay active.



We are proud holders of the European certificate in the area of promotion of sports and physical activities in the workplace, the WAC - Workplace Active Certification. There is also an active SKB Bank Sports Association, which regularly provides employees with information on the importance of exercise, co-finances sports activities and organises various sporting events and competitions.



Socially responsible investments

SKB Bank takes a prudent and long-term approach to social investment. As such, we have been the main sponsor of the Slovenian Olympic Committee since its inception, celebrating 30 years of successful cooperation in 2023. Our commitment to Slovenian sports through our main sponsorship of the Slovenian Olympians has also always been about encouraging our employees to be active, not least through our support of the Sports for Everyone project. We also recognise that through our sponsorship, we encourage Slovenian athletes and Slovenian sports to reach their goals.



GLAVNI SPONZOR

Never forgetting about the most vulnerable among us, in 2023 we made significant donations to the Firefighting Association and Mountain Rescue Association during the summer floods, helped young promising athletes with a donation to the Sports Foundation and, at the end of the year, we put smiles on the faces of young hospital patients with a donation to the Red Noses Association.

The SKB Bank staff joined forces to contribute to some good causes. We launched a charity challenge where our employees donated their time through acts of kindness. More than 200 employees responded to the appeal to show gratitude and responsibility towards the community and the environment, carrying out many good deeds as individuals or in groups. SKB Bank donated funds to the Red Noses Association in recognition of the kind actions of our employees.





Expertise

We develop our potential and educate ourselves.

We have the appropriate expertise, which is reflected in our caring attitude towards clients and the environment.

5. Corporate Governance

5.1. Organization of Internal Controls System

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 organization of a system of internal controls to which the Board of Directors gives its approval.

The internal line of defense of the SKB Group is comprised of internal governance and internal control functions. Internal governance is achieved by the SKB Group by formulating and operating an appropriate structure, organization, 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: independent risk management function, compliance function, internal audit, ICT security and general security function and AMLFT 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 organizational 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 at 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 at SKB d.d. is further divided into the following levels (model of three lines of defense):

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

As part of the permanent supervision in functional terms, 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, 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 their 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 organizational 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 authorizations, 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 organizational unit at 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 the Internal Audit Directorate from the OTP Group, conduct audit and advisory missions, investigations and verifications related to all aspects of business and to the management of the entities within the SKB Group. In line with the international rules and standards and Slovenian regulation on internal governance, SKB has implemented and detailed internal control mechanisms.

5.2. Internal Audit Report in 2023

The Internal Audit department of SKB Bank acts in compliance with the provisions of the Slovenian Banking Act and other relevant legislation, acts in line with the International Standards for the Professional Practice of Internal Auditing, follows the Code of Ethics of Internal Auditors and the Code of Internal Auditing Principles. The Department reports directly to the Bank's Management, Board of Directors and its Audit Committee. Such set up has also been defined in the Internal Audit Charter and supplemented by the Internal Audit Procedure, both aligned within the OTP IAD group organization. The independent set up and efficient governance have been successfully kept unchanged also throughout the year 2023.

The Department is independent and objective, oriented towards a systematic and professional approach to monitoring the decision making process in all the 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. The criteria used in assessing the system of internal controls and efficient risk management are valid legislation and related guidelines, best practices and guidelines of the parent 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's Management and to other areas of the Bank, as well as takes care of increasing risks awareness, fraud prevention and effective internal controls awareness at all organizational levels. Moreover, the Department regularly reviews the Bank's remuneration policy and reports the findings to the Remuneration Committee of the Board of Directors. In line with the OTP Group's approach, the Department also performs group coordinated audit missions according to the defined OTP IAD audit program, common for all OTP 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 Bank's daughter leasing companies (SKB Leasing and SKB Leasing Select).

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

During the year 2023, the Audit Plan was successfully completed by performing 46 planned engagements. At the end of December 2023, two reports were in status "draft report issued" and were finalized during January 2024. One mission, outsourced to external audit company, related to the review of external provider, was also completed in January 2024. One audit mission, foreseen in the confirmed Annual Audit Plan, was cancelled with the consent of the Board of Directors, due to objective reasons. There were also few special investigations performed due to fraud suspicions, or based on specific management request or deriving from changed risk profile. Internal Auditors were also involved in three audit engagements led by audit team of the parent banking group. In addition, Internal Auditors devoted significant time to assure strict and regular follow up of open recommendations, including recommendations issued by the Bank of Slovenia, they gave advice, while constantly assuring enriched expertise within the team of 9, resulting in fulfilling also the mandatory requirements of appropriate knowledge, experiences and licenses.

On a regular basis, the Department prepared comprehensive reports for the Audit Committee and Board of Directors, highlighting the main findings and recommendations issued. During 2023 internal auditing, the Department did not encounter any critical risks or importantly deficient control environment that would endanger the stability of the Bank. Based on the audit missions' conclusions, the Department can confirm adequate management of the most important risks, adequate control environment and corporate governance, with some additional activities needed and already foreseen in some areas. For all audit findings and given recommendations, action plans have been agreed and some resulted in important projects for the Bank, accompanied also by the regulator's requests. Within its review of remuneration policy set up and implementation, the Department assessed these activities as adequate. Following up on the realization of issued recommendations, the Department establishes that the recommendations have been in majority implemented in line with the initially set deadlines, with few exceptions related to important Bank's 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 parent banking group and by sharing the knowledge with other Slovenian 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 foundation 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 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 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 behavior, 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 of 31 December 2023, the Group had a very solid capital position, which reflects the total capital ratio of 21.27 %.

5.3.3. Credit Risks

Corporate banking

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 from 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 good knowledge of a client and an in-depth understanding of the nature of its business, the structure and purpose of the transaction, as well as the sources of repayment.

Sensitive customers are included in the customer list for regular and systematic monitoring (watch list). In 2023, SKB Bank improved its early warning system (EWS) for monitoring customers with additional indicators and continued with assessment of customers' sensitivity with regard to energy crisis, inflation impact on prices of input material and impact of interest rates on their operations. Special attention was paid to corporates facing damage from floods and activities were focused on providing first priority in handling customers' requests.

Retail Banking

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

In the small and mid-sized companies (sole proprietors, associations and micro-enterprises), similarly to the corporate credit risk assessment process, the final customer risk profile is defined by credit rating, which is the basis for the credit decision-making process. Rating process is fully automatized and assures better predictability and also promptness, since ratings are updated on monthly basis. Credit policy is implemented in the approval tool (application), and final decision is based on good knowledge of client, an in-depth understanding of nature of its business and purpose of the transaction.

Both segments are monitored with automated algorithms through regular monthly reports of portfolio monitoring, which consists of various portfolio quality measurements, such as vintages (LR, MR and HR curves), unpaid instalments, demographic data and others. Based on wide range of client's data, we perform various additional analyses for the purpose of detecting important changes in the portfolio and changing customer behavior patterns.

5.3.4. Market Risks

The SKB Group and the companies of 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 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 (Profit & Loss) limits and risk value limits (Value at Risk). 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, analyzing 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 actual and potential operational losses related to credit risk, monitoring the implementation of action plans to reduce operational risk and identifying and preventing fraud.

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

5.3.6. ESG - Environmental, Social and Governance Aspects of Risks

Banking sector is invited and required to lead the European economy to sustainable transition following 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. Banks with its financing role can substantially support the change of its clients' business models and thus contribute to the transition to low-carbon and more circular economy.

For both 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.

SKB Bank has been taking an active approach to the ESG risk management since 2021, 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:

- On the list of all types of risks, we consider the attribute of climate and environmental impacts (on credit risk, liquidity risk, operational risk, reputation risk, etc.). Namely, the ESG risk is not considered as an independent risk, but rather as one that changes the existing risk exposures.
- Together with the Bank's Management and representatives of OTP we have formulated strategic goals for targeted green loan portfolio by 2025, development of green products, measurement and activities to decrease our own greenhouse emissions as well as the emissions caused by our investments.
- To be able to set up key strategic indicators, we started to form and randomly upgrade a unified database. With increased number and quality of data we shall be able to monitor and analyze various aspects of ESG in the Bank.
- In order to raise awareness of the importance of the accelerated transition to a low-carbon economy, we organized initial training for all employees, many of them attend webinars and other available trainings and workshops while all employees are additionally informed in the internal newsletters about innovations and progress in the Bank. Our employees on various managerial levels are regularly informed about the activities in progress and their status and in addition seminars are organized for them to update them with novelties and challenges regarding the environment.
- The professional exchange of information is conducted within the coordination group, which includes representatives of relevant organizational units of the SKB Group.
- Within Slovenian Banking Association and its working groups, we actively participate in launching initiatives and proposed activities, unified approaches and exchange of views.
- Special attention is paid to regulatory requirements, especially those of the chief banking supervisor.
- For the operational implementation of important 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 organized a project work through which we will gradually contribute to the sustainable growth of our economy together with the parent OTP Bank.
- Activities and progress in the ESG area including decision making is performed by newly established ESG Committee and the Board of Directors of SKB Bank is regularly informed of all activities.

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 about importance of required changes.

5.4. Corporate Governance Statement of the SKB d.d.

In order to achieve a high level of transparency in the management, SKB d.d. issues management declaration as a part of the business part of the Annual Report. SKB d.d. implements internal governance arrangements in accordance with the legislation and regulations in force in the Republic of Slovenia, while respecting internal acts and the guidelines of the parent company. SKB d.d. fully considers the acts referred to in the second paragraph of Article 9 of the Banking Act²⁶.

In order to strengthen the internal governance arrangements in our operations, we consider, 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 banks²⁷ 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, based on relevant decisions of the Bank of Slovenia on implementation of these guidelines²⁸.

²⁶Banking act (ZBan-3), Official Gazette of RS, nb 92/21 and 123/21 – ZBNIP;

²⁷Regulation on Internal Governance Arrangements, the Management body and the Internal Capital Adequacy Assessment Process for Banks and Savings banks, Official Gazette of RS, nb 115/21;

²⁸<https://www.bsi.si/en/financial-stability/regulation>.

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

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

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

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

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

The Bank has an effective risk management system in the field of prevention of money laundering and terrorist financing in line with the law²⁹.

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

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

The SKB Group has established and maintains a multi-level system of internal controls, consisting of daily / operational controls and periodic controls, which include permanent and managerial control. Additionally, the Group has set up monitoring and reporting of significant deviations in financial reporting on a quarterly basis. With the established controls, the Group reduces the risks of inadequate or misleading financial reporting that it regularly evaluates, and it also regularly reviews the control mechanisms. More information on the established risk management systems and on the internal control system is provided in Chapter 5.1. Organisation of Internal Control System.

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

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

Shareholders Equity and SKB Shares

The share capital of the Bank as of 31 December 2023 amounts to 52,784,176.26 EUR, 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 dematerialized 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 in Ljubljana, which carries out all procedures of share transfer in line with the law.

The share capital of the Bank and the number of shares remained unchanged in 2023. The OTP Bank Nyrt is the only shareholder with a 100-percent stake in the Bank.

Shareholders' Equity structure	SKB GROUP		SKB BANK		SKB LEASING		
	amounts in K EUR	31. 12. 2023	31. 12. 2022	31. 12. 2023	31. 12. 2022	31. 12. 2023	31. 12. 2022
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		(23,494)	(39,330)	(23,405)	(39,242)	(102)	(88)
Reserves from profit		29,106	29,106	29,106	29,106	2,181	2,181
Retained earnings		302,507	241,429	293,289	229,679	2,021	2,021
Income from current year		76,533	61,058	82,873	63,592	2,330	8,923
Total Shareholders' Equity		541,497	449,108	538,709	439,980	28,499	35,105

²⁹Prevention of Money Laundering and Terrorist Financing Act (ZPPDFT-2), Official Gazette of RS, nb 48/22, 145/22

SKB Share – in EUR	2023	2022
Net assets per share as of 31 December on a consolidated basis	42.81	35.50
Earnings per share on a consolidated basis	6.05	4.83
Net assets per share as of 31 December – the Bank	42.59	34.78
Earnings per share – the Bank	6.55	5.03

Shareholder's Structure

As of 24 June 2020, OTP Bank Nyrt is the only shareholder with a 100-percent stake in the Bank.

As of 31 December 2023, the Bank had no treasury stock.

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

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

The 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 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 lasts four years. Candidates for the members of the Management Board are proposed by the adequate function within the controlling company and/or invited to their candidature by the Nomination Committee.

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

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

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

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

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

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

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

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

The General Meeting shall decide on:

- Use of balance sheet profit,
- Appointment and dismissal of the members of the Board of Directors,
- Granting discharge to the members of the Board of Directors,
- Amendments to the Statute,
- Measures to increase or reduce the share capital,
- Dissolution of the Bank and status-related changes,
- Appointment of an auditor,
- Adoption of the Rules governing its functioning,
- Other matters according to the applicable law.

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

In accordance with the Articles of Association of SKB d.d. and the Companies Act, the General Meeting has to be convened at least once per calendar year. In 2023, four General Meetings of Shareholders were convened.

At its 39th session the General Meeting, held on 7 February 2023, the General Meeting adopted two resolutions, by which the General Meeting:

- Took notice of the resignation of the member of the Board of Directors, Miklós Németh, which was submitted in writing on 12 December 2022 with immediate effect;
- Established that the Board of Directors consists of seven members, which does not affect the rights of workers to elect workers' representatives as members of the Board of Directors in accordance with the regulations on workers' participation in management;
- Appointed György Gáldi to the Board of Directors as a new member, whose mandate shall last four years from the date of appointment, and established that the appointed member of the Board of Directors has been appointed in accordance with the applicable Banking Act and the Companies Act and Regulation of the Bank of Slovenia on the internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks;
- Confirmed the changes and amendments to the Policy for assessment and the selection of suitable candidates for appointment of members of the Board of Directors of SKB banka d.d. Ljubljana.

At its 40th session, held on 31 March 2023, the General Meeting adopted four resolutions, by which the General Meeting:

- Became familiar with the audited Annual Report of Ernst&Young d.o.o., the report of the Board of Directors on the Annual Report of the SKB Group for 2022, the resolution of the Board of Directors on the adoption of the Annual Report of the SKB Group and the resolution of the Board of Directors on the adoption of the Report on Internal Auditing in 2022;
- Established that the balance sheet profit for the financial year 2022 amounted to 288,705,672.59 EUR, with a net profit for the year 2022 representing 63,592,263.27 EUR, and decided that distributable net profit will not be distributed and remains unallocated and that net profit is transferred from net profit of business year 2022 to retained earnings;
- Granted a discharge to the members of the Board of Directors for their work in the business year 2022;
- Approved the annex to the contract on the performance of the function of Chief Executive Officer to be concluded with Anita Stojčevska, and the annex to the contract on the performance of the function of Deputy Chief Executive Officer to be concluded with Vojka Ravbar, both of which apply as of 1 January 2023 onwards.

At its 41st session, held on 28 June 2023, the General Meeting adopted two resolutions, by which the General Meeting:

- Decided that the members of the Board of Directors – Non-executive Officers shall receive a monthly remuneration of 1,200.00 EUR net for performing their function and the President of the Board of Directors shall receive 2,000.00 EUR net monthly for the chairmanship;
- Decided that members of the Board of Directors and its Committees who are not employed at the SKB Group / OTP Group, are entitled to reimbursement of travel expenses and other expenses related to the performance of the function;
- Decided that SKB d.d. shall not pay out the profit sharing or rewards with options nor other comparable financial instruments to the members of the Board of Directors – Non-executive Officers and members of the Committees for their work in the Board of Directors and its Committees;
- Decided that the Resolution on the amount of remuneration of the members of the Board of Directors and its Committees adopted at the 35th General Meeting of Shareholders of SKB d.d. on 11 May 2020 ceases to apply;
- Established that the new member of the Board of Directors, György Gáldi, appointed at the 39th General Meeting of Shareholders held on 7 February 2023, was granted permission by the Bank of Slovenia by decision of 4 April 2023 to perform the function of a non-executive member of the Board of Directors of SKB d.d. Ljubljana, by which his mandate commenced.

At its 42nd session, held on 28 September 2023, the General Meeting adopted three resolutions, by which the General Meeting:

- Established that the Board of Directors consists of nine members, which does not affect the rights of workers to elect workers' representatives as members of the Board of Directors in accordance with the regulations on workers' participation in management;
- Appointed Miro Cepec to the Board of Directors as a new member, whose mandate shall last four years from the appointment, and established that the appointed member of the Board of Directors has been appointed in accordance 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 Spyridon Ntallas to the Board of Directors as a new member, whose mandate shall last four years from the appointment, and established that the appointed member of the Board of Directors has been appointed in accordance 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;
- Established that both new members of the Board of Directors have been appointed in accordance with the provisions of the Banking Act under the suspensive condition, which apply if the individual appointed member of the Board of Directors obtains authorisation to perform the function of a member of the Board of Directors of SKB d.d. and under the resolutive condition, which apply if, within fifteen days following the receipt of the resolution on the appointment as a member of the Board of Directors of the bank, no application is filed for the issuance of authorization to perform this function, or if such an application is withdrawn, or if the application for authorization to perform the function of a member Board of Directors is discarded or rejected.

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

Board of Directors of SKB d.d.

In the period from 1 January 2023 until 7 February 2023, the Board of Directors was composed of six (6) members, namely:

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

In the period from 7 February 2023 until 4 April 2023, the Board of Directors was composed of six (6) members, namely:

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

In the period from 4 April 2023 until 07 November 2023, the Board of Directors was composed of seven (7) members, namely:

- Anna Mitkova Florova, President
- Attila Kovacs, Deputy President
- Imre Bertalan, member
- Draga Cukjati, member
- Gyorgy Galdi, member
- Anita Stojčevska, member, Chief Executive Officer
- Vojka Ravbar, member, Deputy Chief Executive Officer

In the period from 7 November 2023 until 31 December 2023, the Board of Directors was composed of eight (8) members, namely:

- Anna Mitkova Florova, President
- Attila Kovacs, Deputy President
- Imre Bertalan, member
- Draga Cukjati, member
- Gyorgy Galdi, member
- Anita Stojčevska, member, Chief Executive Officer
- Vojka Ravbar, member, Deputy Chief Executive Officer
- Spyridon Ntallas, member, Deputy Chief Executive Officer

In the period from 1 January 2023 until 23 January 2023 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 Kovacs, President
- Draga Cukjati, member

Remuneration Committee:

- Imre Bertalan, member
- Anna Mitkova Florova, member

Nomination Committee:

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

In the period from 23 January 2023 until 7 February 2023 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 Kovacs, President
- Draga Cukjati, member
- Imre Bertalan, member

Remuneration Committee:

- Anna Mitkova Florova, President
- Imre Bertalan, member
- Attila Kovacs, member

Nomination Committee:

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

In the period from 7 February 2023 until 26 June 2023 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 Kovacs, President
- Draga Cukjati, member
- Imre Bertalan, member

Remuneration Committee:

- Imre Bertalan, President
- Anna Mitkova Florova, member
- Attila Kovacs, member

Nomination Committee:

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

In the period from 26 June 2023 until 11 July 2023 the members of the Committees of the Board of Directors were:

Audit Committee:

- Draga Cukjati, President
- Imre Bertalan, member
- Gyorgy Galdi, member

Risks Committee:

- Attila Kovacs, President
- Draga Cukjati, member
- Gyorgy Galdi, member

Remuneration Committee:

- Imre Bertalan, President
- Anna Mitkova Florova, member
- Attila Kovacs, member

Nomination Committee:

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

In the period from 11 July 2023 until 31 December 2023 the members of the Committees of the Board of Directors were

Audit Committee:

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

Risks Committee:

- Attila Kovacs, President
- Draga Cukjati, member
- Gyorgy Galdi, member

Remuneration Committee:

- Imre Bertalan, President
- Anna Mitkova Florova, member
- Attila Kovacs, member

Nomination Committee:

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

Information on participation of the members of the Board of Directors in the function of members of the governing body as of 31 December 2023:

Imre Bertalan is

- non-executive member of the Board of Directors of SKB Banka d.d. Ljubljana
- non-executive member, President of the Supervisory Board of Nova KBM d.d., Maribor

Draga Cukjati is

- non-executive member of the Board of Directors of SKB Banka d.d. Ljubljana
- President of the Audit Committee, BTC d.d., Ljubljana

Attila Kovacs 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

Anna Mitkova Florova is

- president 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 Supervisory Board of OTP Ingatlanpont Ltd.

Gyorgy Galdi is

- non-executive member of the Board of Directors of SKB Banka d.d. Ljubljana

Anita Stojčevska is

- executive member of the Board of Directors of SKB banka d.d. Ljubljana
- non-executive member of the Supervisory Board of Pension Company A d.d. Ljubljana

Vojka Ravbar is

- executive member of the Board of Directors of SKB banka d.d. Ljubljana

Spyridon Ntallas is

- executive member of the Board of Directors of SKB banka d.d. Ljubljana

General Management of SKB d.d. in the period from 1 January 2023 until 7 November 2023

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

General Management of SKB d.d. in the period from 7 November 2023 until 31 December 2023

- Anita Stojčevska, Chief Executive Officer
- Vojka Ravbar, Deputy Chief Executive Officer
- Spyridon Ntallas, 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 the 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. At 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 the European Banking Association questionnaire and questionnaire of the Bank of Slovenia) as well as the assessment criteria, like for example reputation criteria (potential criminal proceedings, judicial proceedings, proceedings with regulatory bodies, connotations in media, etc.), experience criteria (professional career, education level, work experience, trainings, etc.) and management criteria, including time availability (possible conflict of interests and expectations, time available 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 that are relevant to, and available for the assessment, should be taken into account, irrespective of where and when they occurred.

The implementation of suitability assessment for 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 ensures that SKB d.d. shall have a solid corporate system with clearly defined organization 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 conducted:

- On annual basis,
- In case of potential reappointment to the same function or position,
- In case of events that make a reassessment of suitability necessary (e.g. major changes in the 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 for 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 for 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 for 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 for the members of the Board of Directors, the Nomination Committee respected the adopted criteria and re-assessed, also in 2023 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 performed 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 of 31 December 2023, the Board of Directors consisted of eight (8) members - four (4) women and four (4) men, of various age, educational 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, 07. 03. 2024



Vojka Ravbar

namestnica glavne izvršne direktorice



Spyridon Ntallas

Namestnik glavne izvršne direktorice



Anita Stojčevska

glavna izvršna direktorica

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 2023 there was no disadvantage for SKB d.d., which would have to be replaced.

Ljubljana, 07. 03. 2024



Vojka Ravbar
namestnica glavne izvršne direktorice



Spyridon Ntallas
Namestnik glavne izvršne direktorice



Anita Stojčevska
glavna izvršna direktorica

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 2023 there was no disadvantage for SKB Leasing d.o.o., which would have to be replaced.

Ljubljana, 07. 03. 2024



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

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 2023 there was no disadvantage for SKB Leasing Select d.o.o., which would have to be replaced.

Ljubljana, 07. 03. 2024



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

Directors of Divisions on high-level managerial positions, but not being members of the Board of Directors as at 31. 12. 2022:

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

- Maja Šetina, 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

Secretariat Generale:

- Vojka Ravbar, Director of Secretariat Generale Division

6. Important Data and Business Performance Indicators – SKB Group

6.1. Important Information and Indicators Related to the SKB Group Business Operations

SKB Group	2023		2022		2021	
	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	4,592,075	104	4,436,792	116	3,837,940	105
2. Deposits from non-bank clients	3,681,964	101	3,663,630	111	3,287,246	106
a) from legal and other persons	1,606,221	107	1,503,016	114	1,313,024	112
b) from citizens	2,075,743	96	2,160,614	109	1,974,222	102
3. Loans to non-bank clients	2,856,580	96	2,974,743	113	2,626,570	107
a) to legal and other persons	1,292,063	91	1,420,431	122	1,159,580	110
b) to citizens	1,564,517	101	1,554,312	106	1,466,990	105
4. Overall equity capital	541,497	121	449,108	101	442,586	109
5. Provisions and impairments	56,827	91	62,611	75	83,994	86
6. The volume of off-balance sheet business	1,690,726	110	1,541,349	99	1,553,524	114
II. PROFIT AND LOSS ACCOUNT						
1. Net interest	139,723	164	85,161	111	76,768	96
2. Net non-interest income	42,616	92	46,273	102	45,181	106
3. Costs of labour, materials and services	77,111	118	65,259	108	60,469	108
4. Depreciation/amortization	9,901	154	6,443	109	5,896	97
5. Net cost of risk and provisions	1,966	-12	(15,873)	1,400	(1,134)	-6
6. Profit or loss before taxation	93,362	123	75,605	133	56,719	135
7. Tax on profit	(16,829)	116	(14,547)	136	(10,711)	151
Other comprehensive income before tax	18,525		(67,477)		(11,795)	
Income tax relating to components of other comprehensive income	(2,689)		12,981		2,242	
Number of outlets	48		48		48	
III. EMPLOYEES						
Number of employees	913		925		908	
IV. SHARES						
1. Number of shareholders	1		1		1	
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)	42.81		35.50		34.99	

SKB Group	2023		2022		2021	
	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	18.34		14.14		15.03	
2. T1 capital ratio	18.34		14.14		15.03	
3. Total capital ratio	21.27		16.92		15.03	
b) Quality of assets						
1. Non-performing (balance and off-balance sheet) exposure / all balance and off-balance sheet exposure	0,95		1.11		1.49	
2.a Non-performing (balance sheet) exposure / all balance sheet exposure (without cash balances at central banks and other demand deposits)	1.33		1.39		1.91	
2.b Non-performing (balance sheet) exposure / all balance sheet exposure (with cash balances at central banks and other demand deposits)	1.10		1.22		1.70	
3.a All impairment and provisions / non-performing impairment and provisions (without cash balances at central banks and other demand deposits)	83.43		75.01		76.07	
3.b All impairment and provisions / non-performing impairment and provisions (with cash balances at central banks and other demand deposits)	83.43		75.01		76.07	
4. received collaterals / non-performing exposure	7.61		11.91		3.84	
c) Profitability						
1. Interest margin	3.13		2.13		2.06	
2. Financial margin	4.08		3.29		3.27	
3. Return on assets before taxation	2.09		1.89		1.52	
4. Return on assets	1.71		1.53		1.23	
5. Return on equity before taxation	18.98		17.32		13.41	
6. Return on equity after taxation	15.56		13.99		10.87	
d) Operating costs						
1. Operating costs / assets	1.95		1.79		1.78	
e) Liquidity						
1.- Liquidity coverage ratio	318		219		306	
2.- Net stable funding Ratio	145		150		153	
3.- Leverage Ratio	9.87		8.27		9.23	

6.2. Important Information and Indicators Related to the SKB Bank Business Operations

SKB Bank	2023		2022		2021	
	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	4,574,548	103	4,419,908	115	3,828,111	105
2. Deposits from non-bank clients	3,684,765	100	3,672,384	111	3,301,210	106
a) from legal and other persons	1,609,022	106	1,511,770	114	1,326,988	112
b) from citizens	2,075,743	96	2,160,614	109	1,974,222	102
3. Loans to non-bank clients	2,855,817	96	2,965,354	113	2,621,892	107
a) to legal and other persons	1,522,456	93	1,638,494	118	1,391,572	108
b) to citizens	1,333,361	100	1,326,860	108	1,230,320	106
4. Overall equity capital	538,709	122	439,980	102	430,986	111
5. Provisions and impairments	47,093	87	53,859	71	75,820	84
6. The volume of off-balance sheet business	1,690,747	110	1,541,371	99	1,553,547	114
II. PROFIT AND LOSS ACCOUNT						
1. Net interest	128,688	180	71,413	116	62,078	98
2. Net non-interest income	47,829	89	53,447	99	53,577	99
3. Costs of labour, materials and services	70,303	118	59,341	108	55,006	107
4. Depreciation/amortization	8,802	167	5,274	112	4,694	99
5. Net cost of risk and provisions	1,527	-10	(14,877)	503	(2,960)	-14
6. Profit or loss before taxation	95,885	128	75,123	128	58,917	149
7. Tax on profit	(13,012)	113	(11,531)	141	(8,184)	196
Other comprehensive income before tax	18,526		(67,538)		(11,802)	
Income tax relating to components of other comprehensive income	(2,689)		12,981		2,242	
Number of outlets	48		48		48	
III. EMPLOYEES						
Number of employees	825		837		823	
IV. SHARES						
1. Number of shareholders	1		1		1	
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)	42.59		34.78		34.07	

SKB Bank	2023		2022		2021	
	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	17.30		13.30		13.71	
2. T1 capital ratio	17.30		13.30		13.71	
3. Total capital ratio	20.08		15.96		13.71	
b) Quality of assets						
1. Non-performing (balance and off-balance sheet) exposure / all balance and off-balance sheet exposure	0.77		0.90		1.17	
2.a Non-performing (balance sheet) exposure / all balance sheet exposure (without cash balances at central banks and other demand deposits)	1.07		1.10		1.48	
2.b Non-performing (balance sheet) exposure / all balance sheet exposure (with cash balances at central banks and other demand deposits)	0.89		0.96		1.31	
3.a All impairment and provisions / non-performing impairment and provisions (without cash balances at central banks and other demand deposits)	83.62		77.62		81.32	
3.b All impairment and provisions / non-performing impairment and provisions (with cash balances at central banks and other demand deposits)	83.62		77.62		81.32	
4. received collaterals / non-performing exposure	9.08		14.75		4.89	
c) Profitability						
1. Interest margin	2.89		1.79		1.67	
2. Financial margin	3.97		3.13		3.11	
3. Return on assets before taxation	2.15		1.89		1.59	
4. Return on assets	1.86		1.60		1.37	
5. Return on equity before taxation	19.67		17.56		14.52	
6. Return on equity after taxation	17.00		14.87		12.50	
d) Operating costs						
1. Operating costs / assets	1.78		1.62		1.61	
e) Liquidity						
1.- Liquidity coverage ratio	318		219		306	
2.- Net stable funding Ratio	145		150		153	
3.- Leverage Ratio	9.87		8.27		8.87	

VI. Financial Report for SKB Group and SKB Bank

Statement of general management's responsibilities

The General Management of the SKB Bank has approved the financial statements of SKB Group and SKB Bank for the year ended 31 December 2023, 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 2023, 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, 7. 3. 2024



Vojka Ravbar

namestnica glavne izvršne direktorice



Spyridon Ntallas

Namestnik glavne izvršne direktorice



Anita Stojčevska

glavna izvršna direktorica

Independent Auditor's Report



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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 separate statement of financial position and consolidated statement of financial position as at 31 December 2023, the separate income statement and consolidated income statement, the separate statement of other comprehensive income and consolidated statement of other comprehensive income, the separate statement of changes in equity and consolidated statement of changes in equity, the separate statement of cash flows and consolidated statement of cash flows for the year then ended, and the notes to the financial statements including material accounting policy 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 2023 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 EU.

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 uncertain macroeconomic environment

The carrying amount of loans and advances to customers at amortized cost amounts to EUR 2,856 million (or 62% of total assets) at the Bank and EUR 2,857 million (or 62% of total assets) at the Group as of 31 December 2023. As of 31 December 2023, total impairments of the Bank amounted to EUR 42.7 million and of the Group to EUR 52 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.

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.

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



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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 40 million as of 31 December 2023 (Group: EUR 50 million) and total impairments EUR 34 million (Group: EUR 42 million).

Impairments 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 2,858 million (Group: EUR 2,859 million) as of 31 December 2023 and total impairments EUR 9 million (Group: EUR 10 million).

Due to remaining current uncertainties in the macroeconomic environment and geopolitical situation, as a result of the conflict in Ukraine, which internal models cannot capture, apart from regular SICR criteria, additional expert assessment for staging allocation continued to be used in 2023. Based on expert decision, significant increase in credit risk was assessed for companies, significantly impacted by macroeconomic conditions.

As impairments 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 7.3. Credit risk of the separate and consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU.

requirement to calculate an impairment allowance 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.

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 Group's post model adjustments 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 assessed how the Bank and Group incorporated uncertainties related to the macroeconomic environment (rising energy prices, inflation, interest rates and supply chain disruptions) and conflict in Ukraine, on parameters used for the calculation of collective impairments. Credit risk specialists reviewed forward looking information ("FLI") and input parameters used and assess if uncertainties in the macroeconomic environment was adequately reflected on the PD.

We have assessed the adequacy of the Bank's and the Group's disclosures included in Note 7.3. Credit risk, 2.3.4.5. Impairment of financial instruments, 2.4.23. Financial assets measured at amortised cost and 2.4.16. Impairment of the separate and consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU.



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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 the Executive directors and those in charge with governance 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 EU, 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.

Those in charge with governance are responsible for overseeing the Bank's and the Group's financial reporting process and 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 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;



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- 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 those in charge with governance 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 those in charge with governance 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 those in charge with governance, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters.

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.

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 three years. 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 the same date as the issue date of this report.

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.




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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, 7 March 2024


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

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 3


Nena Gvetkovska
Certified auditor

1. Financial Statement of SKB Bank and SKB Group

1.1. Income Statement

	EUR 000	Notes	SKB Group		SKB Bank	
			2023	2022	2023	2022
Interest income and similar to interest income			181,160	107,566	170,122	93,817
Interest income calculated using the effective interest method			163,031	87,125	151,993	73,376
Income similar to interest income			18,129	20,441	18,129	20,441
Interest expenses and similar to interest expense			(41,437)	(22,405)	(41,434)	(22,404)
Interest expenses calculated using the effective interest method			(23,909)	(2,691)	(23,905)	(2,690)
Expense similar to interest expense			(17,528)	(19,714)	(17,529)	(19,714)
Net interest income		2.4.1.	139,723	85,161	128,688	71,413
Dividend income		2.4.2.	25	264	6,985	7,714
Fee and commission income			48,835	50,184	48,114	49,726
Fee and commission expenses			(11,504)	(11,057)	(10,657)	(10,386)
Net fee and commission income		2.4.3.	37,331	39,127	37,457	39,340
Gains and losses on financial assets and liabilities not measured at fair value through profit or loss		2.4.4.	279	(369)	123	206
Gains and losses on financial assets and liabilities held for trading		2.4.5.	1,607	1,912	1,607	1,912
Gains and losses on non-trading financial assets mandatorily at fair value through profit or loss		2.4.6.	(559)	(603)	(559)	(603)
Gains and losses from hedge accounting		2.4.7.	409	558	409	558
Exchange differences		2.4.8.	(7)	(25)	(7)	(25)
Gains and losses on derecognition of non-financial assets		2.4.9.	140	148	0	32
Other operating income		2.4.10.	3,055	5,206	1,813	4,259
Financial and operating income and expenses			182,003	131,379	176,516	124,806
Administrative expenses		2.4.11.	(72,675)	(61,073)	(65,868)	(55,155)
• staff expenses			(48,019)	(39,987)	(43,667)	(36,176)
• other administrative expenses			(24,656)	(21,086)	(22,201)	(18,979)
Cash contributions to resolution funds and deposit guarantee schemes		2.4.12.	(4,435)	(4,186)	(4,435)	(4,186)
Amortisation / depreciation		2.4.13.	(9,901)	(6,443)	(8,802)	(5,274)
Modification gains or losses		2.4.14.	1	49	1	49
Provisions		2.4.15.	(6,834)	5,471	(6,314)	5,482
Impairment		2.4.16.	4,868	10,402	4,787	9,395
Net gains/losses from investments in the capital of subsidiaries, associates and jointly controlled companies in the case of using the equity method		2.4.2.	335	0	0	0
Profit or loss from non-current assets and disposal groups classified as held for sale		2.4.17.	0	6	0	6
TOTAL PROFIT BEFORE TAX FROM CONTINUING OPERATIONS			93,362	75,605	95,885	75,123
Tax expense or income related to profit or loss from continuing operations		2.4.18.	(16,829)	(14,547)	(13,012)	(11,531)
TOTAL PROFIT AFTER TAX FROM CONTINUING OPERATIONS			76,533	61,058	82,873	63,592
Net profit for the financial year			76,533	61,058	82,873	63,592
Profit or loss attributable to owners of the parent			76,533	61,058	82,873	63,592

The accompanying notes 2.4. (Notes to the Consolidated Financial Statements and the SKB Bank's Financial Statements) form an integral part of financial statements.

1.2. Other Comprehensive Income

EUR 000	SKB Group		SKB Bank	
	2023	2022	2023	2022
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAX	76,533	61,058	82,873	63,592
OTHER COMPREHENSIVE INCOME AFTER TAX	15,836	(54,496)	15,837	(54,557)
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	(274)	843	(273)	782
Actuarial gains or losses on defined benefit pension plans	(287)	843	(273)	782
Fair value changes of equity instruments measured at fair value through other comprehensive income	13	0	0	0
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	16,110	(55,339)	16,110	(55,339)
Debt instruments at fair value through other comprehensive income	18,799	(68,320)	18,799	(68,320)
• Valuation gains or losses taken to equity	19,036	(68,631)	19,036	(68,631)
• Transferred to profit or loss	(237)	311	(237)	311
Income tax relating to items that may be reclassified to profit or loss	(2,689)	12,981	(2,689)	12,981
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX	92,369	6,562	98,710	9,035
Attributable to owners of the parent	92,369	6,562	98,710	9,035

The accompanying notes 2.4. (Notes to the Consolidated Financial Statements and the SKB Bank's Financial Statements) form an integral part of financial statements.

1.3. Statement of Financial Position

	EUR 000	Notes	SKB Group		SKB Bank	
			31. 12. 2023	31. 12. 2022	31. 12. 2023	31. 12. 2022
ASSETS						
Cash, cash balances at central banks and other demand deposits at banks		2.4.19.	821,337	553,930	814,023	553,930
Financial assets held for trading		2.4.20.	9,769	11,203	9,769	11,203
Non-trading financial assets mandatorily at fair value through profit or loss		2.4.21.	13,779	20,287	13,779	20,287
Financial assets at fair value through other comprehensive income		2.4.22.	376,912	361,715	376,912	361,715
Financial assets at amortised cost		2.4.23.	3,281,962	3,396,479	3,279,870	3,386,488
• debt securities			139,316	141,755	139,316	141,755
• loans to banks			275,584	271,655	275,584	271,655
• loans to non-bank customers			2,856,580	2,974,743	2,855,817	2,965,354
• other financial assets			10,482	8,326	9,153	7,724
Investments in subsidiaries, associates and joint ventures		2.4.25.	6,214	0	26,403	20,454
Tangible assets			40,371	39,696	29,805	30,914
• property, plant and equipment		2.4.26.	39,288	38,513	27,529	28,552
• investment property		2.4.27.	1,083	1,183	2,276	2,362
Intangible assets		2.4.28.	13,801	14,714	12,265	13,036
Tax assets		2.4.18.	9,834	11,829	7,658	10,144
• current tax assets			0	0	0	0
• deferred tax assets			9,834	11,829	7,658	10,144
Other assets		2.4.29.	18,096	26,939	4,064	11,737
Total assets			4,592,075	4,436,792	4,574,548	4,419,908
LIABILITIES						
Financial liabilities held for trading		2.4.20.	9,328	11,118	9,328	11,118
Financial liabilities measured at amortised cost		2.4.30.	4,011,459	3,952,976	4,004,705	3,951,287
• deposits from banks and central banks			792	588	792	588
• deposits from non-bank customers			3,681,964	3,663,630	3,684,765	3,672,384
• loans from banks and central banks			277,519	250,074	277,519	250,074
• other financial liabilities			51,184	38,684	41,629	28,241
Fair value changes of the hedged items in portfolio hedge of interest rate risk		2.4.24.	197	607	197	607
Provisions		2.4.31.	15,603	9,044	14,444	8,403
Tax liabilities		2.4.18.	3,513	3,512	1,924	3,210
• current tax liabilities			3,513	3,512	1,924	3,210
• deferred tax liabilities			0	0	0	0
Other liabilities		2.4.32.	10,478	10,427	5,241	5,303
Total liabilities			4,050,578	3,987,684	4,035,839	3,979,928
SHAREHOLDERS' EQUITY						
Capital		2.4.33.	52,784	52,784	52,784	52,784
Share premium		2.4.33.	104,061	104,061	104,061	104,061
Accumulated other comprehensive income		2.4.33.	(23,494)	(39,330)	(23,404)	(39,242)
Reserves from profit		2.4.33.	29,106	29,106	29,106	29,106
Retained earnings		2.4.33.	302,507	241,429	293,289	229,679
Income from current year		2.4.33.	76,533	61,058	82,873	63,592
Total shareholders' equity			541,497	449,108	538,709	439,980
Shareholder's equity attributable to owners of the parent			541,497	449,108	538,709	439,980
Total equity and liabilities			4,592,075	4,436,792	4,574,548	4,419,908

The accompanying notes 2.4. (Notes to the Consolidated Financial Statements and the SKB Bank's Financial Statements) form an integral part of financial statements.

1.4. Statement of Changes in Equity

Consolidated statement of changes in equity

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 2023	52,784	104,061	(39,330)	29,106	302,487	449,108
Comprehensive income for the financial year after tax	0	0	15,836	0	76,533	92,369
Other	0	0	0	0	20	20
Balance at 31 December 2023	52,784	104,061	(23,494)	29,106	379,040	541,497
Balance at 1 January 2022	52,784	104,061	15,165	29,106	241,470	442,586
Comprehensive income for the financial year after tax	0	0	(54,495)	0	61,058	6,563
Other	0	0	0	0	(41)	(41)
Balance at 31 December 2022	52,784	104,061	(39,330)	29,106	302,487	449,108

The accompanying notes 2.4. (Notes to the Consolidated Financial Statements and the Bank's Financial Statements) form an integral part of financial statements.

SKB Bank statement of changes in equity

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 2023	52,784	104,061	(39,242)	29,106	293,271	439,980
Comprehensive income for the financial year after tax	0	0	15,838	0	82,873	98,711
Other	0	0	0	0	18	18
Balance at 31 December 2023	52,784	104,061	(23,404)	29,106	376,162	538,709
Balance at 1 January 2022	52,784	104,061	15,315	29,106	229,720	430,986
Comprehensive income for the financial year after tax	0	0	(54,557)	0	63,592	9,035
Other	0	0	0	0	(41)	(41)
Balance at 31 December 2022	52,784	104,061	(39,242)	29,106	293,271	439,980

The accompanying notes 2.4. (Notes to the Consolidated Financial Statements and the SKB Bank's Financial Statements) form an integral part of financial statements.

1.5. Cash Flow Statement

	SKB Group		SKB Bank		
	EUR 000	2023	2022	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES					
Total profit or loss before tax		93,352	75,605	95,885	75,123
Depreciation		9,901	6,443	8,802	5,274
Impairments / (reversal of impairments) of investments in debt financial instruments at fair value through other comprehensive income		(237)	311	(237)	311
Impairments / (reversal of impairments) of loans and other financial assets at amortised costs		(5,798)	(15,401)	(5,650)	(14,404)
Impairments of tangible assets (including investment property), intangible assets and other assets		(93)	(784)	(27)	(784)
Net (gains) / losses from exchange differences		(7)	(23)	(7)	(23)
Net (gains) / losses from sale of tangible assets		0	(32)	0	(32)
Other adjustments to total profit or loss before tax		512	(1,768)	(6)	(1,700)
Cash flow from operating activities before changes in operating assets and liabilities		97,630	64,351	98,760	63,764
(Increases) / decreases in operating assets		(144,041)	(348,224)	(152,578)	(344,553)
Net (increase) / decrease in financial assets held for trading		1,387	(5,575)	1,387	(5,575)
Net (increase) / decrease in non-trading financial assets mandatorily at fair value through profit or loss		321	603	577	603
Net (increase) / decrease in financial assets designated at fair value through profit or loss		0	0	0	0
Net (increase) / decrease in financial assets at fair value through other comprehensive income		2,827	3,638	3,318	3,273
Net (increase) / decrease in loans and other financial assets at amortised cost		(153,626)	(337,236)	(161,674)	(333,333)
Net (increase) / decrease in other assets		5,050	(9,654)	3,814	(9,521)
Increases / (decreases) in operating liabilities		63,595	522,903	58,004	515,907
Net increase / (decrease) in financial liabilities held for trading		(2,103)	5,213	(2,103)	5,213
Net increase / (decrease) in financial liabilities designated at fair value through profit or loss		0	0	0	0
Net increase / (decrease) in deposits, loans and other financial liabilities measured at amortised cost		59,384	517,337	54,320	508,193
Net increase / (decrease) in derivative financial liabilities intended for hedging		(410)	(558)	(410)	(558)
Net increase / (decrease) in other liabilities		6,724	911	6,197	3,059
Cash flow from operating activities		17,184	239,030	4,186	235,118
Income taxes (paid) / refunded		(17,529)	(14,045)	(14,585)	(12,254)
Net cash flow from operating activities		(345)	224,985	(10,399)	222,864

	EUR 000	Notes	SKB Group		SKB Bank	
			2023	2022	2023	2022
CASH FLOWS FROM INVESTING ACTIVITIES						
Receipts from investing activities			8,595	103,338	0	84,607
Receipts from the sale of tangible assets			8,595	18,923	0	192
Receipts from the sale of investments in debt securities measured at amortized cost			0	51,972	0	51,972
Receipts from non-current assets held for sale and liabilities associated therewith			0	32,443	0	32,443
Cash payments on investing activities			(14,730)	(25,803)	(3,395)	(4,952)
(Cash payments to acquire tangible assets)			(12,241)	(22,163)	(940)	(1,339)
(Cash payments to acquire intangible assets)			(2,489)	(3,640)	(2,455)	(3,613)
(Cash payments to acquire non-current assets held for sale and liabilities associated therewith)			0	0	0	0
Net cash flow from investing activities			(6,135)	77,535	(3,395)	79,655
CASH FLOWS FROM FINANCING ACTIVITIES						
Cash receipts from financing activities			0	80,000	0	80,000
Issuance of subordinated debt			0	80,000	0	80,000
Cash payments on financing activities			0	0	0	0
Net cash flow from financing activities			0	80,000	0	80,000
Effects of change in exchange rates on cash and cash equivalents			(270)	(2,854)	(270)	(2,854)
Net increase / (decrease) in cash and cash equivalents			(6,480)	382,520	(13,794)	382,520
Opening balance of cash and cash equivalents		2.4.37.	828,104	448,438	828,104	448,438
Closing balance of cash and cash equivalents		2.4.37.	821,354	828,104	814,040	828,104

The cash flow statement is prepared using the indirect method.

The accompanying notes 2.4. (Notes to the Consolidated Financial Statements and the SKB Bank's Financial Statements) form an integral part of financial statements.

	EUR 000	SKB Group		SKB Bank	
		2023	2022	2023	2022
Cash flows from interest and dividends					
Interest paid		145,874	83,852	141,238	77,811
Interest received		(39,477)	(22,650)	(39,474)	(22,649)
Dividend paid		185,326	106,238	173,727	92,746
Dividend received		0	0	0	0
Dividend received		25	264	6,985	7,714
Cash flows from lease liabilities paid		(1,335)	(1,304)	(1,071)	(1,053)

2. Notes to the Consolidated Financial Statements and the SKB Bank's Financial Statements

2.1. General Information

Official seat, legal form, activities

SKB Bank 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 2023:

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 31 March 2022 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.

Definition of the group

Company	Position	Voting rights (in %)	Place of business
SKB banka d.d. Ljubljana	Parent bank		Ljubljana, Slovenia
SKB Leasing d.o.o.	Subsidiary company	100.00	Ljubljana, Slovenia
SKB Leasing Select d.o.o.	Subsidiary company	100.00	Ljubljana, Slovenia
Bankart d.o.o. ³⁰	Associated company	13.84	Ljubljana, Slovenia

SKB Bank, SKB Leasing, SKB Leasing Select and Bankart 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).

2.2. Preparation of Financial Statements

2.2.1. Basis of Accounting

The consolidated financial statements and the separate financial statements at 31 December 2023 were authorized for issue by the General Management of SKB Bank on 7 March 2024.

The consolidated financial statements and the separate financial statements have been prepared on the assumption that the SKB Bank will remain in business for the foreseeable future.

The consolidated financial statements 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 2023 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.

³⁰ Since the joining of NKBM into OTP Group on the 6th of February 2023, there is coordinated actions of both banks in relation to the management of Bankart investment. As a result, we became an associated company and reclassified the investment in Bankart from Non-trading financial assets mandatorily at fair value through profit or loss to Investments in subsidiaries, associates and joint ventures.

2.2.2. Changes in Accounting Policies

2.2.2.1. Initial Application of New Amendments to the Existing Standards Effective for the Current Reporting Period

The accounting policies adopted are consistent with those of the previous financial year except for the following IFRS amendments which have been adopted by the SKB Group as of 1 January 2023:

- **IFRS 17: Insurance Contracts**

The standard is effective for annual periods beginning on or after 1 January 2023 with earlier application permitted, provided the entity also applies IFRS 9 Financial Instruments on or before the date it first applies IFRS 17. This is a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. IFRS 17 applies to all types of insurance contracts issued, as well as to certain guarantees and financial instruments with discretionary participation contracts.

The SKB Group and SKB Bank do not issue contracts in scope of IFRS 17; therefore its application does not have an impact on the company's/group's financial performance, financial position or cash flows.

- **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.

- **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, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors.

- **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. The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component. 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.

- **IAS 12 Income taxes: International Tax Reform - Pillar Two Model Rules (Amendments)**

The amendments are effective immediately upon issuance, but certain disclosure requirements are effective later. The Organisation for Economic Co-operation and Development's (OECD) published the Pillar Two model rules in December 2021 to ensure that large multinational companies would be subject to a minimum 15 % tax rate. On 23 May 2023, the IASB issued International Tax Reform–Pillar Two Model Rules – Amendments to IAS 12. The amendments introduce a mandatory temporary exception to the accounting for deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules and disclosure requirements for affected entities on the potential exposure to Pillar Two income taxes. The Amendments require, for periods in which Pillar Two legislation is (substantively) enacted but not yet effective, disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes. To comply with these requirements, an entity is required to disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. The disclosure of the current tax expense related to Pillar Two income taxes and the disclosures in relation to periods before the legislation is effective are required for annual reporting periods beginning on or after 1 January 2023, but are not required for any interim period ending on or before 31 December 2023.

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

2.2.2.2. 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):

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current. The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period.

- **IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, being the beginning of the annual reporting period in which an entity first applied IFRS 16.

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.

2.2.2.3. 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):

- **IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments Disclosure - Supplier Finance Arrangements (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments supplement requirements already in IFRS and require an entity to disclose the terms and conditions of supplier finance arrangements. Additionally, entities are required to disclose at the beginning and end of reporting period the carrying amounts of supplier finance arrangement financial liabilities and the line items in which those liabilities are presented as well as the carrying amounts of financial liabilities and line items, for which the finance providers have already settled the corresponding trade payables. Entities should also disclose the type and effect of non-cash changes in the carrying amounts of supplier finance arrangement financial liabilities, which prevent the carrying amounts of the financial liabilities from being comparable. Furthermore, the amendments require an entity to disclose at the beginning and end of the reporting period the range of payment due dates for financial liabilities owed to the finance providers and for comparable trade payables that are not part of those arrangements. The amendments have not yet been endorsed by the EU.

- **IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2025, with earlier application permitted. The amendments specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. A currency is considered to be exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. If a currency is not exchangeable into another currency, an entity is required to estimate the spot exchange rate at the measurement date. An entity's objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions. The amendments note that an entity can use an observable exchange rate without adjustment or another estimation technique. The amendments have not yet been endorsed by the EU.

- **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.

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.

2.2.3. 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.

These estimates are subject to adjustment in the future as a result of:

- changes in economic conditions;
- changes in macroeconomic forecasts;
- changes in customers' repayment capabilities;
- change in collateral values.

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

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 2.3.6. to 2.3.8.

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 2022 SKB Group and SKB Bank made no changes in financial asset management business model. The fair value of financial assets is disclosed in Chapter 4 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 SKB 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, 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 as at 31 December 2023 of 13,199 thousand EUR (value as at 31 December 2022 was EUR 11,885 thousand), which are 100 % depreciated.

SKB Bank still has in use intangible assets at a purchase value at 31 December 2023 amounting to 12,079 thousand EUR (value at 31 December 2022 was 10,907 thousand EUR), 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.

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.

2.3. Summary of Accounting Policies

The significant accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, except for changes in accounting policies resulting from the application of new standards or changes to standards.

2.3.1. 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.

In the consolidated financial statements, investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. In the separate financial statements of the SKB Bank, investments in associates are measured at cost.

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 SKB 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.

2.3.2. 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 2023 and 31 December 2022, 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.

Translation differences on non-monetary items, such as equity instruments classified as financial assets measured at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on equity instruments classified as financial assets measured at fair value through other comprehensive income are included in other comprehensive income, together with the fair value measurement effect.

2.3.3. Cash Equivalents

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;
- Investments in debt securities measured at amortised cost, and investments in debt securities measured at fair value through other comprehensive income, with the original maturity of up to three months, eligible as collateral at the ECB.

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.

2.3.4. Financial Instruments

2.3.4.1. Initial Recognition and Derecognition of Financial Instruments

2.3.4.1.1. 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.

2.3.4.1.2. 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 36,293 thousand EUR as at 31 December 2023 (31 December 2022: 39,619 thousand EUR).

2.3.4.2. 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;
- the characteristics of contractual cash flows.

2.3.4.2.1. 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);
- 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.

2.3.4.2.2. 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.

2.3.4.2.3. 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.

2.3.4.2.4. 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.

2.3.4.3. 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.

In 2023 we reclassified the investment in Bankart from Non-trading financial assets mandatorily at fair value through profit or loss to Investments in subsidiaries, associates and joint ventures.

2.3.4.4. 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.

2.3.4.5. 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 current 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 watch listed client (Watch list 2);
- it is classified as performing forbore;
- its currency suffered a significant "shock" since the disbursement of the loan;
- default on another loan of the retail client, if no cross-default exists;
- in the case household mortgage loans, the loan-to-value ratio (LTV) exceeds a predefined rate depending on macroeconomic conditions;
- in case of invalid rating 10+DPD in the last 6 months;
- In case there is significant change in macroeconomic environment and it results in significant increase in the lifetime credit risk;
- the risk classification of the industry in combination with the rating of the client exceeds a predefined value;
- relative increase in the lifetime PD of a transaction at origination is compared against the point-in-time PD at reporting date

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.

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.

EAD (Exposure at Default)

Exposure means the total of the on-balance sheet and off-balance sheet portfolios. Since expected losses have to be estimated on a year-by-year basis, the exposure at default is also determined for the remaining years of the exposures' expected lifetime. The exposure is in every point additionally adjusted with model based prepayment ratio. 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 or internal statistical models. 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. For the estimation of CCF parameter internal statistical models are used based on 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 and is calculated based on segment, product and rating. PD parameter must be consistent with the cure rates.

Loss Given Default (LGD)

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

- portfolio 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 judgement.

Methodological changes in expected credit loss calculation in year 2023

In year 2023 there were no major changes implemented in methodology of expected credit loss calculation.

Expert judgement

The SKB Group is using expert judgment to allocate clients to stage 2 in parallel with regular rules. In year 2023 some clients were allocated to S2 based on the estimated increased risk deriving from high energy prices and impacts from Ukrainian war.

Assumptions about macroeconomic indicators and sensitivity analyses

The sensitivity contains the impact of different scenarios as at 31 December 2023 assuming each with a weight of 100 %.

Scenario	Scenario weights	2024	2025	2026	ECL sensitivity (100 % weight)
GDP growth					
Optimistic scenario	0.2	2.4%	2.7%	2.8%	7,700
Forecast scenario	0.6	3.3%	3.4%	3.0%	9,953
Stress scenario	0.2	-3.3%	-0.4%	3.1%	26,261
Total	1.0				12,764

2.3.5. 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".

2.3.5.1. 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.

2.3.5.2. 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 2023, we did not have such derivatives

2.3.5.3. 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.

2.3.6. 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'.

2.3.7. 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.

2.3.8. 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.

2.3.9. 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.

2.3.10. Tangible Assets

2.3.10.1. 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 %	2023	2023
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".

SKB Group and SKB Bank checks the market value of real estate every 3 years or at the occurrence of an event that could affect the reduction of the market value. The appraisal is performed by certified real estate appraisers. An impairment review to determine whether there are any indications of impairment is performed at each balance sheet date. 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.

2.3.10.2. 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".

2.3.11. 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.

2.3.12.1. Computer Software

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

	in %	2023	2022
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.

2.3.12.2. 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.

2.3.12. Tax Assets and Liabilities

2.3.12.1. 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.

The Act on Reconstruction, Development and Provision of Financial Resources (ZORZFS) temporarily, for the calendar years 2024 to 2028, stipulates that corporate income tax is paid at a rate of 22 %, instead of the statutory 19 %. The difference between the amount of tax at the rate of 22 % and at the rate of 19 % is the income of the development fund.

Due to the change in the tax rate, on 31. 12. 2023, in accordance with IAS 12, the effect from the recalculation of receivables and liabilities for deferred taxes was recognized, respectively in the income statement or the statement of other comprehensive income.

2.3.12.2. 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.

2.3.12.3. Tax on the Balance Sheet

Banks in Slovenia are obliged to pay Tax on the balance sheet based on The Act on Reconstruction, temporarily, that is for calendar years 2024 to 2028. As the calculation is not based on the taxable profit but on the average total assets as reported in the Separate Financial Statements of the SKB Bank, the banking tax is considered as another administrative expense, not as income tax. The tax rate is 0,2 %. The liability for banking tax is reduced by the difference between the amount of corporate income tax of the previous financial year, calculated at the introduced temporarily higher rate of 22 % and at the statutory rate of 19 %. The tax will be charged for the first time in 2024.

2.3.13. 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.

2.3.14. 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.

2.3.14.1. 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.

2.3.14.2. 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).

2.3.15. 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".

2.3.16. 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.

2.3.17. 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.

2.3.18. 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.

2.3.19. 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.

2.3.20. 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.

2.3.21. 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).

Other interest similar income and expenses from derivative financial instruments is calculated without using the effective interest method. Positive or the negative fair value adjustment is included in other interest similar income and expense.

2.3.22. Dividend Income

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

2.3.23. Fee and Commission Income

Fees charged by SKB Group and the SKB 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.

2.3.24. 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.

2.3.25. 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.

2.3.26. Gains and Losses on Non-trading Financial Assets Mandatorily at Fair Value Through Profit and Loss

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

2.3.27. Gains and Losses on Financial Assets and Liabilities Designated for Measurement at Fair Value Through Profit and Loss

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

2.3.28. 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.

2.3.29. 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

2.3.30. 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.

2.3.31. 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 collective agreement 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.

2.3.32. 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.

2.3.33. 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.

2.3.34. 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.

2.3.35. Operations for the Account of Third Parties

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

2.4. Notes to the Financial Statements of the SKB Group and SKB Bank

2.4.1. Net Interest Income

EUR 000	SKB Group		SKB Bank	
	2023	2022	2023	2022
Interest income and similar to interest income	181,160	107,566	170,122	93,817
Interest income calculated using the effective interest method	163,031	87,125	151,993	73,376
Financial assets at fair value through other comprehensive income	5,637	5,701	5,637	5,701
Financial assets at amortised cost	157,320	81,264	146,181	67,518
Interest income on impaired financial assets accrued - loans and receivables to customers	74	160	175	157
Income similar to interest income	18,129	20,441	18,129	20,441
Income from Financial assets and liabilities held for trading	18,129	20,441	18,129	20,441
Interest expenses and similar to interest expense	(41,437)	(22,405)	(41,434)	(22,404)
Interest expenses calculated using the effective interest method	(23,909)	(2,691)	(23,905)	(2,690)
Financial liabilities measured at amortised cost	(23,773)	(2,312)	(23,769)	(2,311)
Financial assets arising from negative interest rate	(1)	(342)	(1)	(342)
Other	(135)	(37)	(135)	(37)
Expense similar to interest expense	(17,528)	(19,714)	(17,529)	(19,714)
Expense from Financial assets and liabilities held for trading	(135)	(37)	(135)	(37)
Net interest income	139,723	85,161	128,688	71,413

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

EUR 000	SKB Group		SKB Bank	
	2023	2022	2023	2022
Interest income from financial assets at amortised cost				
• corporates	37,225	15,715	35,013	15,065
• government	6,133	4,618	6,133	4,618
• financial organisations	32,148	2,949	55,269	10,100
• individuals and sole proprietors	50,445	38,093	49,941	37,892
• long term financial leases	31,443	20,049	0	0
	157,394	81,424	146,356	67,675
Interest expense from financial liabilities measured at amortised cost				
• corporates	(3,177)	(405)	(3,173)	(403)
• government	(358)	(6)	(358)	(6)
• financial organisations	(19,343)	(1,210)	(19,343)	(1,211)
• individuals and sole proprietors	(895)	(691)	(895)	(691)
	(23,773)	(2,312)	(23,769)	(2,311)

2.4.2.Dividend Income

EUR 000	SKB Group		SKB Bank	
	2023	2022	2023	2022
Dividend income from non-trading financial assets mandatorily at fair value through profit or loss	25	264	25	264
Dividend income from investments in subsidiaries, associates and joint ventures (accounted for using the cost method)	0	0	6.960	7,450
Total	25	264	6.985	7,714

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 and Bankart d.o.o. that is 13.84 % owned by SKB Bank.

2.4.3. Net Fee and Commission Income

SKB Group	2023			2022		
	EUR 000	Households	Legal entity	Total	Households	Legal entity
Fee and commission income related to banking activities						
Credit cards and ATMs	4,133	9,155	13,288	4,210	8,118	12,328
Customer transactions accounts	12,538	1,671	14,209	12,166	3,972	16,138
Payments	3,800	7,596	11,396	3,991	7,290	11,281
Guarantees	43	2,581	2,624	43	2,459	2,502
Loans transactions	856	1,315	2,171	2,369	972	3,341
Agency of insurance products	0	2,213	2,213	0	1,916	1,916
Other services	374	609	983	255	480	735
Total	21,744	25,140	46,884	23,034	25,207	48,241
Fee and commission expenses related to banking activities						
Credit cards and ATMs	0	(7,687)	(7,687)	0	(7,275)	(7,275)
Customer transaction accounts						
Payments	0	(1,543)	(1,543)	0	(1,458)	(1,458)
Guarantees	0	(798)	(798)	0	(1,047)	(1,047)
Loans transactions	0	(371)	(371)	0	(386)	(386)
Posredovanje zavarovalnih produktov						
Other services	0	(49)	(49)	0	(51)	(51)
Total	0	(10,448)	(10,448)	0	(10,217)	(10,217)
Net fee and commission income related to banking activities	21,744	14,692	36,436	23,034	14,990	38,024
Fee and commission income related to customer activities						
Fees from KDD and related organizations						
Fees from securities stock market and related organizations						
Custody and other related services						
Receiving, transmission and executions of orders	194	751	945	249	770	1,019
Account management of customer's book-entry securities	210	796	1,006	192	732	924
Total	404	1,547	1,951	441	1,502	1,943
Fee and commission expenses related to customer activities						
Fees from KDD and related organizations	0	(505)	(505)	0	(466)	(466)
Fees from securities stock market and related organizations	0	(470)	(470)	0	(298)	(298)
Custody and other related services	0	(81)	(81)	0	(76)	(76)
Receiving, transmission and executions of orders						
Account management of customer's book-entry securities						
Total	0	(1,056)	(1,056)	0	(840)	(840)
Net fee and commission income related to customer activities	404	491	895	441	662	1,103
Fee and commission income	22,148	26,687	48,835	23,475	26,709	50,184
Fee and commission expenses	0	(11,504)	(11,504)	0	(11,057)	(11,057)
Net fee and commission income	22,148	15,183	37,331	23,475	15,652	39,127

SKB Bank	2023			2022		
	EUR 000	Households	Legal entity	Total	Households	Legal entity
Fee and commission income related to banking activities						
Credit cards and ATMs	4,335	5,729	10,064	4,424	4,995	9,419
Customer transactions accounts	12,538	1,671	14,209	11,454	1,524	12,978
Payments	3,562	10,818	14,380	3,777	10,248	14,025
Guarantees	43	2,581	2,624	43	2,459	2,502
Loans transactions	856	1,290	2,146	3,081	3,420	6,501
Agency of insurance products	0	2,194	2,194	0	1,893	1,893
Other services	374	122	496	255	210	465
Total	21,708	24,405	46,113	23,034	24,749	47,783
Fee and commission expenses related to banking activities						
Credit cards and ATMs	0	(7,688)	(7,688)	0	(7,276)	(7,276)
Payments	0	(1,522)	(1,522)	0	(1,456)	(1,456)
Guarantees	0	(798)	(798)	0	(1,047)	(1,047)
Other services	0	(49)	(49)	0	(51)	(51)
Total	0	(10,057)	(10,057)	0	(9,830)	(9,830)
Net fee and commission income related to banking activities	21,708	14,348	36,056	23,034	14,919	37,953
Fee and commission income related to customer activities						
Custody and other related services	0	14	14	0	0	0
Receiving, transmission and executions of orders	194	801	995	249	770	1,019
Account management of customer's book-entry securities	210	782	992	192	732	924
Total	404	1,597	2,001	441	1,502	1,943
Fee and commission expenses related to customer activities						
Fees from KDD and related organizations	0	(505)	(505)	0	(466)	(466)
Fees from securities stock market and related organizations	0	(14)	(14)	0	(14)	(14)
Custody and other related services	0	(81)	(81)	0	(76)	(76)
Total	0	(600)	(600)	0	(556)	(556)
Net fee and commission income related to customer activities	404	997	1,401	441	946	1,387
Fee and commission income	22,112	26,002	48,114	23,475	26,251	49,726
Fee and commission expenses	0	(10,657)	(10,657)	0	(10,386)	(10,386)
Net fee and commission income	22,112	15,345	37,457	23,475	15,865	39,340

Tax on financial services decreased revenues from fees in 2023 in the amount of EUR 4,349 thousand (2022: EUR 4,735 thousand).

2.4.4. Gains and Losses on Financial Assets and Liabilities not Measured at Fair Value Through Profit and Loss

EUR 000	SKB Group		SKB Bank	
	2023	2022	2023	2022
Gains				
Financial assets at amortised cost	717	443	0	0
Financial liabilities measured at amortized cost	123	206	123	206
	840	649	123	206
Losses				
Financial assets at amortised cost	(561)	(1,018)	0	0
	(561)	(1,018)	0	0
Gains and losses on financial assets and liabilities not measured at fair value through profit and loss	279	(369)	123	206

2.4.5. Gains and Losses on Financial Assets and Liabilities Held for Trading

EUR 000	SKB Group		SKB Bank	
	2023	2022	2023	2022
Net gains or losses from derivatives	240	728	240	728
Net gains or losses from trading in debt securities	-	(113)	-	(113)
Net gains or losses from dealing in loans and other financial assets	1,367	1,773	1,367	1,773
	1,607	1,912	1,607	1,912

2.4.6. Gains and Losses on Non-trading Financial Assets Mandatorily Measured at Fair Value Through Profit and Loss

EUR 000	SKB Group		SKB Bank	
	2023	2022	2023	2022
Gains	611	93	611	93
Losses	(1,170)	(696)	(1,170)	(696)
	(559)	(603)	(559)	(603)

Losses from investments in equity in the amount of EUR 559 thousand (2022: EUR 603 thousand). In 2023, as in 2022, this item does not include gains from loans and other financial assets.

2.4.7. Gains and Losses From Hedge Accounting

EUR 000	SKB Group		SKB Bank	
	2023	2022	2023	2022
Net gains or losses from hedged items related to hedged risk - fair value hedge	409	558	409	558
	409	558	409	558

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.

2.4.8. Exchange Differences

EUR 000	SKB Group		SKB Bank	
	2023	2022	2023	2022
Exchange differences	(7)	(25)	(7)	(25)
	(7)	(25)	(7)	(25)

2.4.9. Gains and Losses on Derecognition of Non-financial Assets

EUR 000	SKB Group		SKB Bank	
	2023	2022	2023	2022
Gains	242	259	-	32
Losses	(102)	(111)	-	-
	140	148	-	32

Profit from sale of property, plant and equipment of SKB Group in 2023 amounted to EUR 242 thousand (2022: EUR 259 thousand) and losses from sale of property, plant and equipment amounted to EUR 102 thousand (2022: EUR 111 thousand).

In 2023, SKB Bank had no profits from the sale of property, plant and equipment (2022: EUR 32 thousand).

2.4.10. Other Operating Income

EUR 000	SKB Group		SKB Bank	
	2023	2022	2023	2022
Income				
Rental income - investment property	87	70	237	225
Rental income - POS terminals	379	383	379	383
Rental income - other property, plant and equipment	34	29	79	74
Sale of services - operational leases	839	747	0	0
Sale of services - other	697	491	0	0
Other operating income	2,160	3,630	2,210	3,678
	4,196	5,350	2,905	4,360
Expenses				
Taxes	(31)	(33)	0	0
Rental expense - other property, plant and equipment	(9)	(9)	(9)	(9)
Other operating expenses	(1,101)	(102)	(1,083)	(92)
	(1,141)	(144)	(1,092)	(101)
Other operating income and expenses	3,055	5,206	1,813	4,259

Other operating income include revenues from charged rents with related costs in the amount of EUR 688 thousand (2022: EUR 686 thousand), various incentives in the amount of EUR 337 thousand (2022: EUR 563 thousand) and internal work on projects in the amount of EUR 1,207 thousand (2022: EUR 964 thousand).

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

EUR 000	SKB Group		SKB Bank	
	2023	2022	2023	2022
Future minimum income from operating lease - cars and other equipment				
Less than one year	1,472	1,179	381	383
One to five years	2,786	2,384	1,516	1,531
	4,258	3,563	1,897	1,914
Future minimum income from operating lease - real estate				
Less than one year	118	118	314	314
One to five years	49	73	156	365
	167	192	470	679

Among the future minimum income, this year we also took into account the income from rents of POS-terminals.

2.4.11. Administrative Expenses

EUR 000	SKB Group		SKB Bank	
	2023	2022	2023	2022
Payroll and other staff costs				
Salaries Gross	(39,906)	(32,967)	(35,954)	(29,778)
Social security costs	(5,365)	(4,463)	(5,353)	(4,448)
Other employee costs	(2,748)	(2,557)	(2,360)	(1,950)
	(48,019)	(39,987)	(43,667)	(36,176)
Administration costs				
Material costs	(540)	(524)	(499)	(466)
Advertising and marketing	(1,856)	(1,760)	(1,427)	(1,416)
Professional services	(2,720)	(2,302)	(2,213)	(1,851)
IT costs	(6,959)	(4,609)	(6,213)	(4,058)
Operating lease rentals	(901)	(848)	(825)	(780)
Business trips	(188)	(123)	(164)	(105)
Maintenance, managing, protection and insurance of premises	(3,854)	(3,729)	(3,684)	(3,555)
Education, training and scholarships	(414)	(342)	(408)	(332)
Postal and telephone charges	(2,474)	(2,301)	(2,192)	(2,008)
Supervision	(660)	(930)	(660)	(930)
Other costs	(4,090)	(3,618)	(3,916)	(3,478)
	(24,656)	(21,086)	(22,201)	(18,979)
Administrative expenses	(72,675)	(61,073)	(65,868)	(55,155)

Other costs of SKB Group include costs of card and electronic operations and maintenance of ATM's in the amount of EUR 914 thousand (2022: EUR 930 thousand), printing costs in the amount of EUR 223 thousand (2022: EUR 220 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 914 thousand (2022: EUR 930 thousand), printing costs in the amount of EUR 223 thousand (2022: EUR 220 thousand) and costs of other services.

Auditor's fee:

EUR 000	SKB Group		SKB Bank	
	2023	2022	2023	2022
Audit of annual report by contract	(238)	(237)	(173)	(172)
Other services for assurances	(95)	(88)	(92)	(84)
	(333)	(325)	(265)	(256)

2.4.12. Cash Contributions to Resolution Funds and Deposit Guarantee Schemes

EUR 000	SKB Group		SKB Bank	
	2023	2022	2023	2022
Cash contributions to deposit guarantee schemes	(3,687)	(2,790)	(3,687)	(2,790)
Cash contributions to resolution funds	(749)	(1,396)	(749)	(1,396)
	(4,435)	(4,186)	(4,435)	(4,186)

2.4.13. Depreciation / Amortization

	SKB Group		SKB Bank	
	2023	2022	2023	2022
	EUR 000			
Tangible fixed assets	(4,165)	(4,072)	(3,197)	(3,028)
Intangible fixed assets	(5,695)	(2,333)	(5,519)	(2,165)
Investment property	(41)	(38)	(86)	(81)
	(9,901)	(6,443)	(8,802)	(5,274)

Due to the upcoming merger with Nova KBM, many applications will no longer be in use. All applications that will not be used in the new bank will be written off before the merger in accordance with the provisions of IAS 38.112 (b). Since the expected useful life of the applications is different from the previous estimates, in accordance with the provisions of IAS 38.104, we have changed the amortization period accordingly.

The financial effect of accelerated depreciation compared to normal depreciation is EUR 5,796 thousand (the amount also includes ongoing investments and hardware).

	Depreciation expense at existing rates			Depreciation expense at accelerated rates			Difference in depreciation expense		
	2023	2024	Total	2023	2024	Total	2023	2024	Total
	EUR 000								
Licenses	103	135	238	217	287	504	114	152	266
Software	1,023	1,244	2,267	3,368	4,371	7,739	2,345	3,127	5,472
Computer equipment	56	20	76	81	53	134	25	33	58
	1,182	1,399	2,581	3,666	4,711	8,377	2,484	3,312	5,796

2.4.14. Modification Gains or Losses

	SKB Group		SKB Bank	
	2023	2022	2023	2022
	EUR 000			
Gains / Losses on repayment modifications	1	49	1	49
	1	49	1	49

2.4.15. Provisions

	SKB Group		SKB Bank	
	2023	2022	2023	2022
	EUR 000			
Pending legal issues	(1,037)	0	(1,037)	0
Pensions and similar liabilities	351	(325)	394	(316)
Commitments and contingencies	1,073	5,753	1,073	5,753
Provisions for other purposes	(7,221)	43	(6,744)	45
	(6,834)	5,471	(6,314)	5,482

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. Based on approved restructuring plan, the Bank recognised provisions for the reorganisation due to the planned merger of SKB Bank with Nova KBM. The provisions are disclosed in table Provisions for other purposes.

Details of movement in provisions are presented in Note 2.4.31.

2.4.16. Impairment

EUR 000	SKB Group		SKB Bank	
	2023	2022	2023	2022
Impairment of financial assets not measured at fair value through profit or loss (reversal)				
Impairment of financial assets at fair value through other comprehensive income	237	(311)	237	(311)
Impairment of financial assets at amortised cost	4,724	9,930	4,577	8,923
	4,961	9,619	4,814	8,612
Impairment of non-financial assets (modelling)				
Impairment of property, plant and equipment	(82)	682	(16)	682
Impairment of investment property	0	117	0	117
Other assets	(11)	(16)	(11)	(16)
	(93)	783	(27)	783
Impairment (reversal)	4,868	10,402	4,787	9,395

2.4.17. Profit or Loss from Non-current Assets and Disposal Groups Classified as Held for Sale

EUR 000	SKB Group		SKB Bank	
	2022	2021	2022	2021
Profit or loss from non-current assets held for sale	0	6	0	6
	0	6	0	6

2.4.18. Tax Expense or Income related to Profit or Loss From Continuing Operations

EUR 000	SKB Group		SKB Bank	
	2023	2022	2023	2022
Income statement				
Income tax payable in the year	(17,608)	(14,096)	(13,300)	(11,376)
Deferred tax	779	(451)	288	(155)
Total	(16,829)	(14,547)	(13,012)	(11,531)
Reconciliation of effective tax rate				
Profit before tax	93,362	75,605	95,885	75,123
Income tax calculated using the statutory tax rate	(17,737)	(14,365)	(18,218)	(14,273)
19% from items increasing tax base	5,273	2,920	4,904	2,884
19% from items decreasing tax base	(4,286)	(3,377)	(679)	(673)
Tax reliefs	791	726	693	686
Income tax payable in the year	(15,959)	(14,096)	(13,300)	(11,376)

The statutory tax rate is 19%. The Bank's effective tax rate for 2023 was 14%, the effective tax rate of the SKB Group for 2023 was 17%.

Tax assets and tax liabilities:

	SKB Group		SKB Bank		
	EUR 000	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Tax assets					
Deferred tax assets		9,834	11,829	7,658	10,144
		9,834	11,829	7,658	10,144
Tax liabilities					
Current tax liabilities		3,513	3,512	1,924	3,210
		3,513	3,512	1,924	3,210

Net deferred tax assets and liabilities:

	SKB Group		SKB Bank		
	EUR 000	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Deferred tax liabilities		197	215	197	215
Mark to market valuation of securities at fair value through other comprehensive income - bonds		0	0	0	0
Impairment of securities at fair value through other comprehensive income - bonds		197	215	197	215
Deferred tax assets		10,031	12,044	7,855	10,359
Long term provisions		0	9	0	9
Provisions for retirement indemnities		221	187	201	163
Provisions for retirement indemnities - actuarial losses through other comprehensive income		3	83	3	89
Provisions for jubilee benefits		21	28	19	26
Mark to market valuation of securities at fair value through other comprehensive income - bonds		6,675	9,382	6,675	9,382
Securities at fair value through other comprehensive income		197	215	197	215
Securities at amortised cost		2,048	20	12	20
Impairment of loans measured at amortized cost		0	1,570	0	0
Depreciation above the prescribed rate		206	514	88	419
Goodwill		0	36	0	36
Restructuring provisions		660	0	660	0
Net deferred taxes		9,834	11,829	7,658	10,144

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

EUR 000	SKB Group		SKB Bank	
	2023	2022	2023	2022
Long term provisions	(9)	0	(9)	0
Provisions for retirement indemnities and seniority awards	28	(101)	30	(101)
Securities, measured at fair value through other comprehensive income - bonds	(18)	59	(18)	59
Securities, measured at amortized cost	(8)	(5)	(8)	(5)
Depreciation over maximum tax-allowable rates	(354)	23	(331)	23
Impairment of financial assets at amortized cost - loans	(466)	0	0	0
Impairment of goodwill	(36)	(131)	(36)	(131)
Restructuring provisions	660	0	660	0
Net income / (loss) from deferred tax	(203)	(155)	288	(155)

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

EUR 000	SKB Group		SKB Bank	
	31. 12. 2023	31. 12. 2022	31. 12. 2023	31. 12. 2022
Deferred tax liabilities	197	215	197	215
Mark to market valuation of securities at fair value through other comprehensive income - bonds	197	215	197	215
Deferred tax assets	6,678	9,471	6,678	9,471
Mark to market valuation of securities at fair value through other comprehensive income - bonds	6,675	9,382	6,675	9,382
Provisions for retirement indemnities - actuarial losses through other comprehensive income	3	89	3	89
Net deferred tax assets/(liabilities)	6,481	9,256	6,481	9,256

Tax payable and matured unpaid taxes

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

Temporary tax on the balance sheet

On the basis of the Act on Reconstruction, Development and Provision of Financial Assets (ZORZFS), banks are temporarily, i.e. for the calendar years 2024 to 2028, obliged to pay tax on the balance sheet total. The calculation is based on the balance sheet total, calculated as the average value of the balances on each last day of the month in the tax period. The tax rate is 0.2 %. Tax on the balance sheet is the income of the development fund. In the bank's financial statements, tax on the balance sheet will be treated as another administrative expense and not as income tax in accordance with IAS 12. The liability for tax on the balance sheet is reduced by the difference between the amount of corporate income tax of the previous financial year, calculated at the temporarily higher rate of 22 % and at the statutory rate of 19 %. The tax on the balance sheet will be charged for the first time in 2024.

Minimum tax

Global minimum tax legislation has been enacted or is substantively enacted in some of the jurisdictions in which the OTP Group operates, generally in EU Member States. The legislation will come into force for the SKB Group for financial year starting 1 January 2024 and introduces a minimum effective tax rate of 15 %.

OTP Group is subject to the legislation enacted or substantively enacted, including SKB Bank, for the financial year beginning 1 January 2024. The Global Minimum Tax legislation was enacted in Slovenia by the Minimum Tax Act.

From an accounting perspective, it is not clear whether the rules of Global Minimum Tax create additional temporary differences, whether deferred taxes should be re-measured for the rules of Global Minimum Tax and which tax rate to use to measure deferred taxes. As a result of this uncertainty, IAS 12 Income Taxes was amended to introduce a mandatory temporary exemption from requirements of IAS 12. Under the mandatory temporary exemption, an entity does not recognise or disclose information about deferred tax assets and liabilities associated with the global minimum tax rules. The SKB Group has applied the temporary exemption for the year ended 31 December 2023.

SKB Bank, together with its constituent entities who are residents in Slovenia, made an assessment of its potential exposure to additional tax under the global minimum tax rules. The assessment is based on latest available information on the financial performance of the constituent entities in Slovenia. Based on the assessment, no potential top-up tax exposure has been identified in respect of profits generated by constituent entities domiciled in Slovenia as, if Global Minimum Tax legislation had been in force for the current year, the expected effective rate of the Global Minimum Tax would exceed 15 %. As no material changes in SKB Bank's business are expected for the financial year starting 1 Januar 2024, it is reasonable to assume that no top-up tax liability will arise for the year 2024.

2.4.19. Cash, Cash Balances at Central Banks and Other Demand Deposits at Banks

EUR 000	SKB Group		SKB Bank	
	31. 12. 2023	31. 12. 2022	31. 12. 2023	31. 12. 2022
Cash in hand	20,599	25,947	20.599	25.947
Balances with central banks and other demand deposits at banks	800,750	528,087	793.436	528.087
Gross exposure	821,349	554,034	814.035	554.034
Provisions	(12)	(104)	(12)	(104)
Net exposure	821,337	553,930	814.023	553.930

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. 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.

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.

2.4.20. Financial Assets and Liabilities Held for Trading

SKB Group and SKB Bank						
EUR 000	31. 12. 2023			31. 12. 2022		
	Nominal value	Fair value assets	Fair value liabilities	Nominal value	Fair value assets	Fair value liabilities
Derivative financial instruments						
Currency forwards	182,720	1,452	1,411	170,122	1,673	1,661
Currency swaps	78,326	1,681	1,668	518	25	3
Interest rate swaps	400,538	5,741	5,540	376,243	8,324	8,269
Interest rate options (call option)	26,829	699	699	30,543	1,172	1,172
Call option	0	0	0	0	0	0
Put option	0	0	0	0	0	0
Spot	66,463	196	10	46,999	9	13
	754,876	9,769	9,328	624,425	11,203	11,118
Net fair value		441			85	

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.

2.4.21. Non-trading Financial Assets Mandatorily Measured at Fair Value Through Profit or Loss

EUR 000	SKB Group		SKB Bank	
	31. 12. 2023	31. 12. 2022	31. 12. 2023	31. 12. 2022
Equity instruments	13,779	20,287	13,779	20,287
Loans and other financial assets	0	0	0	0
	13,779	20,287	13,779	20,287

2.4.22. Financial Assets Measured at Fair Value Through Other Comprehensive Income

EUR 000	SKB Group		SKB Bank	
	31. 12. 2023	31. 12. 2022	31. 12. 2023	31. 12. 2022
Financial assets - listed				
Government bonds of Republic Slovenia	187,962	183,452	187,962	183,452
Government bonds of Republic France	17,827	16,921	17,827	16,921
Government bonds of Hungary	76,508	70,637	76,508	70,637
Government bonds of Croatia	25,582	25,478	25,582	25,478
Government bonds of Serbia	20,544	18,539	20,544	18,539
Government bonds of Romania	48,489	46,688	48,489	46,688
	376,912	361,715	376,912	361,715

In 2023, there were no sales of financial assets measured at fair value through other comprehensive income. Therefore, in 2023 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:

EUR 000	SKB Group		SKB Bank	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Balance at 1. 1.	361,715	464,796	361,715	464,796
Maturity (disposal)	0	(32,443)	0	(32,443)
Interest	(3,838)	(2,007)	(3,838)	(2,007)
Change in fair value	19,035	(68,631)	19,035	(68,631)
Balance at 31. 12.	376,912	361,715	376,912	361,715

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

EUR 000	SKB Group		SKB Bank	
	2023	2022	2023	2022
Balance at 1. 1.	(39,078)	16,260	(39,078)	16,260
Net gains / losses on fair value changes	19,037	(68,630)	19,037	(68,630)
Impairment	(237)	311	(237)	311
Deferred tax	(2,689)	12,981	(2,689)	12,981
Balance at 31. 12.	(22,967)	(39,078)	(22,967)	(39,078)

2.4.23. 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		
	EUR 000	31. 12. 2023	31. 12. 2022	31. 12. 2023	31. 12. 2022
Debt securities					
Debt securities - listed		139,369	141,860	139,369	141,860
Gross exposure		139,369	141,860	139,369	141,860
Provision for impairment		(53)	(105)	(53)	(105)
		139,316	141,755	139,316	141,755
Loans to banks					
Deposits		276,012	274,070	276,012	274,070
Gross exposure		276,012	274,070	276,012	274,070
Provision for impairment		(428)	(2,415)	(428)	(2,415)
		275,584	271,655	275,584	271,655
Loans to non-bank customers					
• corporates		881,047	1,030,586	831,821	991,983
• government		107,271	120,366	107,271	120,366
• financial organisations		12,319	6,759	563,208	508,074
• individuals		1,381,047	1,368,841	1,371,693	1,364,731
• other		728	772	728	772
• sole proprietors		23,796	25,466	23,796	25,466
Long term financial leases		502,147	476,085	0	0
Gross exposure		2,908,355	3,028,875	2,898,517	3,011,392
Provision for impairment		(51,775)	(54,132)	(42,700)	(46,038)
		2,856,580	2,974,743	2,855,817	2,965,354
Other financial assets					
Gross exposure		10,509	8,339	9,174	7,732
Provision for impairment		(27)	(13)	(21)	(8)
		10,482	8,326	9,153	7,724
Financial assets measured at amortised cost		3,281,962	3,396,479	3,279,870	3,386,488

Due from other banks refers to liquidity reserve of SKB Group and SKB Bank mostly.

SKB Group received as collateral for loans and advances to customers the real estate at an estimated fair value of EUR 2,662,933 thousand (2022: EUR 2,060,994 thousand), state securities and guarantees at a fair value of EUR 49,641 thousand (2022: EUR 94,200 thousand) and demand deposits at a fair value of EUR 8,370 thousand (2022: EUR 11,607 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 2023, SKB Group had large loans in amount of EUR 579,387 thousand or 19.92 % of the gross loan portfolio. Provisions in the amount of EUR 206 thousand were made against these loans in 2023.

As at 31 December 2022, SKB Group had large loans in amount of EUR 681,700 thousand or 22.51 % of the gross loan portfolio. Provisions in the amount of EUR 233 thousand were made against these loans in 2022.

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 2023, SKB Group had gross non-performing loans in the amount of EUR 52,032 thousand (2022: EUR 58,502 thousand), net in the amount of EUR 8,623 thousand (2022: EUR 14,620 thousand).

As at 31 December 2023, SKB Bank gross had non-performing loans in the amount of EUR 42,182 thousand (2022: EUR 47,122 thousand), net in the amount of EUR 6,910 thousand (2022: EUR 10,548 thousand).

Other financial assets by individual type are presented in the table below:

	SKB Group		SKB Bank		
	EUR 000	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Receivables from card business		3,073	2,489	3,073	2,489
Fee and commission receivables		5,469	3,546	4,983	3,313
Receivables from securities		61	53	61	53
Receivables for financial advances		1,097	1,407	240	1,013
Other financial assets		809	844	817	864
Gross exposure		10,509	8,339	9,174	7,732
Provision for impairment		(27)	(13)	(21)	(8)
Other financial assets		10,482	8,326	9,153	7,724

Provisions for impairment of loans

	SKB Group		SKB Bank		
	EUR 000	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Debt securities					
• government		(53)	(105)	(53)	(105)
		(53)	(105)	(53)	(105)
Banks		(428)	(2,415)	(428)	(2,415)
Non-bank customers					
• corporates		(18,250)	(21,640)	(18,108)	(21,516)
• government		(31)	(48)	(31)	(48)
• financial organisations		(45)	(12)	(667)	(634)
• individuals		(23,013)	(23,009)	(22,711)	(22,891)
• other		(5)	(7)	(5)	(7)
• sole proprietors		(1,178)	(942)	(1,178)	(942)
Long term financial leases		(9,253)	(8,474)	0	0
		(51,775)	(54,132)	(42,700)	(46,038)
Other financial assets		(27)	(13)	(21)	(8)
Total provisions		(52,283)	(56,665)	(43,202)	(48,566)

Details of movement of gross value and provisions for impairment of loans are presented in Chapter 7.3.2. General quantitative information on credit risk.

Financial leases:

	SKB Group		SKB Bank		
	EUR 000	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Gross exposure from financial leases					
Less than one year		23,755	15,071	-	-
One to five years		173,786	165,190	-	-
More than five years		304,606	295,824	-	-
		502,147	476,085	-	-
Provisions					
Less than one year		(913)	(423)	-	-
One to five years		(2,606)	(2,659)	-	-
More than five years		(5,734)	(5,392)	-	-
		(9,253)	(8,474)	-	-
Net exposure		492,894	467,611	-	-
Unrecognized future income from financial leases		74,679	53,456	-	-

2.4.24. Hedging Derivatives and Fair Value Changes of the Hedged Items in Portfolio Hedge of Interest Rate Risk

SKB Group and SKB Bank				
	EUR 000	31.12.2023	31.12.2022	
Derivatives - fair value hedge - macro hedging (assets)		0	0	
Fair value changes of the hedged items in portfolio hedge of interest rate risk (liabilities)		197	607	

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 SKB 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 2.4.7.

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:

Skupina SKB in SKB banka	31. 12. 2023		31. 12. 2022	
	000 EUR	Book value of the hedged item	Accumulated change in the fair value of the hedged item	Book value of the hedged item
Macro fair value protection	0	197	0	607
Deposits on demand	0	197	0	607

2.4.25. Investments in Subsidiaries, Associates and Joint Ventures

EUR 000	SKB Group		SKB Bank	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Equity investments in Group's subsidiary financial organizations	0	0	20,454	20,454
Equity investments in Group's associated financial organizations	6,214	0	5,949	0
Total	6,214	0	26,403	20,454

SKB Bank's capital investments in the amount of EUR 20,454 thousand represent an investment in the subsidiary SKB Leasing. 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 2023, 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 2023.

SKB Bank's capital investments in the amount of EUR 5,949 thousand represent an investment in the Bankart. SKB Bank holds a 13.84 % ownership share. At the joining of Nova KBM to OTP Group on the 6th of February 2023, we reclassified the investment in Bankart from Non-trading financial assets mandatorily at fair value through profit or loss to Investments in subsidiaries, associates and joint ventures.

In the consolidated financial statements, investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. In the separate financial statements of the SKB Bank, investments in associates are measured at cost.

31. 12. 2023								
Company name	Activity	Total equity	Net profit	Equity attributable to SKB Bank	Acquisition cost	SKB Bank's interest (in %)	SKB Bank's voting rights (in %)	Investment value
Subsidiary company								
SKB Leasing d.o.o.	Finance and operating leasing	21,054	2,330	21,054	20,454	100.00%	100.00%	20,454
Associated company								
Bankart d.o.o.	Processing of payment instruments	23,099	2,417	3,197	5,948	13.84%	13.84%	5,948
Total		44,153	4,748	24,251	26,402			26,403

31. 12. 2022								
Company name	Activity	Total equity	Net profit	Equity attributable to SKB Bank	Acquisition cost	SKB Bank's interest (in %)	SKB Bank's voting rights (in %)	Investment value
Subsidiary company								
SKB Leasing d.o.o.	Finance and operating leasing	27,920	8,923	27,920	20,454	100.00 %	100.00 %	20,454

2.4.26. Property, Plant and Equipment

Movement of property, plant and equipment for SKB Group in 2023 and 2022 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 2023	2,296	48,288	9,870	11,924	27	120	6,116	9,705	6,389	463	95,198
Additions	0	519	1,308	134	0	13,021	13	11,202	523	122	26,842
Disposals	0	0	(1,108)	(1,333)	(27)	(13,141)	(1)	(9,511)	(2,193)	(74)	(27,388)
At 31 December 2023	2,296	48,807	10,070	10,725	0	0	6,128	11,396	4,719	511	94,652
Depreciation											
At 1 January 2023	0	(26,419)	(6,301)	(10,337)	(27)	0	(5,746)	(1,338)	(3,679)	(252)	(54,099)
Depreciation charge for the year	0	(813)	(1,004)	(237)	0	0	(89)	(812)	(1,061)	(114)	(4,130)
Eliminations and disposals	0	0	1,093	1,218	27	0	1	927	2,112	73	5,451
At 31 December 2023	-	(27,232)	(6,212)	(9,356)	0	-	(5,834)	(1,223)	(2,628)	(293)	(52,778)
Impairment											
At 1 January 2023	(495)	(2,091)	0	0	0	0	0	0	0	0	(2,586)
Increase	0	0	0	0	0	0	0	0	0	0	0
Decrease		0									0
At 31 December 2023	(495)	(2,091)	-	-	-	-	-	-	-	-	(2,586)
Net Book Value at 1 January 2023											
	1,801	19,778	3,569	1,587	0	120	370	8,367	2,710	211	38,513
Net Book Value 31 December 2023											
	1,801	19,484	3,858	1,369	0	0	294	10,173	2,091	218	39,288

SKB Group											
EUR 000	Land	Buildings	Com-puter equip-ment	Furniture & fittings	Other equip-ment	Assets in course of construc-tion	Leasehold improve-ments	Assets leased through operating leases	IFRS 16 - Right of use - real estate	IFRS 16 - Right of use - equip-ment	Total
Cost											
At 1 January 2023	2,326	48,878	9,441	12,180	51	23	6,096	8,861	5,341	376	93,573
Additions	0	16	880	379	0	525	20	12,767	1,048	100	15,735
Disposals	(30)	(606)	(451)	(635)	(24)	(428)	0	(11,923)	0	(13)	(14,110)
At 31 December 2023	2,296	48,288	9,870	11,924	27	120	6,116	9,705	6,389	463	95,198
Depreciation											
At 1 January 2023	-	(25,918)	(5,891)	(10,766)	(51)	0	(5,646)	(1,496)	(2,602)	(159)	(52,529)
Depreciation charge for the year	0	(784)	(855)	(198)	0	0	(100)	(911)	(1,077)	(106)	(4,031)
Eliminations and disposals	0	283	445	627	24	0	0	1,069	0	13	2,461
At 31 December 2023	-	(26,419)	(6,301)	(10,337)	(27)	-	(5,746)	(1,338)	(3,679)	(252)	(54,099)
Impairment											
At 1 January 2023	(489)	(2,978)	0	0	0	0	0	0	0	0	(3,467)
Increase	(6)	0	0	0	0	0	0	0	0	0	(6)
Decrease	0	887	0	0	0	0	0	0			887
At 31 December 2023	(495)	(2,091)	0	0	0	0	0	0	-	-	(2,586)
Net Book Value at 1 January 2023	1,837	19,982	3,550	1,414	0	23	450	7,365	2,739	217	37,577
Net Book Value 31 December 2023	1,801	19,778	3,569	1,587	0	120	370	8,367	2,710	211	38,513

*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. 2023, the SKB Group recognized the right to use real estate in the amount of EUR 2,091 thousand (2021: EUR 2,710 thousand) and the right to use equipment in the amount of EUR 218 thousand (2022: EUR 211 thousand) among property, plant and equipment funds.

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.

Movement of property, plant and equipment of the SKB Bank in 2023 and 2022 is summarised in the tables below;

SKB Bank									
EUR 000	Land	Build-ings	Computer equipment	Furniture & fittings	Assets in course of construction	Leasehold improvements	IFRS 16 - Right of use - real estate	IFRS 16 - Right of use - equipment	Total
Cost									
At 1 January 2023	2,153	45,564	9,718	11,649	60	5,770	6,389	240	81,543
Additions	0	519	1,248	131	1,720	9	523	31	4,181
Disposals	0	0	(1,107)	(1,312)	(1,780)	0	(2,189)	(70)	(6,458)
At 31 December 2023	2,153	46,083	9,859	10,468	0	5,779	4,723	201	79,266
Depreciation									
At 1 January 2023	0	(24,850)	(6,222)	(10,118)	0	(5,450)	(3,679)	(145)	(50,464)
Depreciation charge for the year	0	(813)	(974)	(232)	0	(79)	(1,061)	(50)	(3,209)
Eliminations and disposals	0	0	1,092	1,197	0	0	2,105	69	4,463
At 31 December 2023	-	(25,663)	(6,104)	(9,153)	-	(5,529)	(2,635)	(126)	(49,210)
Impairment									
At 1 January 2023	(495)	(2,032)	0	0	0	0	0	0	(2,527)
Increase	0	0	0	0	0	0	0	0	0
Decrease		0							0
At 31 December 2023	(495)	(2,032)	0	0	0	0	0	0	(2,527)
Net Book Value at 1 January 2023	1,658	18,682	3,496	1,531	60	320	2,710	95	28,552
Net Book Value 31 December 2023	1,658	18,388	3,755	1,315	0	250	2,088	75	27,529

SKB Bank									
EUR 000	Land	Build-ings	Computer equipment	Furniture & fittings	Assets in course of construction	Leasehold improvements	IFRS 16 - Right of use - real estate	IFRS 16 - Right of use - equipment	Total
Cost									
At 1 January 2023	2,183	46,154	9,285	11,891	23	5,750	5,341	212	80,839
Additions	0	16	854	379	465	20	1,048	39	2,821
Disposals	(30)	(606)	(421)	(621)	(428)	0	0	(11)	(2,117)
At 31 December 2023	2,153	45,564	9,718	11,649	60	5,770	6,389	240	81,543
Depreciation									
At 1 January 2023	0	(24,349)	(5,805)	(10,543)	0	(5,360)	(2,602)	(103)	(48,762)
Depreciation charge for the year	0	(784)	(834)	(190)	0	(90)	(1,077)	(53)	(3,028)
Eliminations and disposals	0	283	417	615	0	0	0	11	1,326
At 31 December 2023	-	(24,850)	(6,222)	(10,118)	-	(5,450)	(3,679)	(145)	(50,464)
Impairment									
At 1 January 2023	(489)	(2,919)	0	0	0	0	0	0	(3,408)
Increase	(6)		0	0	0	0	0	0	(6)
Decrease		887							887
At 31 December 2023	(495)	(2,032)	-	-	-	-	-	-	(2,527)
Net Book Value at 1 January 2023	1,694	18,886	3,480	1,348	23	390	2,739	109	28,669
Net Book Value 31 December 2023	1,658	18,682	3,496	1,531	60	320	2,710	95	28,552

As at 31. 12. 2022, the SKB Bank recognized the right to use real estate in the amount of EUR 2,710 thousand (2021: EUR 2,739 thousand) and the right to use equipment in the amount of EUR 95 thousand (2021: EUR 109 thousand) among property, plant and equipment funds.

As at 31. 12. 2023, the SKB Bank recognized the right to use real estate in the amount of EUR 2,088 thousand (2022: EUR 2,710 thousand) and the right to use equipment in the amount of EUR 75 thousand (2022: EUR 95 thousand) among property, plant and equipment funds.

In 2023, five leased vehicles and six leased business premises (Idrija, Murska Sobota, Ilirska Bistrica, Žalec, Zagorje ob Savi and Jesenice) were excluded from the register of fixed assets due to the expiry of the lease. We leased two new vehicles and extended/shortened the lease for six business premises in locations that we lease for an indefinite period, extended the lease at the Ljubljana WTC location and took into account the indexation of rents for future cash flows. From the above, the right of use in tangible fixed assets increased by EUR 554 thousand (2022: EUR 1,087 thousand), and due to depreciation it decreased by EUR 1,111 thousand (2022: EUR 1,130 thousand), due to transfers within the register of fixed assets decreased by EUR 84 thousand (2022: EUR 0).

In 2023, SKB Bank did not create impairments for fixed assets.

Tangible fixed assets are not pledged as security for liabilities. As at 31. 12. 2023, SKB Bank does not disclose advances for property, plant and equipment.

Property, plant and equipment

	SKB Group		SKB Bank		
	EUR 000	31. 12. 2023	31. 12. 2022	31. 12. 2023	31. 12. 2022
Property, plant and equipment owned		36,981	35,592	25,366	25,747
Right of use - real estate		2,087	2,709	2,087	2,710
Right of use - equipment (vehicles)		220	212	76	95
		39,288	38,513	27,529	28,552

Lease liabilities

	SKB Group		SKB Bank		
	EUR 000	31. 12. 2023	31. 12. 2022	31. 12. 2023	31. 12. 2022
Current lease liabilities		864	1,009	811	959
Non-current lease liabilities		1,658	2,060	1,564	1,991
		2,522	3,069	2,375	2,950

Rental maturity analysis - contractual undiscounted cash flows

	SKB Group		SKB Bank		
	EUR 000	31. 12. 2023	31. 12. 2022	31. 12. 2023	31. 12. 2022
Less than one year		887	1,034	831	983
One to five years		1,687	3,028	1,589	2,958
More than five years		0	0	0	0
		2,574	4,062	2,420	3,941

Rental expenses recognized in the income statement

	SKB Group		SKB Bank		
	EUR 000	31. 12. 2023	31. 12. 2022	31. 12. 2023	31. 12. 2022
Depreciation		(1,154)	(1,182)	(1,111)	(1,130)
Interest on lease liability		(31)	(31)	(26)	(29)
Expenses relating to short-term leases		(336)	(6)	(334)	(4)
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets		(427)	(437)	(427)	(437)
		(1,948)	(1,656)	(1,898)	(1,600)

2.4.27. Investment Properties

As at 31 December 2023, the SKB Group had recognized investment property in the amount of EUR 1,083 thousand (as at 31 December 2022: EUR 1,183 thousand). As at 31 December 2023, SKB Bank had recognized investment property in the amount of EUR 2,276 thousand (as at 31 December 2022: EUR 2,362 thousand).

In 2023, the SKB Group had revenues from EUR 87 thousand (2022: EUR 70 thousand) from operating leases of investment property. The SKB Bank had revenues from operating leases of investment property of EUR 237 thousand (2022: EUR 225 thousand).

In 2023, the bank did not sell any investment properties. Investment property is not pledged as security for liabilities. As at 31 December 2023, the SKB Group did not show any advances for investment property.

The development of investment property of SKB Bank and the SKB Group in 2022 and 2021 is shown in the table below:

EUR 000	SKB Group			SKB Bank		
	Land	Buildings	Total	Land	Buildings	Total
Cost						
At 1 January 2023	116	2,566	2,682	236	5,248	5,484
Additions	0	0	0	0	0	0
Disposals	0	0	0	0	0	0
At 31 December 2023	116	2,566	2,682	236	5,248	5,484
Depreciation						
At 1 January 2023	0	(1,558)	(1,558)	0	(3,122)	(3,122)
Depreciation charge for year	0	(41)	(41)	0	(86)	(86)
Eliminations and disposals	0	0	0	0	0	0
At 31 December 2023		(1,599)	(1,599)	-	(3,208)	(3,208)
Impairment						
At 1 January 2023	0	59	59	0	0	0
Increase	0	0	0	0	0	0
Decrease	0	(59)	(59)	0	0	0
At 31 December 2023	0	0	0	0	0	0
Net Book Value at 1 January 2023	116	1,067	1,183	236	2,126	2,362
Net Book Value 31 December 2023	116	967	1,083	236	2,040	2,276

EUR 000	SKB Group			SKB Bank		
	Land	Buildings	Total	Land	Buildings	Total
Cost						
At 1 January 2022		2,533	2,649	236	5,215	5,451
Additions	0	33	33	0	33	33
Disposals	0	0	0	0	0	0
At 31 December 2022	116	2,566	2,682	236	5,248	5,484
Depreciation						
At 1 January 2022	0	(1,520)	(1,520)	0	(3,041)	(3,041)
Depreciation charge for year	0	(38)	(38)	0	(81)	(81)
Eliminations and disposals	0	0	-	0	0	0
At 31 December 2022	-	(1,558)	(1,558)	-	(3,122)	(3,122)
Impairment						
At 1 January 2022	0	(58)	(58)	0	(117)	(117)
Increase	0	0	0	0	0	0
Decrease	0	117	117	0	117	117
At 31 December 2022	0	59	59	0	0	0
Net Book Value at 1 January 2022	116	955	1,071	236	2,057	2,293
Net Book Value 31 December 2022	116	1,067	1,183	236	2,126	2,362

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 SKB Bank bears only the costs of investment maintenance for the investment property. In 2023, we had no costs for investment properties from investment maintenance (2022: EUR 33 thousand). In 2023 and 2022, there were no payments and costs from investment maintenance, except for payments and spending from the reserve fund.

In 2023, EUR 10 thousand was paid into the investment fund related to investment properties (2022: EUR 3 thousand). In 2023, EUR 21 thousand was used from the reserve fund (2022: nothing).

2.4.28. Intangible Assets

Movements of Intangible assets of the SKB Group in 2023 and 2022 is displayed in the tables below.

EUR 000	SKB Group				SKB Bank		
	Goodwill	Software	Assets in course of construction	Total	Software	Assets in course of construction	Total
Cost							
At 1 January 2023	1,290	27,377	4,677	33,344	25,609	4,607	30,216
Additions	0	2,315	10,367	12,682	2,245	10,333	12,578
Disposals	0	(135)	(7,896)	(8,031)	(1)	(7,825)	(7,826)
At 31 December 2023	1,290	29,557	7,148	37,995	27,853	7,115	34,968
Depreciation							
At 1 January 2023	0	(18,630)	0	(18,630)	(17,180)	0	(17,180)
Charge for the year	0	(5,699)	0	(5,699)	(5,524)	0	(5,524)
Eliminations and disposals	0	135	0	135	1	0	1
At 31 December 2023	0	(24,194)	0	(24,194)	(22,703)	0	(22,703)
Net Book Value at 1 January 2023	1,290	8,747	4,677	14,714	8,429	4,607	13,036
Net Book Value 31 December 2023	1,290	5,363	7,148	13,801	5,150	7,115	12,265

EUR 000	SKB Group				SKB Bank		
	Goodwill	Software	Assets in course of construction	Total	Software	Assets in course of construction	Total
Cost							
At 1 January 2022	1,290	25,868	2,950	30,108	24,103	2,903	27,006
Additions	0	2,871	4,587	7,458	2,868	4,560	7,428
Disposals	0	(1,362)	(2,860)	(4,222)	(1,362)	(2,856)	(4,218)
At 31 December 2022	1,290	27,377	4,677	33,344	25,609	4,607	30,216
Depreciation							
At 1 January 2022	0	(17,643)	0	(17,643)	(16,361)	0	(16,361)
Charge for the year	0	(2,333)	0	(2,333)	(2,165)	0	(2,165)
Eliminations and disposals	0	1,346	0	1,346	1,346	0	1,346
At 31 December 2022	-	(18,630)	-	(18,630)	(17,180)	-	(17,180)
Net Book Value at 1 January 2022	1,290	8,225	2,950	12,465	7,742	2,903	10,645
Net Book Value 31 December 2022	1,290	8,747	4,677	14,714	8,429	4,607	13,036

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.

As of 31 December 2023, the SKB Bank and the SKB Group do not have advances for intangible assets.

The SKB Group annually assesses whether goodwill impairment is required. Impairment test of goodwill is performed on an annual basis at the end of year.

In 2023, SKB Bank invested EUR 1,107 thousand in internal development. Compared to 2022, investments decreased by EUR 770 thousand (2021: EUR 1,877 thousand). SKB Leasing had no investments in internal development in 2023.

2.4.29. Other Assets

	SKB Group		SKB Bank		
	EUR 000	31. 12. 2023	31. 12. 2022	31. 12. 2023	31. 12. 2022
Receivables for taxes and contributions paid		572	208	18	27
Costs and expenses deferred and paid in advance		13,415	13,858	3,732	3,738
Insurance premium paid in advance		87	15	87	15
Other inventories		123	39	48	0
Advances paid		4,552	13,472	179	7,957
Gross exposure		18,749	27,592	4,064	11,737
Provisions		(653)	(653)	0	0
Net exposure		18,096	26,939	4,064	11,737

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.

Those assets are also not collateralised.

2.4.30. 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:

	SKB Group		SKB Bank		
	EUR 000	31. 12. 2023	31. 12. 2022	31. 12. 2023	31. 12. 2022
Demand deposits					
Banks		792	588	792	588
Corporates		1,009,552	1,016,072	1,009,552	1,016,072
Government		20,186	34,169	20,186	34,169
Financial organisations		13,321	14,443	16,123	23,197
Individuals		1,221,670	1,254,408	1,221,670	1,254,408
Other		27,342	35,977	27,342	35,977
Sole proprietors		119,157	114,639	119,157	114,639
		2,412,020	2,470,296	2,414,822	2,479,050
Time deposits					
Banks		0	0	0	0
Corporates		370,699	274,718	370,699	274,718
Government		22,755	3,071	22,755	3,071
Financial organisations		14,845	1,594	14,845	1,594
Individuals		854,804	906,897	854,803	906,897
Other		6,645	6,851	6,645	6,851
Sole proprietors		988	791	988	791
		1,270,736	1,193,922	1,270,735	1,193,922
Long term loans from banks and corporates		277,519	250,074	277,519	250,074
Other financial liabilities		51,184	38,684	41,629	28,241
		4,011,459	3,952,976	4,004,705	3,951,287

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 4,302 thousand (2022: EUR 3,243 thousand).

From June 2022 onwards, we have subordinated debt that is also suitable for MREL (minimum requirements regarding capital and qualified liabilities - Article 49 and the following ZRPPB-1 for the implementation of Article 45.f of the BRRD). The purpose of the instrument is to finance general financing needs, to support the regulation of the capital structure bank as a borrower and to meet the minimum requirements regarding own funds and qualified liabilities (MREL) imposed on bank as a borrower, and therefore qualifies as a Tier 2 Instrument in the form of a loan. Subordinated debt is one of the additional capital instruments (Article 63. of the CRR). For subordinated debt, the bank pays interest. In the event of bankruptcy, other creditors of the bank are paid first, and only at the end is the creditor who gave the bank a subordinated debt. The balance of subordinated debt as of 31. 12. 2022 amounts to EUR 80,032 thousand. The SKB Bank pays interest for the subordinated debt.

2.4.31. Provisions

EUR 000	SKB Group		SKB Bank	
	31. 12. 2023	31. 12. 2022	31. 12. 2023	31. 12. 2022
Pensions and other post retirement benefit obligations	2,710	3,001	2,482	2,793
Other long-term employee benefits	798	845	745	815
Pending legal issues	1,037	0	1,037	0
Off-balance sheet commitments	2,984	4,057	2,984	4,057
Other	8,074	1,141	7,196	738
	15,603	9,044	14,444	8,403

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 2023	3,001	845	0	561	1,389	2,107	1,141	9,044
Provisions created during the year	116	156	1,037	1,640	2,248	440	7,643	13,280
Reversed	(516)	(107)	0	(1,441)	(2,646)	(1,314)	(422)	(6,446)
Utilised (paid)	(93)	(96)	0	0	0	0	(288)	(477)
Actuarial profits, recognized in other comprehensive income	202	0	0	0	0	0	0	202
Balance at 31 December 2023	2,710	798	1,037	760	991	1,233	8,074	15,603
Balance at 1 January 2022	3,789	831	0	3,322	3,139	3,349	1,186	15,616
Provisions created during the year	198	297	0	3,914	4,655	1,938	3	11,005
Reversed	(136)	(127)	0	(6,675)	(6,405)	(3,180)	(45)	(16,568)
Utilised (paid)	0	(156)	0	0	0	0	(3)	(159)
Actuarial profits, recognized in other comprehensive income	(850)	0	0	0	0	0	0	(850)
Balance at 31 December 2022	3,001	845	0	561	1,389	2,107	1,141	9,044

SKB Bank								
EUR 000	Pensions and other post retirement benefit obligations	Other long-term employee benefit	Pending legal issues	Off-balance sheet commitments			Other	Total
				S1	S2	S3		
Balance at 1 January 2023	2,793	815	0	561	1,389	2,107	738	8,403
Provisions created during the year	98	132	1,037	1,640	2,248	440	7,164	12,759
Reversed	(516)	(107)	0	(1,441)	(2,646)	(1,314)	(420)	(6,444)
Utilised (paid)	(82)	(95)	0	0	0	0	(286)	(463)
Actuarial profits, recognized in other comprehensive income	189	0	0	0	0	0	0	189
Balance at 31 December 2023	2,482	745	1,037	760	991	1,233	7,196	14,444
Balance at 1 January 2022	3,530	792	0	3,322	3,139	3,349	786	14,918
Provisions created during the year	181	290	0	3,914	4,655	1,938	0	10,978
Reversed	(136)	(112)	0	(6,675)	(6,405)	(3,180)	(45)	(16,553)
Utilised (paid)	0	(155)	0	0	0	0	(3)	(158)
Actuarial profits, recognized in other comprehensive income	(782)	0	0	0	0	0	0	(782)
Balance at 31 December 2022	2,793	815	0	561	1,389	2,107	738	8,403

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 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 4.51 % 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	2,742,251.93	2,482,450.04	259,801.89
Discount rate	-0,50 %	Value	2,854,210.58	2,586,308.05	267,902.53
		(Diff)	(111,958.65)	(103,858.01)	(8,100.64)
	0,50 %	Value	2,638,102.24	2,385,930.26	252,171.98
		(Diff)	(-104,149.69)	(-96,519.78)	(-7,629.91)
Salary growth	-0,50 %	Value	2,634,918.39	2,382,928.86	251,989.53
		(Diff)	(-107,333.54)	(-99,521.18)	(-7,812.36)
	0,50 %	Value	2,856,718.71	2,588,693.74	268,024.97
		(Diff)	(114,466.78)	(106,243.70)	(8,223.08)
Duration (DBO)			8.2	8.4	6.3

SKB Leasing					
Assumption	Change	Description	Total	Retirement Benefits	Jubilee Benefits
Central scenario	0,00 %	Value	267,331.48	219,270.68	48,060.80
Discount rate	-0,50 %	Value	280,761.83	230,665.09	50,096.74
		(Diff)	(13,430.35)	(11,394.41)	(2,035.94)
	0,50 %	Value	254,984.65	208,811.63	46,173.02
		(Diff)	(-12,346.83)	(-10,459.05)	(-1,887.78)
Salary growth	-0,50 %	Value	254,639.73	208,511.18	46,128.55
		(Diff)	(-12,691.75)	(-10,759.50)	(-1,932.25)
	0,50 %	Value	281,028.26	230,900.70	50,127.56
		(Diff)	(13,696.78)	(11,630.02)	(2,066.76)
Duration (DBO)			10.1	10.4	8.5

SKB Leasing Select					
Assumption	Change	Description	Total	Retirement Benefits	Jubilee Benefits
Central scenario	0,00 %	Value	13,542.35	8,411.77	5,130.58
Discount rate	-0,50 %	Value	14,626.28	9,248.07	5,378.21
		(Diff)	(1,083.93)	(836.30)	(247.63)
	0,50 %	Value	12,564.99	7,663.33	4,901.66
		(Diff)	(-977.36)	(-748.44)	(-228.92)
Salary growth	-0,50 %	Value	12,536.07	7,640.21	4,895.86
		(Diff)	(-1,006.28)	(-771.56)	(-234.72)
	0,50 %	Value	14,650.48	9,268.03	5,382.45
		(Diff)	(1,108.13)	(856.26)	(251.87)
Duration (DBO)			15.9	19.7	9.7

Litigation

As at 31. 12. 2023, SKB Group and SKB Bank participated in several litigation cases as defendant. General Management of SKB Group and SKB Bank believe that the provisions are adequate and that the losses from litigation will not exceed the provisions made for these purposes.

In 2023, the SKB Group and SKB Bank created provisions for pending lawsuits in the amount of EUR 1,037 thousand. In 2023, we did not use these provisions.

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.

2.4.32. Other Liabilities

	SKB Group		SKB Bank		
	EUR 000	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Liabilities for wages		2,865	2,638	2,866	2,638
Liabilities for taxes and contributions		1,034	1,031	661	572
Advances received		144	135	144	135
Income deferred and paid in advance		6,435	6,623	1,570	1,958
		10,478	10,427	5,241	5,303

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

2.4.33. Equity

	SKB Group		SKB Bank		
	EUR 000	31.12.2023	31.12.2022	31.12.2023	31.12.2022
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		(22,967)	(39,078)	(22,967)	(39,078)
• actuarial profits / (losses)		(540)	(252)	(437)	(164)
• from investments in the capital of subsidiaries, associates and jointly controlled companies in the case of using the equity method		13	0	0	0
		(23,494)	(39,330)	(23,404)	(39,242)
Reserves from profit (including retained earnings)					
• reserves from profit		29,106	29,106	29,106	29,106
• retained earnings		302,507	241,429	293,289	229,679
		331,613	270,535	322,395	258,785
Profit / (loss) for the year		76,533	61,058	82,873	63,592
Total shareholder capital		541,497	449,108	538,709	439,980

The SKB 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 2023, 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 2023 amount to EUR 42.81 (2022: EUR 35.50) for SKB Group and EUR 42.59 (2022: EUR 34.78) 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 2023, 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 (2022: EUR 4,387 thousand) and other reserves from profits in the amount of EUR 24,719 thousand (2022: 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 2023 with a net profit of EUR 82,873 thousand (2021: EUR 63,592 thousand), and SKB Group with a net profit of EUR 76,533 thousand (2021: EUR 61,058 thousand).

Basic earnings / (loss) per share

EUR 000	SKB Group		SKB Bank	
	2023	2022	2023	2022
Net profit attributable to shareholders	76,533	61,058	82,873	63,592
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)	6.05	4.83	6.55	5.03

The movement of retained earnings / (loss) and income / (loss) in 2022 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 2023	241,429	61,058	302,487	229,679	63,592	241,429
Transfer of profit to retained earnings	61,058	(61,058)	0	63,592	(63,592)	0
Appropriation of (accounting for) dividends	0	0	0	0	0	0
Net profit / (loss) for the financial year	0	76,533	76,533	0	82,873	82,873
Other	20	0	20	18	0	18
Balance at 31 December 2023	302,507	76,533	379,040	293,289	82,873	376,162
Balance at 1 January 2022	195,462	46,008	241,470	178,987	50,733	229,720
Transfer of profit to retained earnings	46,008	(46,008)	0	50,733	(50,733)	0
Appropriation of (accounting for) dividends	0	0	0	0	0	0
Net profit / (loss) for the financial year	0	61,058	61,058	0	63,592	63,592
Other	(41)	0	(41)	(41)	0	(41)
Balance at 31 December 2022	241,429	61,058	302,487	229,679	63,592	293,271

The SKB Bank's distributable profit		
EUR 000	2023	2022
Net profit for the financial year	82,873	63,592
Retained earnings	293,289	229,679
Long-term deferred development costs	(7,115)	(4,565)
Distributable profit	369,047	288,706
Distribution of dividends	31,117	-
Transfer to following year	337,930	288,706

In the 2023 financial year, SKB Bank generated net profit in the amount of EUR 82,873 thousand (2022: EUR 63,592 thousand). At the end of 2023, retained earnings amounted to EUR 293,289 thousand (2022: EUR 229,679 thousand).

General management proposed the distribution of current year result in the amount of EUR 31,217 thousand. Decision on the distribution will be made on General Meeting of Shareholders.

2.4.34. 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		
	EUR 000	31. 12. 2023	31. 12. 2022	31. 12. 2023	31. 12. 2022
Guarantees		316,979	304,672	316,979	304,672
Service related		175,740	154,960	175,740	154,960
• up to 1 year		15,910	14,092	15,910	14,092
• over 1 year		159,830	140,868	159,830	140,868
Financial		141,239	149,712	141,239	149,712
• up to 1 year		15,312	32,707	15,312	32,707
• over 1 year		125,927	117,005	125,927	117,005
Undrawn facilities		618,871	612,252	618,892	612,274
• up to 1 year		492,644	460,619	492,664	460,641
• over 1 year		126,227	151,633	126,228	151,633
Spot		66,463	46,999	66,463	46,999
• up to 1 year		66,463	46,999	66,463	46,999
Derivative financial instruments		688,412	577,426	688,412	577,426
• up to 1 year		347,298	149,775	347,298	149,775
• over 1 year		341,115	427,651	341,115	427,651
		1,690,726	1,541,349	1,690,747	1,541,371

The SKB Group and Banka SKB also enter into guarantee line agreements with customers. Upon conclusion, the SKB 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 2.4.31.

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 474,384 thousand (2022: EUR 466,342 thousand), of which securities are EUR 441,131 thousand (2022: EUR 427,206 thousand) and loans EUR 33,253 thousand (2022: EUR 39,135 thousand).

2.4.35. Distribution of Dividends

General management proposed the distribution of current year result in the amount of EUR 31,117 thousand. Decision on the distribution will be made on General Meeting of Shareholders.

2.4.36. 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. 2023	31. 12. 2022
ASSETS		2,483,204	2,185,339
Claims due to customers (settlement and current account)		2,481,167	2,176,422
Due to financial instruments		2,480,407	2,176,303
Due to KDD or settlement (custody) account for sold financial instruments		80	98
Due to other or settlement account for sold financial instruments (buyers)		680	21
Cash assets (customers)		2,037	8,917
On settlement account		1,556	6,260
On current account		481	2,657
LIABILITIES		2,483,203	2,185,339
Liabilities due to customers (settlement and current account)		2,483,203	2,185,339
Due to customer (cash and financial instruments)		2,482,481	2,185,241
Due to KDD or settlement (custody) account for bought financial instruments		1	98
Due to bank or settlement account for commision, fees etc.		721	0
OFF BALANCE SHEET		2,480,407	2,176,303
Customer financial instruments, diverse by services		2,480,407	2,176,303
Securities services		43	0
Custody services		2,480,364	2,176,303

SKB Group and SKB Bank have performed as agent or member of syndicate in performing the syndicate loan in EUR 165,462 thousand (2022: EUR 231,319 thousand).

2.4.37. 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		
	EUR 000	31. 12. 2023	31. 12. 2022	31. 12. 2023	31. 12. 2022
Cash in hand		20,599	25,947	20,599	25,947
Balances with central banks and other demand deposits		800,751	528,087	793,437	528,087
Loans to banks up to 90 days		4	274,070	4	274,070
		821,354	828,104	814,040	828,104

3. Related Party Transactions

In accordance with IAS 24, related parties of the SKB Group and SKB Bank are:

- parent bank (OTP Bank);
- other companies in the OTP Group;
- subsidiary (Leasing Group);
- key management personnel;
- other related parties.

When examining the links, we paid attention especially to the content of the link and not just the legal form.

Key management personnel are those persons having authority and responsibility in the areas of planning, directing and controlling the activities of the SKB Group, either directly or indirectly.

Key management personnel of the SKB Group and SKB Bank include the SKB Board of Directors, directors of divisions who hold high management positions and are not members of the Board of Directors, and the director of a subsidiary company.

Other related parties of the SKB Group and SKB Bank are close family members of the key management personnel and companies that the members of the key management personnel control or have a significant influence on (they are their owners or members of the key management personnel):

Transactions with related parties are concluded under normal market conditions.

3.1. Transactions with Related Parties

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 2022, 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..

Commonly used interest rates with OTP Group

	EUR	foreign currency
Borrowing	Fix interest rate 0.01 %	-
	3M EURIBOR 3.18 % to 4.42 %	-
Lending	Fix interest rate +2.29 % to +4.24 %	Fix interest rate +1.39 % to +5.90 %
	overnight	Fix interest rate +1.25 % to +5.81 %

3.1.1. Transactions with SKB Group's Related Parties

The scope of banking transactions with related parties is as follows:

INCOME STATEMENT	2023					2022				
	EUR 000	With OTP Bank	Other related parties in OTP Group	With SKB Leasing	Key management personnel	Other related personnel	With OTP Bank	Other related parties in OTP Group	With SKB Leasing	Key management personnel
Interest income	26,949	0	23,122	8	9	7,837	0	7,150	3	2
Interest expenses	(21,883)	(2)	(1)	(3)	(3)	(3,469)	(1)	(1)	(1)	0
Net interest income	5,066	(2)	23,121	5	6	4,368	(1)	7,149	2	2
Dividend income	0	0	9,005	0	0	0	0	7,450	0	0
Fee and commission income	105	151	294	3	4	93	152	393	2	1
Fee and commission expenses	(798)	(2)	(4,028)	0	0	(1,043)	(27)	0	0	0
Net fee and commission income	(693)	149	(3,734)	3	4	(950)	125	393	2	1
Gains and losses on financial assets and liabilities held for trading	(1,876)	0	0	0	0	11,027	(1)	0	0	0
Exchange differences	0	0	0	0	0	0	0	0	0	0
Other operating income	0	0	626	0	0	0	1,252	200	0	0
Financial and operating income and expenses	2,497	147	29,018	8	10	14,445	1,375	15,192	4	3
Other administrative expenses	(1,596)	(68)	(2,249)	(71)	(46)	(1,006)	(1,343)	0	(76)	0
Provisions and impairment	1,993	39	0	0	0	(2,430)	(26)	2,151	0	0
TOTAL PROFIT (LOSS) BEFORE TAX	2,894	118	26,769	(63)	(36)	11,009	6	17,343	(72)	3

STATEMENT OF FINANCIAL POSITION	2023					2022					
	EUR 000	With OTP Bank	Other related parties in OTP Group	With SKB Leasing	Key management personnel	Other related personnel	With OTP Bank	Other related parties in OTP Group	With SKB Leasing	Key management personnel	Other related personnel
Assets											
Cash, cash balances at central banks and other demand deposits at banks	277,424	101	0	0	0	1,399	4,873	0	0	0	0
Financial assets held for trading	1,846	0	0	0	0	3,902	0	0	0	0	0
Financial assets at amortised cost	9	15	550,409	193	197	271,660	10	500,714	207	42	42
Loans to banks	0	0	0	0	0	271,652	0	0	0	0	0
Loans to non-bank customers	0	2	550,268	193	197	0	0	500,694	207	42	42
Other financial assets	9	13	141	0	0	8	10	20	0	0	0
Investments in subsidiaries, associates and joint ventures	0	0	33,847	0	0	0	0	20,454	0	0	0
Property, plant and equipment	0	0	0	0	0	0	53	0	0	0	0
Intangible assets	0	0	0	0	0	77	0	0	0	0	0
Other assets	69	9	0	0	0	48	649	0	0	0	0
Liabilities											
Financial liabilities held for trading	4,247	0	0	0	0	295	0	0	0	0	0
Financial liabilities measured at amortised cost	251,199	11,425	2,855	607	1,010	250,588	20,055	8,754	928	239	239
Deposits from banks and central banks	0	84	0	0	0	0	14	0	0	0	0
Deposits from non-bank customers	0	11,341	2,802	607	1,010	0	19,877	8,754	885	239	239
Loans from banks and central banks	250,111	0	0	0	0	250,074	0	0	0	0	0
Other financial liabilities	1,088	0	53	0	0	514	164	0	43	0	0
Provisions	2	0	0	0	0	0	11	0	0	0	0
Other liabilities	1	1	141	0	0	0	1	0	0	0	0
Off-balance sheet items											
Financial and Other guarantees given	1,952	544	0	0	0	26	615	0	0	0	0
Loan commitments given	0	19	22	44	53	0	0	22	35	8	8
Nominal value SPOT deals	45,336	0	0	0	0	45,990	0	0	0	0	0
Nominal value Derivatives deals	37,175	0	0	0	0	33,915	0	0	0	0	0

3.1.2. Transactions with SKB Bank's Related Parties

The scope of banking transactions with related parties is as follows:

INCOME STATEMENT	2023					2022				
	EUR 000	With OTP Bank	Other related parties in OTP Group	With SKB Leasing	Key management personnel	Other related personnel	With OTP Bank	Other related parties in OTP Group	With SKB Leasing	Key management personnel
Interest income	26,949	0	23,122	8	0	7,837	0	7,150	3	2
Interest expenses	(21,883)	(2)	(1)	(1)	0	(3,469)	(1)	(1)	(1)	0
Net interest income	5,066	(2)	23,121	7	0	4,368	(1)	7,149	2	2
Dividend income	0	0	9,005	0	0	0	0	7,450	0	0
Fee and commission income	105	151	294	2	1	93	152	393	2	1
Fee and commission expenses	(798)	(2)	(4,028)	0	0	(1,043)	(27)	0	0	0
Net fee and commission income	(693)	149	(3,734)	2	1	(950)	125	393	2	1
Gains and losses on financial assets and liabilities held for trading	(1,876)	0	0	0	0	11,027	(1)	0	0	0
Exchange differences	0	0	0	0	0	0	0	0	0	0
Other operating income	0	0	626	0	0	0	1,252	200	0	0
Financial and operating income and expenses	2,497	147	29,018	9	1	14,445	1,375	15,192	4	3
Other administrative expenses	(1,596)	(68)	(2,249)	(71)	0	(1,006)	(1,343)	0	(76)	0
Provisions and impairment	1,993	39	0	0	0	(2,430)	(26)	2,151	0	0
TOTAL PROFIT (LOSS) BEFORE TAX	2,894	118	26,769	(62)	1	11,009	6	17,343	(72)	3

STATEMENT OF FINANCIAL POSITION	2023					2022					
	EUR 000	With OTP Bank	Other related parties in OTP Group	With SKB Leasing	Key management personnel	Other related personnel	With OTP Bank	Other related parties in OTP Group	With SKB Leasing	Key management personnel	Other related personnel
Assets											
Cash, cash balances at central banks and other demand deposits at banks	277,424	101	0	0	0	1,399	4,873	0	0	0	0
Financial assets held for trading	1,846	0	0	0	0	3,902	0	0	0	0	0
Financial assets at amortised cost	9	15	550,409	193	4	271,660	10	500,714	207	41	41
Loans to banks	0	0	0	0	0	271,652	0	0	0	0	0
Loans to non-bank customers	0	2	550,268	193	4	0	0	500,694	207	41	41
Other financial assets	9	13	141	0	0	8	10	20	0	0	0
Investments in subsidiaries, associates and joint ventures	0	0	33,847	0	0	0	0	20,454	0	0	0
Property, plant and equipment	0	0	0	0	0	0	53	0	0	0	0
Intangible assets	0	0	0	0	0	77	0	0	0	0	0
Other assets	69	9	0	0	0	48	649	0	0	0	0
Liabilities											
Financial liabilities held for trading	4,247	0	0	0	0	295	0	0	0	0	0
Financial liabilities measured at amortised cost	251,199	11,425	2,855	605	118	250,588	20,055	8,754	831	136	136
Deposits from banks and central banks	0	84	0	0	0	0	14	0	0	0	0
Deposits from non-bank customers	0	11,341	2,802	605	118	0	19,877	8,754	831	136	136
Loans from banks and central banks	250,111	0	0	0	0	250,074	0	0	0	0	0
Other financial liabilities	1,088	0	53	0	0	514	164	0	0	0	0
Provisions	2	0	0	0	0	0	11	0	0	0	0
Other liabilities	1	1	141	0	0	0	1	0	0	0	0
Off-balance sheet items											
Financial and Other guarantees given	1,952	544	0	0	0	26	615	0	0	0	0
Loan commitments given	0	19	22	25	1	0	0	22	24	6	6
Nominal value SPOT deals	45,336	0	0	0	0	45,990	0	0	0	0	0
Nominal value Derivatives deals	37,175	0	0	0	0	33,915	0	0	0	0	0

3.1.3. Transactions with the Members of Key Management Personnel

The disclosure is prepared in accordance with Article 69 of the Companies Act (ZGD-1).

SKB Group	2023		2022		
	EUR 000	Board of Directors	Key Management Personnel	Board of Directors	Key Management Personnel
Transactions at the end of the year					
Loans and advances		4	189	1	206
Average interest rate (%)		0.00 %	5.15 %*	0.00 %	3.26 %
Financial liabilities measured at amortised costs		512	94	702	226
Average interest rate (%)		0.00 %	0.00 %	0.00 %	0.00 %
Guarantees given		0	0	0	0
Transactions in the year					
Interest income		0	8	0	3
Interest expense		(1)	(2)	0	(1)
Fee and commission income		2	2	1	1

SKB Bank	2023		2022		
	EUR 000	Board of Directors	Key Management Personnel	Board of Directors	Key Management Personnel
Transactions at the end of the year					
Loans and advances		4	189	1	206
Average interest rate (%)		0.00 %	5.15 %*	0.00 %	3.26 %
Financial liabilities measured at amortised costs		512	94	702	129
Average interest rate (%)		0.10 %	0.04 %	0.00 %	0.00 %
Guarantees given		0	0	0	0
Transactions in the year					
Interest income		0	8	0	3
Interest expense		(1)	(2)	0	0
Fee and commission income		2	2	1	1

* Interest rates were approved according to the SKB Bank's policy, Average interest rate is 5.15 % and represents the average of common or notional (Euribor + margin or fix) interest rate.

3.2. Remuneration Policy

The disclosure is prepared in accordance with Article 69. of the Companies Act (ZGD-1).

Remunerations paid to members of the Board of Directors:

SKB Group and SKB Bank									
000 EUR	Anita Stojčevska	Vojka Ravbar	Spyridon Ntallas	Imre Bertalan	Draga Cukjati	Anna Mitkova Florova	Átilla Kovács	Gáldi György	
Fixed remuneration	346.8	164.6	21.5						
Variable remuneration	70.1	32.6	0.0						
In - kind benefits*	14.7	5.8	4.3						
Reimbursement of expenses	10.9	3.7	2.8	1.5	1.5	1.5	1.5		
Insurance premium	3.0	0.4	0.3						
Other payments	2.1	2.1	0.0						
Meeting fees									
Monthly fees				18.6	17.1	28.1	18.1	14.2	
Total	447.6	209.2	28.9	20.1	18.6	29.6	19.6	14.2	
Deferred payments	229.8	70.6							

* 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 SKB Bank's subsidiary SKB Leasing.

In November 2023, a new member joined the Board of Directors - executive member Spyridon Ntallas.

All the members of the Board of Directors - non-executive directors, receive monthly remuneration for executing the function in the amount of EUR 1,200 (net). President of Board of Directors is paid EUR 2,000 net 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 Bank 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:

000 EUR	Skupina SKB	SKB banka
EUR 000	SKB Group	SKB Bank
Fixed remuneration	907.1	762.8
Variable remuneration	162.3	123.4
In - kind benefits*	141.5	135.6
Reimbursement of expenses	101.9	92.1
Insurance premium	9.9	9.4
Other payments	12.0	8.7
Meeting fees	0.0	0.0
Monthly fees	0.0	0.0
Total	1,334.7	1,132.0
Deferred remuneration	431.7	431.7

* 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 annual bonus is divided into two parts:

- Bonus pool for non-identified 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 instalments of performance on the basis of performance that has not yet expired ceases.

An 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 the performance is paid in accordance with applicable legislation and the Remuneration Policy of the SKB Group. Payment of the variable part of the remuneration is divided into payment in cash and payment in shares or share-related financial instruments.

The payment decision on variable part 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	454	1,578
• cash	375	1,070
• virtual shares	49	385
• shares	30	123
NON-IDENTIFIED EMPLOYEES	1,141	1,141
	1,595	2,719

4. Fair Value of Financial Instruments

4.1. Financial Instruments 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:

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 SKB 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 SKB 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.

SKB Group				
EUR 000	31. 12. 2023		31. 12. 2022	
	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	821,337	821,337	553,930	553,930
Financial assets at amortised cost	3,281,962	3,266,430	3,396,479	3,279,067
Financial liabilities not measured at fair value				
Financial liabilities measured at amortised cost	4,011,459	4,042,224	3,952,976	3,989,426

SKB Bank				
EUR 000	31. 12. 2023		31. 12. 2022	
	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	814,023	814,023	553,930	553,930
Financial assets at amortised cost	3,279,870	3,234,863	3,386,488	3,242,239
Financial liabilities not measured at fair value				
Financial liabilities measured at amortised cost	4,004,705	4,035,471	3,951,287	3,978,982

The table below shows the fair values of financial instruments not measured at fair value by the level in the fair value hierarchy. This table does not include the fair values of non-financial assets and non-financial liabilities.

SKB Group						
	EUR 000	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
31. 12. 2022						
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE						
Cash, cash balances at the central banks and other demand deposits		821,337	0	0	821,337	821,337
Financial assets at amortised cost		0	410,033	856,397	3,266,430	3,281,962
Loans and other financial assets		0	275,584	2,856,397	3,131,981	3,142,646
Government bonds - listed		-	134,449	0	134,449	139,316
Financial liabilities not measured at fair value						
Financial liabilities measured at amortised cost		-	-	4,042,224	4,042,224	4,011,459
31. 12. 2022						
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE						
Cash, cash balances at the central banks and other demand deposits		553,930	0	0	553,930	553,930
Financial assets at amortised cost		-	135,918	3,143,149	3,279,067	3,396,479
Loans and other financial assets		0	-	3,143,149	3,143,149	3,254,724
Government bonds - listed		-	135,918	0	135,918	141,755
Financial liabilities not measured at fair value						
Financial liabilities measured at amortised cost		-	-	3,989,426	3,989,426	3,952,976

SKB Bank						
	EUR 000	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
31. 12. 2023						
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE						
Cash, cash balances at the central banks and other demand deposits		814,023	-	-	814,023	814,023
Financial assets at amortised cost		0	410,033	2,824,830	3,234,863	3,279,870
Loans and other financial assets		-	275,584	2,824,830	3,100,414	3,140,554
Government bonds - listed		-	134,449	-	134,449	139,316
Financial liabilities not measured at fair value						
Financial liabilities measured at amortised cost		-	-	4,035,471	4,035,471	4,004,705
31. 12. 2022						
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE						
Cash, cash balances at the central banks and other demand deposits		553,930	-	-	553,930	553,930
Financial assets at amortised cost		0	135,918	3,106,322	3,242,240	3,386,488
Loans and other financial assets		-	-	3,106,322	3,106,322	3,244,733
Government bonds - listed		-	135,918	-	135,918	141,755
Financial liabilities not measured at fair value						
Financial liabilities measured at amortised cost		-	-	3,978,982	3,978,982	3,951,287

4.2. Financial Instruments 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.

SKB Group and SKB Bank use the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

Level 1: quoted (unadjusted) prices in active markets for identical assets of liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The table below summarises the breakdown of financial assets and liabilities by individual valuation method and by individual valuation levels (1, 2, 3), The breakdown is shown for SKB Group and SKB Bank for years 2022 and 2021.

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 2022 and 2021.

SKB Group and SKB Bank								
	31. 12. 2023				31. 12. 2022			
000 EUR	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS MEASURED AT FAIR VALUE								
Financial assets held for trading	0	9,769	0	9,769	0	11,203	0	11,203
Derivative financial instruments	0	9,769	0	9,769	0	11,203	0	11,203
• Forward	-	1,452	-	1,452	-	1,673	-	1,673
• Interest rate swap	-	5,741	-	5,741	-	8,324	-	8,324
• Currency swap	-	1,681	-	1,681	-	25	-	25
• Interest rate option	-	699	-	699	-	1,172	-	1,172
• Spot	0	196	0	196	0	9	0	9
Non-trading financial assets mandatorily at fair value through profit of loss	0	12,875	904	13,779	0	12,343	7,944	20,287
Equity instruments	-	12,875	904	13,779	-	12,343	7,944	20,287
Financial assets at fair value through other comprehensive income	-	376,912	0	376,912	-	361,715	-	361,715
Government bonds - listed	-	376,912	0	376,912	-	361,715	-	361,715
LIABILITIES MEASURED AT FAIR VALUE								
Financial liabilities held for trading	0	9,328	0	9,328	0	11,118	0	11,118
Derivative financial instruments	0	9,328	0	9,328	0	11,118	0	11,118
• Forward	-	1,411	0	1,411	-	1,661	-	1,661
• Interest rate swap	-	5,540	0	5,540	-	8,269	-	8,269
• Currency swap	-	1,668	0	1,668	-	3	-	3
• Interest rate option	-	699	0	699	-	1,172	-	1,172
• Spot	-	10	0	10	-	13	0	13

Total gains and losses for the year in the above table are presented in statement of profit or loss and other comprehensive income (OCI) as follows:

SKB Group and SKB Bank 2023	ASSETS MEASURED AT FAIR VALUE					LIABILITIES MEASURED AT FAIR VALUE		Total	
	EUR 000	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Non-current assets and disposal groups classified as held for sale	Financial liabilities held for trading		Financial liabilities designated at fair value through profit or loss
Total gain and losses recognised in profit or loss	29,873	0	0	(559)	0	0	(29,140)	0	174
Net trading income	24,892	0	0	0	0	0	(24,581)	0	311
Other revenue	4,981	0	0	(559)	0	0	(4,559)	0	(137)
Total gain and losses recognised in OCI	0	0	0	0	(19,036)	0	0	0	(19,036)
Debt instruments at fair value through other comprehensive income	0	0	0	0	(19,036)	0	0	0	(19,036)

SKB Group and SKB Bank 2022	ASSETS MEASURED AT FAIR VALUE					LIABILITIES MEASURED AT FAIR VALUE		Total
	EUR 000	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit of loss	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Non-current assets and disposal groups classified as held for sale	Financial liabilities held for trading	
Total gain and losses recognised in profit or loss	69,357	0	(603)	(113)	0	(68,464)	0	177
Net trading income	65,866	0	0	0	0	(65,521)	0	345
Other revenue	3,491	0	(603)	(113)	0	(2,943)	0	(168)
Total gain and losses recognised in OCI	0	0	0	(68,631)	0	0	0	(68,631)
Debt instruments at fair value through other comprehensive income	0	0	0	(68,631)	0	0	0	(68,631)

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 2023		7,944	0	7,944
Valuation in profit or loss		24	0	24
Reclasification		(7,064)	0	(7,064)
At 31 December 2023		904	0	904
At 1 January 2022		7,973	0	7,973
Valuation in profit or loss		(29)	0	(29)
At 31 December 2022		7,944	0	7,944

In 2023, SKB Group and SKB bank included loans to banks for up to 3 months as financial assets in level 2.

The triggers for the transition between different levels of fair value are shown in the following table:

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.

5. 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 2023 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. Equity investments are revalued to fair value once a year, except in the case of extraordinary events and major changes that significantly affect the financial operations of entities. The investment in Sklad za reševanje bank is revalued on a monthly basis

The table below shows the fair value of equity investments:

Issuer	EUR 000	31. 12. 2023	31. 12. 2022	The month of the last equity investment revaluation
Equity instruments acquired through debt to equity swap		0	0	
Peko, d.d.		0	0	/
Strategic equity instruments		904	7,944	
Bankart, d.o.o.		0*	7,064	February 2023
Pokojninska družba A, d.d.		873	851	June 2023
S.W.I.F.T.		31	29	December 2023
Equity instruments acquired for regulatory reasons		12,875	12,343	
Sklad za reševanje bank		12,875	12,343	December 2023
Total equity investments		13,779	20,287	

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

At the joining of Nova KBM to OTP Group on the 6th of February 2023, we reclassified the investment in Bankart from Non-trading financial assets mandatorily at fair value through profit or loss to Investments in subsidiaries, associates and joint ventures.

Gains and losses arising from changes in the fair value of financial assets measured at fair value through profit or loss are recognized in the income statement in the period in which they arise.

The table below shows the total realized gains from fair valuation of equity investments in 2023. In 2023 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 EUR thousands.

1. Dividends received	2023	2022
Total	25	35
Pokojninska družba A, d.d.	25	35
2. Sale of equity investments		
Total	-	-
3. Effects on income statement from fair valuation		
Total	(559)	(603)
S.W.I.F.T.	2	5
Sklad za reševanje bank	532	(574)
Bankart, d.o.o.	(1,115)	(108)
Pokojninska družba A, d.d.	22	74

Prior to the reclassification of equity investment in Bankart, the loss from the valuation of investment in 2023 was recognized in the income statement item "net gains/losses on non-trading financial assets mandatorily at fair value through profit or loss".

6. Events After the Date of the Statement of Financial Position

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

7. Risk Management

Introduction

In accordance with Regulation (EU) No. 575/2013 (CRR) of the of the European Parliament and of the Council on the prudential requirements for credit institutions and investment firms the bank is obliged to disclose to the public all relevant information regarded as material, since any omission could influence the assessment of a user relying on that information for the purpose of making economic decisions. Number and completeness of disclosed information related to capital adequacy, exposure towards risks and adequacy of governance and control mechanisms, have the impact to a higher transparency of the bank's operations.

SKB banka d.d. Ljubljana publishes disclosures in a standalone document in the structure compliant to EBA Guidelines on disclosure requirements under Part 8 of Regulation (EU) No. 575/2013.

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 banka d.d. Ljubljana. Consolidated statements for accounting and prudential purposes consist of SKB Bank, SKB Leasing Ltd, 100 % owned by the SKB Bank, and SKB Leasing Select, 100 % owned by SKB Leasing. Both companies are fully consolidated. There are no differences in consolidated statements for accounting and prudential purposes.

In the SKB Group there are no impediments to the transfer of own funds or repayment of liabilities among the parent bank and its subsidiary.

7.1. Risk Management Objectives and Policies

7.1.1. 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 SKB 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 SKB Group.

SKB Group monitors five major risk types. Overall, in 2023 the SKB Group demonstrated strong financial profile with stable levels of main risk types.

7.1.2. 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 SKB 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.

7.1.3. 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 2022 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. The SKB Bank also uses various additional analysis for the purpose of detecting portfolio changes or changing patterns in client's behaviour.

7.1.4. 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).

7.1.5. 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.

7.2. Equity Requirements

The SKB 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).

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 normative³⁷ and economic³⁷ 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 Group's main strategic processes, such as Risk Appetite Framework, Risk Appetite Statement and Recovery and resolution plan.

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 %.

³⁷The 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.

³⁸Economic 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.

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 SKB Group's capital with risk-weighted assets.

The minimum amount of capital required is 8 % of risk weighted assets under pillar I requirement and the total capital requirement is set to 14.70 % on a consolidated basis.

In 2023 the capital adequacy of the SKB Group has increased and remains well above internally set limit. The primary reason of the increase is in the increase of the total capital by EUR 93 million, and decrease of RWA by EUR 152 million.

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	2023	2022	2023	2022
Paid up capital instruments		52,784	52,784	52,784	52,784
Share premium		104,061	104,061	104,061	104,061
Retained earnings		302,384	241,324	293,166	229,574
Profit or loss eligible		38,948	25,132	44,672	29,259
Profit or loss attributable to owners of the parent		76,533	61,060	82,873	63,592
(-) Part of interim or year-end profit not eligible		(37,585)	(35,928)	(38,201)	(34,333)
Accumulated other comprehensive income		(23,494)	(39,330)	(23,404)	(39,242)
Other reserves		29,106	29,106	29,106	29,106
Prudential filters: Value adjustments due to the requirements for prudent valuation		(397)	(383)	(417)	(403)
(-) Goodwill		(1,290)	(1,290)		
(-) Other intangible assets		(989)	(3,553)	(2,140)	(4,624)
(-) CET1 capital elements or deductions - other		(178)	(22)	(57)	(18)
COMMON EQUITY TIER 1 (CET1)		500,937	407,829	497,771	400,497
TIER 1 CAPITAL (T1)		500,937	407,829	497,771	400,497
TIER 2 CAPITAL		80,000	80,000	80,000	80,000
TOTAL CAPITAL (OWN FUNDS)		580,937	487,829	577,771	480,497
Total credit risk exposure		2,497,027	2,681,380	2,650,942	2,815,413
Total exposure to credit valuation adjustment risk		2,034	4,770	2,034	4,770
Total operative risk exposure		232,244	197,289	224,731	190,079
TOTAL RISK EXPOSURE (RWA)		2,731,305	2,883,440	2,877,706	3,010,262
Common share equity ratio (ratio CET1)		18.34%	14.14%	17.30%	13.30%
Share capital ratio (ratio Tier 1)		18.34%	14.14%	17.30%	13.30%
Total capital ratio		21.27%	16.92%	20.08%	15.96%

As at 31 December 2023, the capital ratios of the SKB Group are as follows:

- common share equity Ratio: 18.34 %;
- share capital ratio: 18.34 %;
- total capital ratio: 21.27 %.

The total capital requirement of the SKB Group amounts to 14.70 % at the end of 2023 on a consolidated basis and includes:

- 10,25 % TSCR (8 % required by 1st pillar and 2,25 % required by 2nd pillar);
- 2.5 % CCB buffer, 0.5 % countercyclical capital buffer, 0.25 % buffer for other systemically important institutions; 0,2 % systemic risk buffer;
- 1 % P2G.

The capital adequacy of SKB Group and SKB Bank thus remains high at the end of 2023 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.

MREL requirements

According to the EU Bank Recovery and Resolution Directive 2014/59/EU (BRRD), SKB Bank needs to be comply with the MREL requirements (MREL - Minimum Requirement for Own Funds and Eligible Liabilities) on a sub consolidated basis. Minimum MREL requirements (without capital buffers) for SKB Group for the year 2023 is 17.16 % of the total risk exposure amount (TREA) and 5.9 % of of the leverage ratio exposure (LRE).

7.3. Credit Risk

7.3.1. General Qualitative Information on Credit Risk

7.3.1.1. 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 SKB 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.

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.

7.3.1.2. 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 SKB 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.

The SKB Group regularly follows the developments in macroeconomic environment and regularly analyses the impact of these developments on its portfolio. In case the impact is identified, the significant increase in credit risk is marked either through regular SICR indicator or expert judgement and lifetime expected losses are calculated.

7.3.2. 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.

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

SKB Group						
	EUR 000	2023			2022	
	Gross exposure	Risk adjustment	Net exposure	Gross exposure	Risk adjustment	Net exposure
Cash on hand, balances with central banks and sight deposits with banks	821,349	(12)	821,337	554,034	(104)	553,930
Financial assets held for trading	196	0	196	9	0	9
Financial assets measured at fair value through profit or loss that are not held for trading	13,779	0	13,779	20,287	0	20,287
Financial assets measured at fair value through other comprehensive income	376,912	0	376,912	361,715	0	361,715
Financial assets measured at amortized cost	3,334,245	(52,283)	3,281,962	0	0	0
Debt securities	139,369	(53)	139,316	3,453,145	(56,665)	3,396,480
• Loans to banks	276,012	(428)	275,584	141,861	(105)	141,756
• Loans to State	44,673	(19)	44,654	274,071	(2,415)	271,656
• Loans to individuals	1,592,805	(28,288)	1,564,517	50,519	(33)	50,486
• Loans to other customers	1,270,877	(23,467)	1,247,410	1,396,298	(26,354)	1,369,944
• Other financial assets	10,509	(27)	10,482	8,339	(13)	8,326
Derivatives, held for trading	9,573	0	9,573	11,194	0	11,194
Total gross financial assets	4,556,054	(52,295)	4,503,759	4,400,384	(56,769)	4,343,615
Total guarantees and potential liabilities	935,850	(2,984)	932,866	916,924	(4,057)	912,867
Total maximum exposure to credit risk	5,491,904	(55,279)	5,436,625	5,317,308	(60,826)	5,256,482

SKB Bank						
EUR 000	2023			2022		
	Gross exposure	Risk adjustment	Net exposure	Gross exposure	Risk adjustment	Net exposure
Cash on hand, balances with central banks and sight deposits with banks	814,035	(12)	814,023	554,034	(104)	553,930
Financial assets held for trading	196	0	196	9	0	9
Financial assets measured at fair value through profit or loss that are not held for trading	13,779	0	13,779	20,287	0	20,287
Financial assets measured at fair value through other comprehensive income	376,912	0	376,912	361,715	0	361,715
Financial assets measured at amortized cost	3,323,073	(43,202)	3,279,870	3,435,054	(48,566)	3,386,488
Debt securities	139,369	(53)	139,316	141,861	(105)	141,756
• Loans to banks	276,012	(428)	275,584	274,071	(2,415)	271,656
• Loans to State	44,673	(19)	44,654	50,519	(33)	50,486
• Loans to individuals	1,355,931	(22,570)	1,333,361	1,349,596	(22,737)	1,326,859
• Loans to other customers	1,497,914	(20,111)	1,477,803	1,611,275	(23,268)	1,588,007
• Other financial assets	9,175	(21)	9,154	7,732	(8)	7,724
Derivatives, held for trading	9,573	0	9,573	11,194	0	11,194
Total gross financial assets	4,544,882	(43,214)	4,501,668	4,382,293	(48,670)	4,333,623
Total guarantees and potential liabilities	935,871	(2,984)	932,887	916,946	(4,057)	912,889
Total maximum exposure to credit risk	5,480,753	(46,198)	5,434,555	5,299,239	(52,727)	5,246,512

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 Bank precisely monitors concentration of risk by client name, using large exposure analyses, and manages it by defining the limits comparing to the SKB Group's 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 client name 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	2023	2022	2023	2022	2023	2022	2023	2022	2023
Agriculture and forestry, finshing	-	-	25,585	25,228	-	-	-	-	976	1,079
Mining	-	-	2,344	5,438	-	-	-	-	130	1,781
Manufacturing	-	-	342,824	376,552	-	-	-	-	218,001	178,219
Electricity, gas and water services	-	-	125,570	163,443	-	-	-	-	62,010	104,138
Construction	-	-	62,170	63,142	-	-	-	-	91,167	84,127
Commerce	-	-	265,287	284,401	-	-	-	-	241,381	231,348
Hotel trading	-	-	20,098	19,884	-	-	-	-	8,034	15,096
Traffic, warehousing and communication	-	-	240,293	268,003	-	-	-	-	78,507	82,832
Other financial organizations	276,012	274,071	39,634	44,473	-	-	-	-	21,367	14,932
Real estate	-	-	32,578	31,785	-	-	-	-	980	3,852
Government	-	-	66,202	75,811	76,693	78,650	282,577	274,157	3,010	2,772
Education	-	-	6,543	7,256	-	-	-	-	1,280	1,112
Health and social services	-	-	17,776	18,867	-	-	-	-	2,264	1,923
Other public, collective and personal services	-	-	68,811	63,075	62,676	63,211	94,335	87,558	109,221	95,046
Individuals	-	-	1,592,640	1,581,515	-	-	-	-	97,522	98,667
• mortgage secured	-	-	851,701	864,323	-	-	-	-	3,484	7,598
• unsecured	-	-	377,713	389,655	-	-	-	-	93,859	90,646
Total	276,012	274,071	2,908,355	3,028,874	139,369	141,861	376,912	361,715	935,850	916,924

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	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Agriculture and forestry, finshing	-	-	-	21,874	21,858	-	-	-	-	976	1,079
Mining	-	-	-	1,221	4,043	-	-	-	-	130	1,781
Manufacturing	-	-	-	295,568	331,928	-	-	-	-	218,001	178,219
Electricity, gas and water services	-	-	-	119,176	157,652	-	-	-	-	62,010	104,138
Construction	-	-	-	19,273	23,988	-	-	-	-	91,167	84,127
Commerce	-	-	-	157,900	195,123	-	-	-	-	241,381	231,348
Hotel trading	-	-	-	15,949	16,283	-	-	-	-	8,034	15,096
Traffic, warehousing and communication	-	-	-	158,617	197,705	-	-	-	-	78,507	82,832
Other financial organizations	276,012	274,071	-	590,079	545,154	-	-	-	-	21,389	14,954
Real estate	-	-	-	31,554	30,217	-	-	-	-	980	3,852
Government	-	-	-	65,894	75,596	76,693	78,650	282,577	274,157	3,010	2,772
Education	-	-	-	5,952	6,694	-	-	-	-	1,280	1,112
Health and social services	-	-	-	16,424	17,398	-	-	-	-	2,264	1,923
Other public, collective and personal services	-	-	-	43,272	38,694	62,676	63,210	94,335	87,558	109,221	95,046
Individuals	-	-	-	1,355,765	1,349,057	-	-	-	-	97,522	98,667
• mortgage secured	-	-	-	851,701	797,407	-	-	-	-	3,484	7,598
• unsecured	-	-	-	140,838	176,337	-	-	-	-	93,859	90,646
Total	276,012	274,071	2,898,517	3,011,390	139,369	141,860	376,912	361,715	935,871	916,946	

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		
	EUR 000	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Slovenia		4	2	2,894,089	3,012,782	76,693	78,650	187,962	183,451	915,709	903,533
France		1	0	26	0	62,676	63,211	17,827	16,921	6,683	4,527
Hungary		276,005	274,068	0	0	0	0	76,507	70,637	1,952	26
Other		2	1	14,240	16,091	0	0	94,616	90,705	11,506	8,839
Total		276,012	274,071	2,908,355	3,028,874	139,369	141,861	376,912	361,715	935,850	916,924

The vast majority of SKB Group's exposure at the end of 2023 is geographically allocated in Slovenia. Among the loans to non-banks customers, this number exceeds 99 % of the total loans granted. For all asset types, geographical distribution remains very comparable to 2022. In loans to banks, measured at amortized cost category, the majority of exposure is allocated on the parent bank.

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	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Slovenia		4	2	2,884,604	2,995,630	76,693	78,650	187,962	183,451	915,730	903,555
France		1	0	26	0	62,676	63,211	17,827	16,921	6,683	4,527
Hungary		276,005	274,068	0	0	0	0	76,507	70,637	1,952	26
Other		2	1	13,887	15,760	0	0	94,616	90,705	11,506	8,839
Total		276,012	274,071	2,898,517	3,011,390	139,369	141,861	376,912	361,715	935,871	916,946

Credit quality of exposures by exposure class and instrument

SKB Group - 2023							
000 EUR	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	-	1,344,869	-	968	0	829	1,344,798
Regional governments or local authorities	-	56,868	-	30	0	(7)	56,838
Institutions	-	349,530	0	473	0	(2,099)	349,057
Corporates	-	1,855,562	0	4,293	0	(4,084)	1,851,269
• Of which SME	-	893,914	0	2,661	0	(1,454)	891,253
Retail	-	1,831,050	0	6,991	0	773	1,824,059
• Of which SME	-	166,655	0	1,494	0	252	165,161
• Of which secured by mortgages on immovable property	-	849,295	0	3,153	0	240	846,142
Exposures in default	52,031	0	13,776	29,633	3,410	-	8,621
Items associated with particular high risk	0	1,994	0	10	0	(64)	1,984
Total Standardised Approach	52,031	5,439,873	13,776	42,398	3,410	(4,653)	5,436,626
• Of which: loans	51,979	4,068,238	13,776	41,411	3,410	(5,417)	4,056,451
• Of which: debt securities	0	139,369	0	53	0	(52)	139,316
• Of which: off-balance sheet items	2,088	933,762	0	2,984	0	(1,073)	922,866

SKB Bank - 2022							
000 EUR	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	-	1,064,889	0	138	0	(903)	1,064,751
Regional governments or local authorities	-	81,959	0	38	0	(228)	81,921
Institutions	-	349,424	0	2,572	0	2,423	346,852
Corporates	-	1,929,202	0	7,415	0	(6,018)	1,921,787
• Of which SME	-	853,120	0	3,831	0	(2,607)	849,289
Retail	-	1,828,828	0	6,708	0	(18,515)	1,822,120
• Of which SME	-	175,266	0	1,443	0	(4,879)	173,823
• Of which secured by mortgages on immovable property	-	870,165	0	3,059	0	(6,603)	867,106
Exposures in default	58,501	-	14,677	29,205	6,304	-	14,619
Items associated with particular high risk	-	4,506		74		74	4,432
Total Standardised Approach	58,501	5,258,807	14,677	46,149	6,304	(23,167)	5,256,482
• Of which: loans	58,426	4,161,444	14,675	45,930	6,304	(22,305)	4,144,711
• Of which: debt securities	0	141,861	0	105	0	(26)	141,755
• Of which: off-balance sheet items	5,468	911,456	0	4,057	0	(5,753)	912,867

SKB Bank - 2023							
000 EUR	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	-	1,344,523	0	968	0	829	1,344,452
Regional governments or local authorities	-	56,735	0	30	0	(7)	56,705
Institutions	-	342,216	0	473	0	(2,099)	341,744
Corporates	-	2,171,950	0	4,296	0	(4,337)	2,167,655
• Of which SME	-	693,056	0	2,110	0	(1,765)	690,945
Retail	-	1,513,840	0	6,045	0	44	1,507,795
• Of which SME	-	80,699	0	1,007	0	234	79,692
• Of which secured by mortgages on immovable property	-	849,295	0	3,153	0	240	846,142
Exposures in default	42,180	0	12,506	22,766	3,236	-	6,908
Items associated with particular high risk	0	1,994	0	10	0	(64)	1,984
Total Standardised Approach	42,180	5,431,259	12,506	34,587	3,236	(5,634)	5,427,242
• Of which: loans	42,174	4,068,227	12,505	33,607	3,236	(6,398)	4,057,382
• Of which: debt securities	0	139,369	0	53	0	(52)	139,316
• Of which: off-balance sheet items	2,088	933,784	0	2,984	0	(1,073)	932,887

SKB Bank - 2022							
000 EUR	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	-	1,064,889	0	138	0	(903)	1,064,751
Regional governments or local authorities	-	81,822	0	37	0	(228)	81,784
Institutions	-	349,424	0	2,572	0	2,423	346,852
Corporates	-	2,230,548	0	7,344	0	(7,545)	2,223,204
• Of which SME	-	686,194	0	3,264	0	(2,019)	682,929
Retail	-	1,520,930	0	5,987	0	(16,914)	1,514,943
• Of which SME	-	93,569	0	1,037	0	(3,054)	92,533
• Of which secured by mortgages on immovable property	-	870,165	0	3,059	0	(6,603)	867,106
Exposures in default	47,121	-	13,626	22,949	6,176	-	10,547
Items associated with particular high risk	-	4,506	0	74	0	74	4,432
Total Standardised Approach	47,121	5,252,118	13,626	39,101	6,176	(23,092)	5,246,512
• Of which: loans	47,112	4,155,296	13,624	38,886	6,176	(22,231)	4,139,356
• Of which: debt securities	0	141,861	0	105	0	(26)	141,755
• Of which: off-balance sheet items	5,468	911,478	0	4,057	0	0	912,889

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 2023 the share of defaulted exposures represented 0.95% of the total gross exposure of the SKB Group. The level of defaulted exposure decreased in comparison to 2022 by 11%. The amount of specific credit risk adjustments decreased by 6% compared to 2022, whereas the decrease on the level of general risk adjustment was 8%.

The overall decrease of defaulted exposure results from efficient internal recovery process, while there was limited impact on the portfolio from devastating August floods, deterioration of economic situation in western Europe (particularly Germany as Slovenia's main trading partner), continuation of the war in Ukraine and continuing elevated inflation. The decrease of general credit risk adjustment can mostly be attributed to the modification in forward-looking macro scenarios and regular annual recalibration of main expected credit loss parameters.

The distribution of portfolio among stages is even slightly better than respective 2022 distribution, with more than 90% of portfolio in stage 1. The coverage with provisions for non-defaulted exposures is at 0,17%. The coverage of the defaulted exposure is with 78% slightly higher than a year before as a result of the movement of exposures and repayments in stage 3 portfolio.

Credit quality of loans and other financial assets by industry

SKB Group - 2023							
EUR 000	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted Exposures	Non defaulted exposures					
Agriculture and forestry, fishing	1,521	25,041	1,007	272	0	837	25,284
Mining	0	2,473	0	23	0	(262)	2,451
Manufacturing	5,416	557,557	1,389	3,603	583	(2,524)	557,981
Electricity, gas and water services	88	187,499	0	427	0	(131)	187,160
Construction	4,760	148,632	2,753	1,916	143	(598)	148,723
Commerce	6,935	501,349	4,734	2,824	270	60	500,727
Hotel trading	1,059	27,079	264	726	84	(274)	27,149
Traffic, warehousing and communication	2,393	316,453	462	2,596	106	(771)	315,787
Other financial organizations	0	1,186,424	0	502	0	(2,108)	1,185,922
Real estate	50	33,509	0	137	0	(8)	33,421
Government	0	428,955	0	471	0	379	428,898
Education	2	7,824	0	12	0	(3)	7,814
Health and social services	0	20,042	0	41	6	(7)	20,001
Other public, collective and personal services	3,217	332,811	1,052	2,606	155	234	332,853
Individuals	26,589	1,664,224	2,116	26,242	2,061	522	1,662,456
Total	52,031	5,439,873	13,776	42,398	3,410	(4,653)	5,436,626

SKB Group - 2022							
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	208	26,102	0	442	0	111	25,867
Mining	466	6,752	257	28	0	(152)	6,934
Manufacturing	5,163	549,699	1,842	5,674	436	(3,356)	547,346
Electricity, gas and water services	128	267,469	0	558	7	(1,037)	267,038
Construction	5,635	141,666	2,810	2,457	412	(1,325)	142,034
Commerce	10,186	505,847	4,981	2,516	381	1,247	508,536
Hotel trading	1,426	33,558	347	916	4	(975)	33,721
Traffic, warehousing and communication	3,824	354,113	167	3,662	313	(3,189)	354,107
Other financial organizations	0	919,163	0	2,610	0	2,259	916,553
Real estate	70	35,569	0	145	136	(484)	35,494
Government	0	431,481	0	92	0	(677)	431,390
Education	5	8,365	0	15	4	(13)	8,355
Health and social services	8	20,786	6	42	0	(137)	20,746
Other public, collective and personal services	3,727	305,227	1,296	2,128	334	(1,809)	305,531
Individuals	27,654	1,653,010	2,971	24,865	4,278	(13,631)	1,652,829
Total	58,501	5,258,808	14,677	46,149	6,304	(23,167)	5,256,482

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 2023 was observed in the commerce industry (13%). Construction and manufacturing industries follow with almost 10% share of defaulted exposures. In comparison with 2022 the situation is much improved in the commerce industry, where the amount of defaulted exposure was reduced by 32%. Construction industry also demonstrates a decrease in the amount of defaulted exposure by 16% comparing with 2022. Defaulted exposures on private individuals' portfolio represent a 51% share of total defaulted exposure amount and have decreased by 4% in one-year horizon.

Comparison of defaulted exposure of 2023 with 2022 shows a reduction of defaulted exposure in the majority of industries. The increase was observed only in the aforementioned manufacturing industry and agriculture, forestry and fishing industry.

At the end of 2023 commerce industry (34%) and construction (just below 20%) also had the highest share of specific credit risk adjustments.

SKB Bank - 2023							
EUR 000	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted Exposures	Non defaulted exposures					
Agriculture and forestry, fishing	1,486	21,364	1,007	228	0	859	21,614
Mining	0	1,351	0	12	0	(262)	1,339
Manufacturing	4,764	510,926	1,389	3,041	540	(2,548)	511,259
Electricity, gas and water services	2	181,184	0	351	0	(150)	180,835
Construction	3,971	106,470	2,625	1,234	137	(635)	106,583
Commerce	6,538	394,255	4,638	2,247	270	17	393,909
Hotel trading	926	23,060	248	603	84	(320)	23,134
Traffic, warehousing and communication	1,223	235,907	0	1,792	99	(997)	235,338
Other financial organizations	0	1,729,565	0	1,120	0	(2,109)	1,728,445
Real estate	34	32,500	0	122	0	(5)	32,413
Government	0	428,299	0	470	0	379	428,242
Education	0	7,233	0	8	0	0	7,225
Health and social services	0	18,688	0	35	0	(2)	18,653
Other public, collective and personal services	2,895	307,485	1,053	2,229	152	326	307,581
Individuals	20,341	1,432,970	1,546	21,094	1,954	(189)	1,430,672
Total	42,180	5,431,259	12,506	34,587	3,236	(5,634)	5,427,242

SKB Bank - 2022							
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	117	22,821	0	376	0	207	22,563
Mining	466	5,358	257	16	0	(157)	5,551
Manufacturing	4,508	505,721	1,842	5,136	417	(2,927)	503,251
Electricity, gas and water services	2	261,800	0	501	7	(947)	261,300
Construction	4,662	103,454	2,677	1,817	404	(1,135)	103,623
Commerce	9,769	416,923	4,858	2,010	373	1,474	419,824
Hotel trading	1,282	30,099	347	825	4	(962)	30,210
Traffic, warehousing and communication	2,168	285,441	107	2,682	222	(2,146)	284,820
Other financial organizations	0	1,419,883	0	3,230	0	109	1,416,653
Real estate	42	34,029	0	127	136	(457)	33,944
Government	0	431,264	0	91	0	(672)	431,173
Education	0	7,807	0	8	4	(7)	7,799
Health and social services	0	19,322	0	37	0	(131)	19,286
Other public, collective and personal services	3,159	281,387	1,297	1,659	333	(1,487)	281,589
Individuals	20,945	1,426,808	2,241	20,587	4,276	(13,854)	1,424,926
Total	47,121	5,252,118	13,626	39,101	6,176	(23,092)	5,246,512

Quality of non - performing exposures by geographical area

SKB Group - 2023							
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	51,985	4,858,876	13,776	39,519	3,234	(4,875)	4,857,648
France	0	92,023	0	27	0	(31)	92,001
Hungary	0	358,174	0	908	0	(1,519)	357,742
Other	45	130,801	0	1,944	176	1,773	129,235
Total	52,031	5,439,874	13,776	42,398	3,410	(4,653)	5,436,626

SKB Group - 2022							
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	58,444	4,681,562	14,677	43,493	6,199	(24,876)	4,681,837
France	0	92,635	0	58	0	(38)	92,577
Hungary	0	350,052	0	2,428	0	2,260	347,624
Other	56	134,559	0	171	105	(514)	134,444
Total	58,501	5,258,806	14,677	46,149	6,304	(23,167)	5,256,481

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 2023 almost entire amount of defaulted exposure was observed on the debtors from Slovenia. When comparing with 2022, the amount of defaulted exposure was reduced towards the debtors from Slovenia. The entire amount of specific credit risk adjustment is allocated on Slovenia as well.

SKB Bank - 2023							
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	42,145	4,850,953	12,506	31,717	3,060	(5,862)	4,848,954
France	0	92,022	0	27	0	(31)	92,001
Hungary	0	358,174	0	908	0	(1,519)	357,742
Other	36	130,110	0	1,934	176	1,778	128,544
Total	42,180	5,431,259	12,506	34,587	3,236	(5,634)	5,427,242

SKB Bank - 2022							
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	47,086	4,675,185	13,626	36,459	6,070	(24,799)	4,672,185
France	0	92,635	0	58	0	(38)	92,577
Hungary	0	350,052	0	2,428	0	2,260	347,624
Other	36	134,246	0	156	105	(516)	134,126
Total	47,121	5,252,118	13,626	39,101	6,176	(23,092)	5,246,512

Credit quality of exposures by rating buckets

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

SKB Group – 2023	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1		3,233,058	95,351	1,250	0	3,329,660
Rating group 2		1,046,900	171,906	0	0	1,218,806
Rating group 3		4,500	31,571	78	0	36,149
Rating group 4		62	1,170	50,651	0	51,883
Total gross values		4,284,520	299,998	51,979	0	4,636,498
Risk adjustments		(5,653)	(6,178)	(43,436)	0	(55,267)
Net values		4,278,868	293,820	8,543	0	4,581,231

SKB Group - 2022	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1		3,389,510	72,930	22	0	3,462,462
Rating group 2		881,648	260,223	0	0	1,141,871
Rating group 3		0	60,040	1,519	0	61,559
Rating group 4		0	666	56,886	0	57,552
Total gross values		4,271,158	393,859	58,427	0	4,723,444
Risk adjustments		(7,647)	(9,190)	(43,872)	0	(60,709)
Net values		4,263,511	384,669	14,555	0	4,662,736

SKB Bank - 20223	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1		3,545,875	60,643	1,169	0	3,607,686
Rating group 2		895,787	101,255	0	0	997,042
Rating group 3		3,524	18,398	31	0	21,953
Rating group 4		36	1,076	40,975	0	42,087
Total gross values		4,445,222	181,372	42,174	0	4,668,768
Risk adjustments		(5,870)	(5,024)	(35,293)	0	(46,186)
Net values		4,439,352	176,348	6,881	0	4,622,582

SKB Bank - 2022	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1		3,608,794	55,882	22	0	3,664,698
Rating group 2		765,065	191,292	0	0	956,357
Rating group 3		0	37,075	0	0	37,075
Rating group 4		0	762	47,091	0	47,853
Total gross values		4,373,859	285,011	47,113	0	4,705,983
Risk adjustments		(7,927)	(8,118)	(36,570)	0	(52,615)
Net values		4,365,933	276,893	10,543	0	4,653,368

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.

The distribution of portfolio by rating groups demonstrates a decrease of the amount of exposure in rating groups 3 and 4 and a small increase in amount in rating groups 1 and 2. In terms of the share of portfolio by rating group, the distribution of portfolio is comparable to previous year.

Exposure to credit risk by by credit rating groups

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

SKB Group and SKB Bank – 2023	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1		230,592	-	-	-	230,592
Rating group 2		146,320	-	-	-	146,320
Rating group 3		-	-	-	-	-
Rating group 4		-	-	-	-	-
Total gross values		376,912	-	-	-	376,912
Risk adjustments		-	-	-	-	-
Net values		376,912	-	-	-	376,912

SKB Group and SKB Bank – 2022	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1		296,488	-	-	-	296,488
Rating group 2		65,227	-	-	-	65,227
Rating group 3		-	-	-	-	-
Rating group 4		-	-	-	-	-
Total gross values		361,715	-	-	-	361,715
Risk adjustments		-	-	-	-	-
Net values		361,715	-	-	-	361,715

b) Debt securities measured at amortized cost

SKB Group and SKB Bank – 2023	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1		139,369	-	-	-	139,369
Rating group 2		-	-	-	-	-
Rating group 3		-	-	-	-	-
Rating group 4		-	-	-	-	-
Total gross values		139,369	-	-	-	139,369
Risk adjustments		(53)	-	-	-	(53)
Net values		139,316	-	-	-	139,316

SKB Group and SKB Bank – 2022	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1		141,860	-	-	-	141,860
Rating group 2		-	-	-	-	-
Rating group 3		-	-	-	-	-
Rating group 4		-	-	-	-	-
Total gross values		141,860	-	-	-	141,860
Risk adjustments		(105)	-	-	-	(105)
Net values		141,755	-	-	-	141,755

c) Loans to banks

SKB Group and SKB Bank – 2023	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1		276,012	-	-	-	276,012
Rating group 2		-	-	-	-	-
Rating group 3		-	-	-	-	-
Rating group 4		-	-	-	-	-
Total gross values		276,012	-	-	-	276,012
Risk adjustments		(428)	-	-	-	(428)
Net values		275,584	-	-	-	275,584

SKB Group and SKB Bank – 2022	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1		274,070	-	-	-	274,070
Rating group 2		-	-	-	-	-
Rating group 3		-	-	-	-	-
Rating group 4		-	-	-	-	-
Total gross values		274,070	0	0	0	274,070
Risk adjustments		(2,415)	-	-	-	(2,415)
Net values		271,655	-	-	-	271,655

d) Loans to clients, other than banks

SKB Group – 2023	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1		2,054,787	87,617	1,250	-	2,143,654
Rating group 2		545,311	136,002	-	-	681,313
Rating group 3		4,415	29,157	48	-	33,621
Rating group 4		61	1,113	48,593	-	49,768
Total gross values		2,604,574	253,890	49,891	-	2,908,355
Risk adjustments		(4,423)	(5,185)	(42,167)	-	(51,775)
Net values		2,600,151	248,705	7,725	-	2,856,580

SKB Group – 2022	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1		2,115,248	69,098	-	-	2,184,346
Rating group 2		540,835	198,755	-	-	739,590
Rating group 3		-	51,334	1,519	-	52,852
Rating group 4		-	648	51,439	-	52,086
Total gross values		2,656,083	319,835	52,957	-	3,028,875
Risk adjustments		(4,566)	(7,802)	(41,764)	-	(54,132)
Net values		2,651,517	312,033	11,194	-	2,974,743

SKB Bank – 2023	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1		2,325,495	52,909	1,169	0	2,379,572
Rating group 2		394,197	65,351	0	0	459,548
Rating group 3		3,439	15,984	1	0	19,424
Rating group 4		36	1,020	38,917	0	39,972
Total gross values		2,723,167	135,264	40,086	0	2,898,517
Risk adjustments		(4,629)	(4,033)	(34,039)	0	(42,701)
Net values		2,718,538	131,232	6,047	0	2,855,816

SKB Bank - 2022	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1		2,334,509	52,050	-	-	2,386,559
Rating group 2		424,252	129,824	-	-	554,076
Rating group 3		-	28,368	-	-	28,368
Rating group 4		-	744	41,644	-	42,388
Total gross values		2,758,761	210,986	41,644	-	3,011,392
Risk adjustments		(4,846)	(6,730)	(34,462)	-	(46,038)
Net values		2,753,915	204,257	7,182	-	2,965,354

e) Financial guarantees and other off-balance items

SKB Group - 2023	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1		532,298	7,734	-	-	540,033
Rating group 2		355,270	35,904	-	-	391,174
Rating group 3		85	2,413	30	-	2,529
Rating group 4		1	56	2,058	-	2,115
Total gross values		887,654	46,108	2,088	-	935,850
Risk adjustments		(760)	(991)	(1,233)	-	(2,984)
Net values		886,894	45,117	855	-	932,866

SKB Group - 2022	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1		561,845	3,832	22	-	565,699
Rating group 2		275,586	61,468	-	-	337,054
Rating group 3		-	8,706	-	-	8,706
Rating group 4		-	18	5,447	-	5,465
Total gross values		837,432	74,024	5,468	-	916,924
Risk adjustments		(561)	(1,388)	(2,108)	-	(4,057)
Net values		836,871	72,636	3,360	-	912,867

SKB Bank - 2023	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1		532,320	7,733	0	-	540,054
Rating group 2		355,270	35,904	0	-	391,174
Rating group 3		85	2,413	30	-	2,529
Rating group 4		1	56	2,058	-	2,115
Total gross values		887,676	46,107	2,088	-	935,871
Risk adjustments		(760)	(991)	(1,234)	-	(2,984)
Net values		886,916	45,116	854	-	932,887

SKB Bank - 2022	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Rating group 1		561,868	3,832	22	-	565,721
Rating group 2		275,586	61,468	-	-	337,054
Rating group 3		-	8,706	-	-	8,706
Rating group 4		-	18	5,447	-	5,465
Total gross values		837,454	74,024	5,468	-	916,946
Risk adjustments		(561)	(1,388)	(2,108)	-	(4,057)
Net values		836,893	72,636	3,360	-	912,889

Exposures by exposure categories and by stage

SKB Group - 2023	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	800,750	800,750	0	0	0	0	(12)	(12)	0	0	0	0
Loans and advances	3,144,933	2,890,880	254,053	49,943	0	49,943	(10,054)	(4,867)	(5,187)	(42,176)	0	(42,176)
General governments	107,884	107,689	196	0	0	0	(31)	(31)	0	0	0	0
Credit institutions	284,183	284,183	0	0	0	0	(444)	(444)	0	0	0	0
Other financial corporations	13,305	11,861	1,443	2	0	2	(43)	(19)	(24)	(2)	0	(2)
Non-financial corporations	1,088,063	962,370	125,693	20,830	0	20,830	(3,511)	(1,489)	(2,022)	(17,893)	0	(17,893)
Of which: Small and Medium-sized Enterprises	589,040	472,254	116,786	20,652	0	20,652	(2,694)	(768)	(1,926)	(17,715)	0	(17,715)
Households	1,651,499	1,524,777	126,721	29,110	0	29,110	(6,025)	(2,885)	(3,140)	(24,281)	0	(24,281)
Debt securities	546,622	546,622	0	0	0	0	(948)	(948)	0	0	0	0
General governments	546,622	546,622	0	0	0	0	(948)	(948)	0	0	0	0
OFF-BALANCE SHEET EXPOSURES	933,760	887,654	46,106	2,090	0	2,090	1,751	760	991	1,233	0	1,233
General governments	3,595	3,498	97,08	0	0	0	1	0	0	0	0	0
Credit institutions	19,659	19,659	0	0	0	0	17	17	0	0	0	0
Other financial corporations	1,000	983	16,887	0	0	0	0	0	0	0	0	0
Non-financial corporations	797,269	755,084	42,185	2,058	0	2,058	1,521	653	869	1,233	0	1,233
Households	112,237	108,430	3,807	31,312	0	31,312	211	89	122	0	0	0
Total	5,426,066	5,125,906	300,159	52,032	0	52,032	(9,263)	(5,067)	(4,196)	(40,943)	0	(40,943)

SKB Group - 2022	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
Cash balances at central banks and other demand deposits	528,087	528,087	0	0	0	0	(104)	(104)	0	0	0	0
Loans and advances	3,258,253	2,938,334	319,919	53,032	0	53,032	(14,786)	(6,984)	(7,802)	(41,774)	0	(41,774)
General governments	120,598	120,367	230	0	0	0	(48)	(48)	(0)	0	0	0
Credit institutions	280,013	280,013	0	0	0	0	(2,417)	(2,417)	0	0	0	0
Other financial corporations	8,528	8,459	69	2	0	2	(11)	(11)	(1)	(2)	0	(2)
Non-financial corporations	1,210,222	1,012,132	198,090	23,709	0	23,709	(6,476)	(1,617)	(4,859)	(18,116)	0	(18,116)
Of which: Small and Medium-sized Enterprises	572,690	443,295	129,395	22,857	0	22,857	(3,599)	(712)	(2,887)	(17,363)	0	(17,363)
Households	1,638,893	1,517,363	121,529	29,321	0	29,321	(5,833)	(2,891)	(2,942)	(23,657)	0	(23,657)
Debt securities	504,707	504,707	0	0	0	0	(1,237)	(1,237)	0	0	0	0
General governments	504,707	504,707	0	0	0	0	(1,237)	(1,237)	0	0	0	0
OFF-BALANCE SHEET EXPOSURES	911,455	837,432	74,023	5,469	0	5,469	1,949	561	1,388	2,108	0	2,108
General governments	3,360	3,335	25	0	0	0	1	1	0	0	0	0
Credit institutions	12,872	12,362	510	0	0	0	50	40	11	0	0	0
Other financial corporations	661	642	19	0	0	0	1	1	0	0	0	0
Non-financial corporations	781,004	712,435	68,569	5,410	0	5,410	1,676	425	1,251	2,090	0	2,090
Households	113,558	108,658	4,900	59	0	59	222	95	127	18	0	18
Total	5,202,501	4,808,559	393,942	58,501	0	58,501	(14,178)	(7,763)	(6,414)	(39,666)	0	(39,666)

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

SKB Group regularly follows the developments in the macroeconomic environment that have mostly influenced the movement and the distribution of portfolio between stages in 2023. In 2023, the SKB Group paid particular attention to the deterioration of the economic situation in Germany, as the most important trade partner of Slovenian companies, to the potential impact of the August floods, still relatively high level of inflation, the continuation of the war in Ukraine and the opening of new hotspots with their potential impact on the economy. Compared to 2022, the share of SKB Group's total exposure in stage 2 has decreased to 5 %, following a removal

of some larger exposures from the watch list and their reclassification to stage 1. In the retail segment, the share of the portfolio in Stage 2 is comparable to last year's figures, driven by the still elevated level of inflation. SKB Group did not see any significant impact on the portfolio as a result of the August floods. The share of the portfolio in stage 3 marginally decreased, as a result of very low default rates and an efficient recovery process.

Ageing of past-due exposures

SKB Group	2023			2022		
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	288,760	3,692,801	517,176	283,626	3,763,713	503,575
Past due up to 30 days	5,229	82,170		2,948	123,071	-
Past due from 31 to 60 days	195	13,567		-	9,063	-
Past due from 61 to 90 days	118	2,709		-	6,923	-
Past due from 91 to 180 days	1,370	3,092		369	3,908	-
Past due from 181 to 360 days	-	7,755		-	2,797	-
Past due more than 360 days	-	22,452	0	-	23,454	-
Total past due exposures	295,671	3,824,546	517,176	286,943	3,932,929	503,575

SKB Bank	2023			2022		
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	288,760	3,731,894	517,176	283,626	3,790,698	503,575
Past due up to 30 days	5,229	44,340	0	2,948	87,164	-
Past due from 31 to 60 days	195	7,503	0	-	4,323	-
Past due from 61 to 90 days	118	1,060	0	-	6,184	-
Past due from 91 to 180 days	1,370	2,096	0	369	3,141	-
Past due from 181 to 360 days	0	7,031	0	-	2,360	-
Past due more than 360 days	0	20,805	0	-	21,597	-
Total past due exposures	295,671	3,814,730	517,176	286,943	3,915,467	503,575

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.

The majority of exposures (97 %) of the SKB Group portfolio have no overdues at all, and approximately 2 % of them are up to 30 days past due at the end of 2023. Comparing to 2022 the share of portfolio with no overdues is slightly lower than the previous year.

Non-performing and forborne exposures

SKB Group – 2023									
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	3,590	16,050	16,050	16,050	(96)	(13,986)	3,916	1,458	
Non-financial corporations	523	9,619	9,619	9,619	(6)	(8,337)	1,052	913	
Households	3,067	6,432	6,432	6,432	(90)	(5,649)	2,864	544	
Total	3,590	16,050	16,050	16,050	(96)	(13,986)	3,916	1,458	

SKB Group – 2023									
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	6,208	15,583	15,583	15,583	(203)	(13,192)	6,191	1,867	
Non-financial corporations	2,969	8,836	8,836	8,836	(121)	(7,250)	3,675	1,424	
Households	3,240	6,747	6,747	6,747	(82)	(5,942)	2,515	443	
Total	6,208	15,583	15,583	15,583	(203)	(13,192)	6,191	1,867	

The exposure on accounts with forbearance measures remains at very comparable levels to 2022 on performing as well as non-performing portfolio. In the area of restructuring, the SKB Group also did not observe any significant dynamics as a consequence of the August floods. The situation of both performing and non-performing restructured exposures is a reflection of the general economic situation and the good quality of the SKB Group's portfolio.

Modified financial assets

Group SKB and Bank SKB			
	EUR 000	2023	2022
Financial assets with contractual cash flows change, groups S2 and S3 (lifetime losses)		0	0
• Amortised value before change		215	1,114
• Net profit / loss because of change		(2)	33
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		213	1,011

Changes in stock exposure between stages

SKB Group - 2023							
EUR 000	S1 to S2	S2 to S1	S2 to S3	S3 to S2	S1 to S3	S3 to S1	
Loans and advances	196,363	201,909	18,090	1,480	1,085	887	
Non-financial corporations	48,275	89,414	4,827	359	235	19	
Households	147,970	112,486	13,263	1,121	851	868	

SKB Group - 2022							
EUR 000	S1 to S2	S2 to S1	S2 to S3	S3 to S2	S1 to S3	S3 to S1	
Loans and advances	317,624	324,069	14,673	1,914	1,969	1,312	
Non-financial corporations	148,782	75,927	6,226	722	1,736	204	
Households	168,042	247,399	8,446	1,192	233	1,107	

SKB Bank - 2023							
EUR 000	S1 to S2	S2 to S1	S2 to S3	S3 to S2	S1 to S3	S3 to S1	
Loans and advances	135,150	152,330	12,593	947	830	639	
Non-financial corporations	25,272	58,111	3,462	11	87	8	
Households	109,761	94,212	9,131	936	743	631	

SKB Bank - 2022							
EUR 000	S1 to S2	S2 to S1	S2 to S3	S3 to S2	S1 to S3	S3 to S1	
Loans and advances	232,929	270,566	9,447	1,546	1,624	1,008	
Non-financial corporations	95,274	47,552	4,788	444	1,608	11	
Households	137,655	223,014	4,659	1,102	16	997	

The SKB Group regularly monitors the development in the macroeconomic environment and regularly reclassifies the parts of the portfolio with a perceived change in credit risk. In 2023 the main reclassifications were carried out between stage 1 and stage 2. The transfer of gross exposures from stage 1 to stage 2 in 2023 is more pronounced in the retail exposure segment, which can be attributed to still elevated inflation levels. The same applies to the movement of exposure from stage 2 to stage 1.

Detailed movement in stock exposure between stages is presented hereafter.

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

SKB Group - 2023						
	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1. 1. 2023		2,656,083	319,835	52,957	-	3,028,875
Transfer to stage 1		202,796	(201,909)	(887)	-	
Transfer to stage 2		(196,364)	197,844	(1,480)	-	
Transfer to stage 3		(1,086)	(18,090)	19,176	-	
Changes due to change in credit risk		(172,955)	82,815	(7,171)	-	(97,311)
Increases due to origination and acquisition		979,890	198,824	4,457	-	1,183,171
Decreases due to derecognition		(863,790)	(325,429)	(13,751)	-	(1,202,970)
Write-offs		-	-	(3,410)	-	(3,410)
Closing balance 31. 12. 2023		2,604,574	253,890	49,891	-	2,908,355
Loss allowance 31. 12. 2023		(4,412)	(5,187)	(42,176)	-	(51,775)

SKB Group - 2022						
	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1. 1. 2022		2,295,452	339,932	64,284	-	2,699,668
Transfer to stage 1		325,381	(324,069)	(1,312)	-	-
Transfer to stage 2		(317,624)	319,538	(1,914)	-	-
Transfer to stage 3		(1,969)	(14,673)	16,642	-	-
Changes due to change in credit risk		495,490	(17,604)	(14,973)	-	462,913
Increases due to origination and acquisition		620,097	208,870	14,359	-	843,326
Decreases due to derecognition		(760,744)	(192,159)	(17,670)	-	(970,573)
Write-offs		-	-	(6,459)	-	-
Closing balance 31. 12. 2022		2,656,083	319,835	52,957	-	3,028,875
Loss allowance 31. 12. 2022		(4,566)	(7,802)	(41,764)	-	(54,132)

SKB Bank - 2023						
	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1. 1. 2023		2,758,761	210,986	41,645	-	3,011,392
Transfer to stage 1		152,969	(152,330)	(639)	-	
Transfer to stage 2		(135,150)	136,097	(947)	-	
Transfer to stage 3		(830)	(12,593)	13,423	-	
Changes due to change in credit risk		(19,691)	137,758	(2,969)	-	115,098
Increases due to origination and acquisition		731,454	36,674	3,083	-	771,211
Decreases due to derecognition		(764,346)	(221,327)	(10,275)	-	(995,948)
Write-offs		-	-	(3,236)	-	(3,236)
Closing balance 31. 12. 2023		2,723,167	135,265	40,086	-	2,898,517
Loss allowance 31. 12. 2023		(4,629)	(4,033)	(34,039)	-	(42,701)

SKB Bank - 2022						
	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1. 1. 2022		2,375,138	262,093	49,590	-	2,686,821
Transfer to stage 1		271,574	(270,566)	(1,008)	-	0
Transfer to stage 2		(232,929)	234,475	(1,546)	-	0
Transfer to stage 3		(1,624)	(9,447)	11,071	-	0
Changes due to change in credit risk		93,770	(23,731)	(8,176)	-	61,863
Increases due to origination and acquisition		743,295	153,352	11,400	-	908,047
Decreases due to derecognition		(490,463)	(135,190)	(13,331)	-	(638,984)
Write-offs		-	-	(6,355)	-	(6,355)
Closing balance 31. 12. 2022		2,758,761	210,986	41,645	-	3,011,392
Loss allowance 31. 12. 2022		(4,846)	(6,730)	(34,462)	-	(46,038)

b) Financial instruments at amortized cost - Debt securities

SKB Group and SKB Bank - 2023						
	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1. 1. 2023		141,860	-	-	-	141,860
Changes due to change in credit risk		(2,491)	-	-	-	(2,491)
Closing balance 31. 12. 2023		139,369	-	-	-	139,369
Loss allowance 31. 12. 2023		(53)	-	-	-	(53)

SKB Group and SKB Bank - 2022						
	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1. 1. 2022		195,570	-	-	-	195,570
Changes due to change in credit risk		(2,332)	-	-	-	(2,332)
Decreases due to derecognition		(51,378)	-	-	-	(51,378)
Closing balance 31. 12. 2022		141,860	-	-	-	141,860
Loss allowance 31. 12. 2022		(105)	-	-	-	(105)

c) Financial instruments at amortized cost - Loans and advances to banks

SKB Group and SKB Bank - 2023						
	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1. 1. 2023		274,070	-	-	-	274,070
Changes due to change in credit risk		(269,448)	-	-	-	(269,448)
Increases due to origination and acquisition		1,017,119	-	-	-	1,017,119
Decreases due to derecognition		(745,729)	-	-	-	(745,729)
Closing balance 31. 12. 2023		276,012	-	-	-	276,012
Loss allowance 31. 12. 2023		(428)	-	-	-	(428)

SKB Group and SKB Bank - 2022						
	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1. 1. 2022		61	-	-	-	61
Changes due to change in credit risk		921	-	-	-	921
Increases due to origination and acquisition		643,423	-	-	-	643,423
Decreases due to derecognition		(370,335)	-	-	-	(370,335)
Closing balance 31. 12. 2022		274,071	-	-	-	274,071
Loss allowance 31. 12. 2022		(2,415)	-	-	-	(2,415)

d) Debt instruments through other comprehensive income

SKB Group and SKB Bank - 2023						
	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1. 1. 2023		361,715	-	-	-	361,715
Changes due to change in credit risk		15,197	-	-	-	15,197
Closing balance 31. 12. 2023		376,912	-	-	-	376,912
Loss allowance 31. 12. 2023		(895)	-	-	-	(895)

SKB Group and SKB Bank - 2022						
	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1. 1. 2022		464,796	-	-	-	464,796
Changes due to change in credit risk		(72,393)	-	-	-	(72,393)
Decreases due to derecognition		(30,688)	-	-	-	(30,688)
Closing balance 31. 12. 2022		361,715	-	-	-	361,715
Loss allowance 31. 12. 2022		(1,132)	-	-	-	(1,132)

e) Off-balance sheet liabilities

SKB Group - 2023						
	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1. 1. 2023		837,432	74,024	5,468	-	916,924
Transfer to stage 1		35,402	(35,402)	0	-	0
Transfer to stage 2		(33,886)	34,555	(669)	-	0
Transfer to stage 3		(76)	(2,199)	2,275	-	0
Changes due to change in credit risk		174,137	31,416	(1,311)	-	204,242
Increases due to origination and acquisition		707,956	26,690	72	-	734,718
Decreases due to derecognition		(833,310)	(82,977)	(3,747)	-	(920,034)
Closing balance 31. 12. 2023		887,655	46,107	2,088	-	935,850
Loss allowance 31. 12. 2023		760	991	1,234	-	2,984

SKB Group - 2022						
	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1. 1. 2022		710,369	84,964	4,165	-	799,498
Transfer to stage 1		134,153	(134,149)	(4)	-	0
Transfer to stage 2		(74,442)	74,513	(71)	-	0
Transfer to stage 3		(23)	(2,397)	2,420	-	0
Changes due to change in credit risk		(132,602)	42,815	(3,240)	-	(93,027)
Increases due to origination and acquisition		922,777	123,131	2,904	-	1,048,812
Decreases due to derecognition		(722,800)	(114,853)	(706)	-	(838,359)
Closing balance 31. 12. 2022		837,432	74,024	5,468	-	916,924
Loss allowance 31. 12. 2022		561	1,388	2,108	-	4,057

SKB Bank - 2023						
	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1. 1. 2023		837,454	74,024	5,468	-	916,946
Transfer to stage 1		35,402	(35,402)		-	0
Transfer to stage 2		(33,886)	34,555	(669)	-	0
Transfer to stage 3		(76)	(2,199)	2,275	-	0
Changes due to change in credit risk		174,137	31,416	(1,311)	-	204,242
Increases due to origination and acquisition		707,956	26,690	72	-	734,718
Decreases due to derecognition		(833,311)	(82,977)	(3,747)	-	(920,035)
Closing balance 31. 12. 2023		887,676	46,107	2,088	-	935,871
Loss allowance 31. 12. 2023		760	991	1,234	-	2,984

SKB Bank - 2022						
	EUR 000	Stage 1	Stage 2	Stage 3	POCI	Total
Opening balance 1. 1. 2022		710,391	84,964	4,165	-	799,520
Transfer to stage 1		134,153	(134,149)	(4)	-	0
Transfer to stage 2		(74,442)	74,513	(71)	-	0
Transfer to stage 3		(23)	(2,397)	2,420	-	0
Changes due to change in credit risk		(132,602)	42,815	(3,240)	-	(93,027)
Increases due to origination and acquisition		922,777	123,131	2,904	-	1,048,812
Decreases due to derecognition		(722,800)	(114,853)	(706)	-	(838,359)
Closing balance 31. 12. 2022		837,454	74,024	5,468	-	916,946
Loss allowance 31. 12. 2022		561	1,388	2,108	-	4,057

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 - 2023									
	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 01.01.2023	(105)	(2,415)	-	(4,566)	(7,802)	(41,764)	(2)	(1)	(10)
Increases due to origination and acquisition	0	(5,972)	-	(2,678)	(6,129)	(10,064)	(14)	(2)	(1)
Decreases due to derecognition	0	5,979	-	1,594	7,100	10,810	-	1	1
Changes due to change in credit risk	52	1,980	-	(3,227)	(2,718)	4,259	(1)	1	1
Write-offs	0	0	-	-	-	3,410	-	-	-
Transfer S1-S2	0	0	-	4,331	(4,331)	-	-	-	-
Transfer S1-S3	0	0	-	635	-	(635)	-	-	-
Transfer S2-S1	0	0	-	(501)	501	-	-	-	-
Transfer S2-S3	0	0	-	-	8,248	(8,248)	-	-	-
Transfer S3-S1	0	0	-	-	(5)	5	-	-	-
Transfer S3-S2	0	0	-	-	(51)	51	-	-	-
Closing balance 31.12.2023	(53)	(428)	-	(4,412)	(5,187)	(42,176)	(17)	(1)	(9)

SKB Group - 2022									
	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 01.01.2022	(131)	(1)	-	(7,368)	(16,952)	(48,778)	(27)	(6)	(8)
Increases due to origination and acquisition	0	(3,797)	-	(2,311)	(6,744)	(7,785)	(12)	0	0
Decreases due to derecognition	39	2,075	-	1,513	7,394	14,422	5	0	0
Changes due to change in credit risk	(13)	(692)	-	(10,504)	6,189	1,859	32	5	(2)
Changes due to update in the institution's methodology	0	0	-	2,790	5,684	-	0	0	0
Write-offs	0	0	-	-	-	6,459	0	0	0
Transfer S1-S2	0	0	-	11,191	(11,191)	-	0	0	0
Transfer S1-S3	0	0	-	1,312	-	(1,312)	0	0	0
Transfer S2-S1	0	0	-	(1,051)	1,051	-	0	0	0
Transfer S2-S3	0	0	-	-	6,943	(6,943)	0	0	0
Transfer S3-S1	0	0	-	(138)	-	138	0	0	0
Transfer S3-S2	0	0	-	-	(176)	176	0	0	0
Closing balance 31.12.2022	(105)	(2,415)	-	(4,566)	(7,802)	(41,764)	(2)	(1)	(10)

SKB Bank - 2023									
	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 01.01.2023	(105)	(2,415)	-	(4,844)	(6,731)	(34,463)	(2)	(1)	(5)
Increases due to origination and acquisition	-	(5,972)	-	(2,359)	(4,475)	(7,737)	(13)	(2)	(1)
Decreases due to derecognition	-	5,979	-	1,550	6,398	9,206	-	1	1
Changes due to change in credit risk	52	1,980	-	(2,772)	(2,046)	2,335	(1)	1	1
Write-offs	-	-	-	-	-	3,236	-	-	-
Transfer S1-S2	-	-	-	3,671	(3,671)	-	-	-	-
Transfer S1-S3	-	-	-	548	-	(548)	-	-	-
Transfer S2-S1	-	-	-	(423)	423	-	-	-	-
Transfer S2-S3	-	-	-	-	6,117	(6,117)	-	-	-
Transfer S3-S1	-	-	-	-	(5)	5	-	-	-
Transfer S3-S2	-	-	-	-	(43)	43	-	-	-
Closing balance 31.12.2023	(53)	(428)	-	(4,629)	(4,033)	(34,039)	(16)	(1)	(4)

SKB Bank - 2022									
	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 01.01.2022	(131)	(1)	-	(9,011)	(15,549)	(40,369)	(26)	(6)	(3)
Increases due to origination and acquisition	-	(3,797)	-	(2,539)	(6,098)	(6,549)	(12)	0	0
Decreases due to derecognition	39	2,075	-	1,807	6,978	11,943	5	0	0
Changes due to change in credit risk	(13)	(692)	-	(9,218)	6,141	232	31	5	(2)
Changes due to update in the institution's methodology	-	-	-	4,031	5,808	-	-	-	-
Write-offs	-	-	-	-	-	6,355	-	-	-
Transfer S1-S2	-	-	-	9,924	(9,924)	-	-	-	-
Transfer S1-S3	-	-	-	1,195	-	(1,195)	-	-	-
Transfer S2-S1	-	-	-	(902)	902	-	-	-	-
Transfer S2-S3	-	-	-	-	5,183	(5,183)	-	-	-
Transfer S3-S1	-	-	-	(133)	-	133	-	-	-
Transfer S3-S2	-	-	-	-	(171)	171	-	-	-
Closing balance 31.12.2022	(105)	(2,415)	-	(4,846)	(6,730)	(34,462)	(2)	(1)	(5)

b) Movement of provisions for financial assets measured at fair value through OCI

SKB Group and SKB Bank	2023			2022		
	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.	(1,132)	0	0	(820)	0	0
Decreases due to derecognition	0	0	0	20	0	0
Changes due to credit risk (net)	237	0	0	(332)	0	0
Closing balance 31.12.	(895)	0	0	(1,132)	0	0

c) Movement in specific and general credit risk adjustment for off-balance sheet liabilities

SKB Group and SKB Bank	2023			2022		
	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.	561	1,388	2,108	3,322	3,139	3,349
Increase due to origination and acquisition	906	845	178	2,447	2,999	1,278
Decreases due to derecognition	(799)	(961)	(1,084)	(2,042)	(3,687)	(625)
Changes due to credit risk (net)	92	(282)	32	1,063	(2,107)	(2,687)
Changes due to updating of the institution's assessment methodology (net)	0	0	0	(2,437)	45	0
Transfer S1-S2	0	0	0	(2,002)	2,002	0
Transfer S1-S3	0	0	0	(13)	-	13
Transfer S2-S1	0	0	0	223	(223)	-
Transfer S2-S3	0	0	0	-	(782)	782
Transfer S3-S2	0	0	0	-	2	(2)
Closing balance 31.12.	760	991	1,234	561	1,388	2,108

Movements of specific and general credit risk adjustment reflects the movements in macroeconomic environment in 2022, where, after a turbulent 2022 with the war in Ukraine, high inflation and shocks in the energy markets, new risks emerged during 2023 in the form of a recession in Germany, persistently high levels of inflation and new hot spots of war. SKB Group did not make any material changes to the IFRS9 impairment calculation methodology.

ESG aspect of credit risk

In the context of credit risk, ESG aspect is monitored and reported in line with ESG group classification on the level of individual client and individual contract. ESG risks for companies are included in the credit policy and are monitored through limit system based on ESG critical customer categories.

7.3.3. General Qualitative Information on Credit Risk Mitigation Measures (CRM)

The Group uses collaterals and other credit enhancements to optimize the risk on credit assets. In accordance with the collateral policy, the main types of collaterals are:

- cash collateral which are used in full amount or with potential maturity mismatch adjustment for capital adequacy purposes,
- state guarantees; which are used in full amount for capital adequacy purposes, and
- 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 from January 2019 the initial evaluation is by default performed by the internal or licenced external evaluators. The valuation reports, prepared by external evaluators are regularly monitored by the internal ones. All values are re-evaluated on yearly basis in case of significant price variation on the market.

The Group does not use the close-out netting agreements on derivatives for reporting purposes.

The Group does not use any credit derivatives for credit risk mitigation purposes.

The Group doesn't have any significant increase of concentration risk due to CRM techniques. An increase is on some insurance companies for individual loan portfolio.

7.3.4. General Quantitative Information on Credit Risk Mitigation Measures (CRM)

SKB Group- 2023					
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	3,327,428	792,790	661,577	131,213	0
Total debt securities	517,176	0	-	-	0
Total exposures	3,764,161	792,790	661,577	131,213	0
Of which defaulted	51,683	348	191	157	0

In 2023, SKB Bank had valuated real estates and thus those real estates became compliant with CRR requirement. The Bank therefore included them in the column Exposures secured by collateral.

SKB Group - 2022					
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	3,849,471	370,399	10,629	359,770	-
Total debt securities	503,575	-	-	-	-
Total exposures	4,034,043	370,399	10,629	359,770	-
Of which defaulted	55,389	3,112	191	2,921	-

Presented in the table are only collaterals, eligible for regulatory reporting purposes. Share of secured exposure in total exposure was at the end of 2023 17.4 %. In comparison with 2022 the eligible real-estate collateral are also included in capital requirement calculation.

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		2023		2022	
EUR 000	Primary collateral	Gross Exposure of collateralized loans	Collateral value	Gross Exposure of collateralized loans	Collateral value
Banks	Guarantees (except state)	19,518	19,527	12,728	12,729
Territorial authorities	Commercial RE	541	932	620	932
Large enterprises	State guarantee (regular)	34,148	34,129	80,541	72,492
	State guarantee (ZDLGPE)	461	369	696	558
	Deposits	2,098	2,005	7,156	5,629
	Commercial RE	110,219	128,826	112,787	118,449
	Shares	7,397	15,800	8,541	15,800
	Guarantees (except state)	154,547	166,918	321,409	340,212
SME	State guarantee (regular)	16,041	11,259	21,880	15,094
	State guarantee (ZDLGPE)	1,448	1,160	2,676	2,077
	Deposits	35,224	5,395	36,095	5,056
	Residential RE	4,558	5,508	9,152	4,935
	Commercial RE	219,909	267,379	218,392	234,474
	Shares	3,996	17,513	5,739	18,134
	Guarantees (except state)	73,452	86,956	70,006	88,896
Retail/SME	State guarantee (regular)	2,517	1,829	3,899	2,812
	State guarantee (ZDLGPE)	792	636	1,452	1,167
	Deposits	3,846	884	3,388	878
	Residential RE	710	1,801	1,275	2,971
	Commercial RE	3,495	12,336	4,594	16,497
	Guarantees (except state)	21,661	24,450	21,054	23,331
Retail/Individuals	State guarantees (ZSJSM)	259	259	0	0
	Deposits	149	52	158	35
	Residential RE	852,716	2,211,022	878,163	1,647,122
	Commercial RE	2,324	7,496	2,713	7,041
	Insurance company	210,504	211,534	197,113	198,392
	Debt securities	151	260	0	0
	Guarantees (except state)	42,518	46,120	33,272	36,709
Total		1,825,197	3,282,357	2,055,499	2,872,421

Note: The state guarantee (regular) also includes guarantees by the Slovenian Enterprise Fund (SPS). Other collaterals, which usually appear as additional collaterals (life insurance, assignment of receivables, promissory notes, etc.) are excluded from the table.

In 2023 the total value of Collaterals increased compared to 2022. The main reasons for the increase is the increase in the value of Residential real estate collateral portfolio following the new valuations 2023.

The total insured exposure decreased comparing to 2022. The main reason are maturing bank guarantees/sureties for exposures of legal entities.

The Collateral portfolio in 2023 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 and based on new scheme for young people (ZSJSM):

- state guarantees for new loans (in accordance with ZDLGPE),
- state guarantees for young people (in accordance with ZSJSM)

however, they will slowly decline given the maturity and the dynamics of repayments.

7.4. 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.

7.4.1. Position Risk

Position risk is the risk of loss due to a change in the price of a financial instrument held by the Group in its portfolio for trading purposes in its equity account. The SKB Group does not have this risk because it does not trade with financial instruments for its own account.

7.4.2. 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 are monitored as a part of structural risk management. The trading book is not relevant to SKB due to the following reasons:

- There is no proprietary trading, neither by SKB bank nor by its subsidiaries.
- All derivative deals initiated by the client are closed with back to back deals, therefore having practically no open position from derivative deals on a daily basis.
- If needed SKB bank uses derivative instruments with the purpose to hedge structural risks arising from balance sheet mismatches. Decisions for structural portfolio hedging are passed by ALCO Committee, which is regularly informed about the level of risk exposure.
- Securities initiated by ALM and bought for hedging, liquidity and interest rate risk management are part of the banking book. Securities bought/sold for clients are fully backed on a daily basis.
- FX spot operations are part of the banking book.

Foreign exchange sensitivity analysis

The Group's exposure to currency risk was minimal. As at 31 December 2023, the Group estimated that would not be sensitive to +/- 5 % change in foreign exchange rates as the foreign currencies represents less than 1% of total on and off balance sheet.

EUR 000	USD	CHF	GBP	Other*
Impact on P&L +5%	30	(3)	(1)	(2)
Impact on P&L -5%	(34)	3	1	2

* mainly HRK

Foreign exchange sensitivity analysis is the same for SKB Group and SKB Bank.

Methods of capital requirement calculation

The bank is using the standardized approach for market risks and foreign exchange risk.

In accordance with Annex III DIRECTIVE 2006/49/EC banks do not report capital requirements for an open foreign exchange position if the sum of the overall net foreign exchange position does not exceed 2% of its total own funds.

The tables below present the Group's foreign exchange risk exposure by currency as of the end of the year.

SKB Group - As of 31 December 2023							
	EUR 000	EUR	USD	CHF	GBP	OTHER	TOTAL
ASSETS							
Cash, cash balances at central banks and other demand deposits at banks		811,986	3,315	1,146	434	4,456	821,337
Financial assets held for trading		(44,712)	20,770	29,914	3,797	-	9,769
Non-trading financial assets mandatorily at fair value through profit or loss		13,779	-	-	-	-	13,779
Financial assets at fair value through other comprehensive income		376,912	-	-	-	-	376,912
Financial assets at amortised cost		3,250,513	22,948	8,501	-	-	3,281,962
• debt securities		139,316	-	-	-	-	139,316
• loans to banks		252,637	22,947	-	-	-	275,584
• loans to non-bank customers		2,848,079	-	8,501	-	-	2,856,580
• other financial assets		10,481	1	-	-	-	10,482
Other assets		88,316	-	-	-	-	88,316
Total financial assets		4,496,794	47,033	39,561	4,231	4,456	4,592,075
LIABILITIES							
Financial liabilities held for trading		924	10,193	-	-	(1,789)	9,328
Financial liabilities measured at amortised cost		3,924,059	37,477	39,505	4,206	6,212	4,011,459
• deposits from banks and central banks		792	-	-	-	-	792
• deposits from non-bank customers		3,596,748	35,496	39,479	4,083	6,158	3,681,964
• loans from banks and central banks		277,519	-	-	-	-	277,519
• other financial liabilities		49,000	1,981	26	123	54	51,184
Fair value changes of the hedged items in portfolio hedge of interest rate risk		197	-	-	-	-	197
Other liabilities and equity		571,090	-	1	-	-	571,091
Total financial liabilities		4,496,270	47,670	39,506	4,206	4,423	4,592,075
Net balance sheet position		524	(637)	55	25	33	-

SKB Group - As of 31 December 2022

	EUR 000	EUR	USD	CHF	GBP	OTHER	TOTAL
ASSETS							
Cash, cash balances at central banks and other demand deposits at banks		529,517	5,197	6,802	1,015	11,399	553,930
Financial assets held for trading		(9,698)	41	20,819	-	41	11,203
Non-trading financial assets mandatorily at fair value through profit or loss		20,287	-	-	-	-	20,287
Financial assets at fair value through other comprehensive income		361,715	-	-	-	-	361,715
Financial assets at amortised cost		3,362,993	23,494	9,992	-	-	3,396,479
• debt securities		141,755	-	-	-	-	141,755
• loans to banks		248,305	23,350	-	-	-	271,655
• loans to non-bank customers		2,964,611	140	9,992	-	-	2,974,743
• other financial assets		8,322	4	-	-	-	8,326
Other assets		93,178	-	-	-	-	93,178
Total financial assets		4,357,992	28,732	37,613	1,015	11,440	4,436,792
LIABILITIES							
Financial liabilities held for trading		36,536	(21,970)	(18)	(3,631)	201	11,118
Financial liabilities measured at amortised cost		3,849,232	50,566	37,499	4,629	11,050	3,952,976
• deposits from banks and central banks		588	-	-	-	-	588
• deposits from non-bank customers		3,560,952	49,697	37,462	4,603	10,916	3,663,630
• loans from banks and central banks		250,074	-	-	-	-	250,074
• other financial liabilities		37,618	869	37	26	134	38,684
Fair value changes of the hedged items in portfolio hedge of interest rate risk		607	-	-	-	-	607
Other liabilities and equity		472,038	1	2	-	50	472,091
Total financial liabilities		4,358,413	28,597	37,483	998	11,301	4,436,792
Net balance sheet position		(421)	135	130	17	139	-

The tables below present the Bank's foreign exchange risk exposure by currency as of the end of the year.

SKB Bank - As of 31 December 2023							
	EUR 000	EUR	USD	CHF	GBP	OTHER	TOTAL
ASSETS							
Cash, cash balances at central banks and other demand deposits at banks		804,672	3,315	1,146	434	4,456	814,023
Financial assets held for trading		(44,712)	20,770	29,914	3,797	-	9,769
Non-trading financial assets mandatorily at fair value through profit or loss		13,779	-	-	-	-	13,779
Financial assets at fair value through other comprehensive income		376,912	-	-	-	-	376,912
Financial assets at amortised cost		3,248,421	22,948	8,501	-	-	3,279,870
• debt securities		139,316	-	-	-	-	139,316
• loans to banks		252,637	22,947	-	-	-	275,584
• loans to non-bank customers		2,847,316	-	8,501	-	-	2,855,817
• other financial assets		9,152	1	-	-	-	9,153
Other assets		80,195	-	-	-	-	80,195
Total financial assets		4,479,267	47,033	39,561	4,231	4,456	4,574,548
LIABILITIES							
Financial liabilities held for trading		924	10,193	-	-	(1,789)	9,328
Financial liabilities measured at amortised cost		3,917,305	37,477	39,505	4,206	6,212	4,004,705
• deposits from banks and central banks		792	-	-	-	-	792
• deposits from non-bank customers		3,599,549	35,496	39,479	4,083	6,158	3,684,765
• loans from banks and central banks		277,519	-	-	-	-	277,519
• other financial liabilities		39,445	1,981	26	123	54	41,629
Fair value changes of the hedged items in portfolio hedge of interest rate risk		197	-	-	-	-	197
Other liabilities and equity		560,317	-	1	-	-	560,318
Total financial liabilities		4,478,743	47,670	39,506	4,206	4,423	4,574,548
Net balance sheet position		524	(637)	55	25	33	-

SKB Bank - As of 31 December 2022

	EUR 000	EUR	USD	CHF	GBP	OTHER	TOTAL
ASSETS							
Cash, cash balances at central banks and other demand deposits at banks		529,517	5,197	6,802	1,015	11,399	553,930
Financial assets held for trading		(9,698)	41	20,819	-	41	11,203
Non-trading financial assets mandatorily at fair value through profit or loss		20,287	-	-	-	-	20,287
Financial assets at fair value through other comprehensive income		361,715	-	-	-	-	361,715
Financial assets at amortised cost		3,353,002	23,494	9,992	-	-	3,386,488
• debt securities		141,755	-	-	-	-	141,755
• loans to banks		248,305	23,350	-	-	-	271,655
• loans to non-bank customers		2,955,222	140	9,992	-	-	2,965,354
• other financial assets		7,720	4	-	-	-	7,724
Other assets		86,285	-	-	-	-	86,285
Total financial assets		4,341,108	28,732	37,613	1,015	11,440	4,419,908
LIABILITIES							
Financial liabilities held for trading		36,536	(21,970)	(18)	(3,631)	201	11,118
Financial liabilities measured at amortised cost		3,847,543	50,566	37,499	4,629	11,050	3,951,287
• deposits from banks and central banks		588	-	-	-	-	588
• deposits from non-bank customers		3,569,706	49,697	37,462	4,603	10,916	3,672,384
• loans from banks and central banks		250,074	-	-	-	-	250,074
• other financial liabilities		27,175	869	37	26	134	28,241
Fair value changes of the hedged items in portfolio hedge of interest rate risk		607	-	-	-	-	607
Other liabilities and equity		456,843	1	2	-	50	456,896
Total financial liabilities		4,341,529	28,597	37,483	998	11,301	4,419,908
Net balance sheet position		(421)	135	130	17	139	-

7.4.3. 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 Policy 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 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 (mainly floor of reference rate).

Credit spread risk from the banking book (CSRBB) is the risk, which is driven by changes of the market price for credit risk, for liquidity and for potentially other characteristics of credit-risky instruments, which is not captured by IRRBB or by expected credit default risk. It captures the risk of instrument's changing spread while assuming the same level of creditworthiness, i.e. how the credit spread is moving within a certain rating/PD range. Monitoring of CSRBB is divided into two parts; change in credit spread and change in risk free rate of the bond.

Exposure of CSRBB must be included in risk management processes and internal capital assessment processes (ICAAP). CSRBB represents risk which is part of the overall banks strategy and is appropriately expressed within banks risk appetite.

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 and NII are set.

Assets and liabilities management department monitors interest rate risk sensitivity only on the 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 supervisory outlier stress scenarios (stress test, parallel shift, shock on short term curve and change in steepness of the curve) and internally defined scenarios 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	31.12.2023					31.12.2022					
	EUR 000	EUR	USD	CHF	Other	Total	EUR	USD	CHF	Other	Total
Standardize stress tests											
Parallel -200 bp shift	32,001	(11,596)	(2,759)	(1,278)	16,368	15,886	(1,404)	(2,585)	(413)	11,484	
Parallel +200 bp shift	(28,915)	757	994	146	(27,018)	(30,114)	615	1,062	158	(28,279)	
Parallel shift											
Parallel down	32,001	(11,596)	(15,150)	(3,263)	1,992	15,887	(1,404)	(949)	(542)	12,992	
Parallel up	(28,915)	757	517	148	(27,493)	(30,114)	615	540	179	(28,780)	
Shift of curve inclination											
Flattener	(21,965)	126	(251)	(45)	(22,135)	(18,764)	(346)	(305)	(127)	(19,542)	
Steepener	38,932	2,282	2,716	716	44,646	19,407	587	508	141	20,643	
Short rates shift											
Short rate down	50,684	(9,763)	(13,626)	(2,675)	24,620	22,578	123	27	(58)	22,670	
Short rate up	(22,344)	443	179	39	(21,683)	(21,004)	131	184	16	(20,673)	

- 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 one-year rolling horizon. NII sensitivity is calculated based on interest rate shock scenarios prescribed by the EBA and internally defined shock scenarios. SKB Group manages NII sensitivity within internally defined limits.

SKB Group	31.12.2023			31.12.2022			
	EUR 000	EUR	Other	Total	EUR	Other	Total
Standardize stress tests							
Parallel -200 bp shift							
Parallel +200 bp shift							
Parallel shift							
Parallel down		(16,493)	(527)	(17,020)	(15,719)	(1,627)	(17,346)
Parallel up		(9,029)	525	(8,504)	(16,498)	1,596	(14,902)
Shift of curve inclination							
Flattener		(7,788)	440	(7,348)	(21,966)	585	(21,381)
Steeper		(5,273)	(322)	(5,595)	18,893	(290)	18,603
Short rates shift							
Short rate down		(13,211)	(619)	(13,830)	11,795	(1,089)	10,706
Short rate up		(11,344)	616	(10,728)	(23,821)	1,069	(22,752)

- Interest rate sensitivity using an internal method calculates the effect of interest rate changes (parallel increase of interest rate curves by 100 basis points) on the Group's net interest income for the period of 1 year.
- For measuring interest rate risk in the banking book based on normative perspective for ICAAP (Internal Capital Adequacy Assessment Process) the SKB Group calculates Net interest income (NII) sensitivity taken into account base budget and adverse scenarios for 3-year period.

SKB Group analyses and estimates the interest rate risk profiles of non-maturing products taking into account banks customer behaviour. Interest rate profiles are defined for deposits without known maturity, mandatory reserves, credit cards, overdrafts, off balance sheet items, early repayment of loans and for non-performing loans. Model assumptions and methodologies are documented and validated by RISK/GRM department and approved by ALCO Committee before implementation. The assumptions of models are regularly reviewed and back-tested and, if necessary, amended.

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 2023 was to manage fast growing market interest rates while maintaining the competitive position of SKB Group, by offering a quality product mix at acceptable 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 SKB Bank:

	As of 31 December 2023	As of 31 December 2022
Assets		
Cash and balances with central banks	3.4%	0.2%
Due from banks	3.9%	1.2%
Loans and advances to customers	3.8%	2.1%
Debt securities	1.8%	1.5%
Other assets	0.4%	0.5%
Liabilities		
Due to banks	(7.0)%	(3.4)%
Due to customers	(0.1)%	0.0%
Due to customers	0.0%	0.0%

Interest rate risk

The tables below represent the Group's assets and liabilities at carrying amounts, categorized by the earlier of the contractual repricing or the maturity dates

SKB Group - As of 31 December 2023								
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	782,139	39,198	-	-	-	-	-	821,337
Financial assets held for trading	-	9,769	-	-	-	-	-	9,769
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	13,015	340	424	-	13,779
Financial assets at fair value through other comprehensive income	-	-	-	48,054	187,613	165,599	(24,354)	376,912
Financial assets at amortised cost	55,914	683,111	555,378	483,161	817,181	683,485	3,732	3,281,962
Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	-	6,214	6,214
Other assets	-	-	-	-	-	-	18,096	18,096
Total financial assets	838,053	732,078	555,378	544,230	1,005,134	849,508	3,688	4,528,069
LIABILITIES								
Financial liabilities held for trading	-	9,328	-	-	-	-	-	9,328
Financial liabilities measured at amortised cost	2,641,447	169,665	359,932	228,558	305,000	306,857	-	4,011,459
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-	197	197
Other liabilities	-	-	-	-	-	-	10,478	10,478
Total financial liabilities	2,641,447	178,993	359,932	228,558	305,000	306,857	10,675	4,031,462
Net balance sheet position	(1,803,394)	553,085	195,446	315,672	700,134	542,651	(6,987)	496,607

SKB Group - As of 31 December 2022

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	45,615	508,315	-	-	-	-	-	553,930
Financial assets held for trading	-	11,203	-	-	-	-	-	11,203
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	736	15,873	3,678	-	20,287
Financial assets at fair value through other comprehensive income	-	-	-	-	238,488	166,616	(43,389)	361,715
Financial assets at amortised cost	48,353	654,099	731,098	554,140	746,608	658,396	3,785	3,396,479
Other assets	-	-	-	-	-	-	26,939	26,939
Total financial assets	93,968	1,173,617	731,098	554,876	1,000,969	828,690	(12,665)	4,370,553
LIABILITIES								
Financial liabilities held for trading	-	11,118	-	-	-	-	-	11,118
Financial liabilities measured at amortised cost	2,548,535	123,268	373,621	203,114	365,267	339,171	-	3,952,976
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-	607	607
Other liabilities	-	-	-	-	-	-	10,427	10,427
Total financial liabilities	2,548,535	134,386	373,621	203,114	365,267	339,171	11,034	3,975,128
Net balance sheet position	(2,454,567)	1,039,231	357,477	351,762	635,702	489,519	(23,699)	395,425

The tables below represent the Bank's assets and liabilities at carrying amounts, categorized by the earlier of the contractual repricing or the maturity dates.

SKB Bank - As of 31 December 2023								
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	776,319	37,704	-	-	-	-	-	814,023
Financial assets held for trading	-	9,769	-	-	-	-	-	9,769
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	13,015	340	424	-	13,779
Financial assets at fair value through other comprehensive income	-	-	-	48,054	187,613	165,599	(24,354)	376,912
Financial assets at amortised cost	55,914	581,949	679,584	451,071	841,370	666,250	3,732	3,279,870
Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	-	26,403	26,403
Other assets	-	-	-	-	-	-	4,064	4,064
Total financial assets	832,233	629,422	679,584	512,140	1,029,323	832,273	9,845	4,524,820
LIABILITIES								
Financial liabilities held for trading	-	9,328	-	-	-	-	-	9,328
Financial liabilities measured at amortised cost	2,640,529	160,679	360,137	229,147	305,978	308,235	-	4,004,705
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-	197	197
Other liabilities	-	-	-	-	-	-	5,241	5,241
Total financial liabilities	2,640,529	170,007	360,137	229,147	305,978	308,235	5,438	4,019,471
Net balance sheet position	(1,808,296)	459,415	319,447	282,993	723,345	524,038	4,407	505,349

SKB Bank - As of 31 December 2022

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	45,615	508,315	-	-	-	-	-	553,930
Financial assets held for trading	-	11,203	-	-	-	-	-	11,203
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	736	15,873	3,678	-	20,287
Financial assets at fair value through other comprehensive income	-	-	-	-	238,488	166,616	(43,389)	361,715
Financial assets at amortised cost	48,353	581,216	865,744	552,554	682,613	652,223	3,785	3,386,488
Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	-	20,454	20,454
Other assets	-	-	-	-	-	-	11,737	11,737
Total financial assets	93,968	1,100,734	865,744	553,290	936,974	822,517	(7,413)	4,365,814
LIABILITIES								
Financial liabilities held for trading	-	11,118	-	-	-	-	-	11,118
Financial liabilities measured at amortised cost	2,557,289	112,943	373,619	203,104	365,214	339,118	-	3,951,287
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-	607	607
Other liabilities	-	-	-	-	-	-	5,303	5,303
Total financial liabilities	2,557,289	124,061	373,619	203,104	365,214	339,118	5,910	3,968,315
Net balance sheet position	(2,463,321)	976,673	492,125	350,186	571,760	483,399	(13,323)	397,499

7.5. Operational Risk

Operational risk exists in bank's day to day operations, It is inherent to all bank's products, activities, procedures and systems and is normally accepted as a necessary consequence of doing business. It is influenced by both internal and external variables, such as advanced internal processes, complex products, rising regulatory requirements and severe economic circumstances.

Operational risk management can have a major influence on bank's costs, its competitiveness, compliance and image. SKB Group therefore act preventively and identify and manage the risk before operational events occur, increasing the chances for our success and diminishing possible mistakes and losses. Great emphasis is also devoted to the collection and monitoring of operational losses linked to credit risk, monitoring action plans defined to mitigate the operational risk, and the identification and prevention of fraud.

SKB Group is very well aware of the importance of good operational risk management, increased awareness, better comprehension and appropriation of operational risks, and the potential impact of concrete manifestations of these risks. Thus a lot of attention is given to improve and strengthen our internal control system and to operational risk training for SKB Group employees and to preventive measures to mitigate these risks.

Definition

The regulatory definition defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or external events. The official definition includes legal risk but excludes strategic and reputation risks. However, SKB Group also includes reputation risk in its definition.

Under the Basel II rules, an operational loss event is an event that results in loss and is associated with any of the following seven operational loss event categories: internal fraud; external fraud; employment practices and workplace safety; clients, products and business practices, damage to physical assets, business disruption and system failures. Specific examples of loss events include robberies, internal fraud, processing errors and physical losses from natural disasters.

Operational Risk Framework

SKB Group has acknowledged that operational risk is an integral component of prudent business operations and has adopted an operational risk framework to ensure that operational risks are consistently and comprehensively identified, assessed, managed and controlled. Our framework defines the management governance model, monitoring and control system as well as the reporting on information relevant to operational risk.

The primary goal is prevention, early identification, measurement, assessment, monitoring and mitigation of operational risk. To this end, SKB Group performs regular training for all employees. A bank can only manage effectively the things that can be known and measured well.

Operational units

At SKB Group each individual operational unit 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.

- **General Risk Management Department** 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. It 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 operational risk events.

- **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 10,000 EUR.

The list of accounts in which the amounts to be declared may be recorded is determined and enclosed to the Accounting reconciliation procedure.

All accounts from the list are classified as sensitive and controlled at least quarterly in a frame of Permanent Supervision. It is defined by the Head of Accounting department in cooperation with ORM department.

- **Scenario analysis and stress testing**

Testing of exceptional situations in the field of operational risk provides an estimate of the maximum financial loss that the bank would still be able to face. Scenario analysis is necessary to evaluate such testing, with which we can determine all the factors that could lead to such a loss. Scenario analysis is a strategy that involves assessing various possible future events and developing scenarios regarding the probability of occurrence of events if different combinations of these events occur.

The 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 risk governance framework**

Model risk means the potential loss an institution may incur, as a consequence of decisions that could be principally based on the output of internal models, due to errors in the development, implementation or use of such models (CRD IV, 2013).

Model risks are managed through the establishment of an adequate control environment.

A model inventory is prepared under the coordination of ORM Unit in order to assess the Banking models. The models included in the model inventory are classified into 3 categories (Tier 1, Tier 2 and Tier 3) based on their complexity, business impact 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 banking ability to run operations during any kind of crisis. The scope of business continuity activities are 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.

During 2023 we have upgraded documents of Business Impact Analysis (BIA) and documents of Business Continuity Action Plans (BCAP).

BCP, IT and CM tests, prepared in advance, have been tested on-site – such as:

- Relocation of the IT support to backup location and a Head Office disaster recovery plan test with users;
- BCM IT test has been performed as a technical test of application restoration on the back-up servers;
- CM routines were executed in several types of tests, namely as a Notification test, Notification and Meeting test and test of Crisis Rooms.
- Tests were made with performers working from Offices and via work form fome 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.

7.6. 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 Policy on liquidity stress test and contingency plan, containing also the general principles on liquidity management in the Group, liquidity risk limit system, primary and secondary liquidity sources, stress tests scenarios and contingency funding plan. In year 2023 there were no material changes in the liquidity risk management process.

Assets and liabilities management department (ALM) within Finance Division is responsible for overall liquidity of the Group and the Group's structural and regulatory liquidity. ALM cooperates with Global market department (GLM) within Corporate Banking and Financial markets Division by giving guidelines and instructions for the Group's daily and short term liquidity, while for long term liquidity ALM is responsible for raising and execution of funding. SKB bank monitors and manages liquidity risk on the Group level, consisting of SKB bank, SKB Leasing and SKB Leasing Select.

Liquidity management

In addition to regulatory liquidity ratios, SKB Group monitors and regularly discusses a number of internal liquidity indicators on the Asset and Liability Committee (ALCO). Eventual deterioration of liquidity indicators are also used as early warning signals indicating potential liquidity crisis.

SKB Group - liquidity indicators in %	2023		2022	
	Average 2023	31. 12. 2023	Average 2022	31. 12. 2022
Liquid assets / Total assets	29 %	33 %	23 %	28 %
Liquid assets / Short term deposits	118 %	132 %	86 %	110 %
Customer loans / Customer deposits	82 %	78 %	84 %	81 %

SKB Group's liquidity position remains strong despite the fast growing market interest rates and did not detect material liquidity outflows.

SKB Bank regularly reports and monitors LCR, which requires that the bank maintains an adequate level of unencumbered, high-quality liquid assets to survive a significant stress scenario lasting 30 calendar days. LCR is calculated daily and monthly as high-quality liquid assets compared to total net cash outflows within the next 30 days under a financial stress scenario. From 1st of January 2019 LCR ratio must be above 100 %, while the internal threshold for LCR ratio is set above 150 %. As at 31. 12. 2023 SKB Bank's liquidity buffer amounted to EUR 1,266 million, while the net cash outflows amounted to EUR 461 million resulting in LCR of 275 %.

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 115 %. SKB Bank reports and analyses NSFR on a quarterly basis. As at 31. 12. 2023 NSFR ratio amounted of 148 %, of which available amount of stable funding 3,853 million and required amount of stable funding 2,604 million.

SKB Bank - liquidity indicators in %	2023		2022	
	Average 2023	31. 12. 2023	Average 2022	31. 12. 2022
Liquidity coverage ratio (LCR)	318 %	275 %	219 %	211 %
Net stable funding ratio (NSFR)	145 %	148 %	150 %	157 %

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 SKB Bank of Slovenia and other nostro accounts, level of obligatory reserve, bank's secondary liquidity, expected inflows and outflows within next month and within next three months, business forecast and the level of deposit shock within next three months.

SKB Group continuously monitors future cash flows as well as calculates and analyses short term, medium term and long term liquidity gaps arising from balance and off balance sheet items. Assets and liabilities maturity mismatch is measured monthly, based on maturity gaps per liquidity time buckets. SKB Group analyses and estimates the liquidity risk profile of non-maturing products.

Management of liquidity risk is also integrated in Internal Liquidity Adequacy Assessment Process (ILAAP), Internal Capital Adequacy Assessment Process (ICAAP), Risk Appetite Statement (RAS) and Recovery and Resolution plan.

Funding sources

The global liquidity position of the Group is monitored and managed through annual business plans which include the level of refinancing with the parent bank and all other funding sources. Short term and long term funding limits are in line with its liquidity risk management policy set by (OTP Group) and SKB Group within the annual budget process.

SKB Group's funding is comprised of a mix of customer deposits, wholesale funding and funding from financial institutions. 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 3,960 million as at 31 December 2023, which represents 86 % of the SKB Group's total liabilities, consisting mainly of customer deposits. In 2022 the SKB Group has raised EUR 80 million of subordinated loan and EUR 170 million MREL eligible loan in order to improve the Group's capital position. The SKB Group's capital increased from EUR 449 million in 2022 to EUR 542 million in 2023, mainly due to inclusion of midyear bank's profit in amount of 45 million EUR. In stressful conditions SKB Group can acquire an additional EUR 1,806 million of funding as of 31.12.2023.

SKB Bank maintained a sufficient and diversified pool of ECB liquid assets in the amount of EUR 474 million as at 31 December 2023. 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 ICAS³⁹eligible 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. SKB 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 2023 was performed simultaneously with the ICAAP process (Internal Capital Adequacy Assessment Process) on the SKB 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 SKB 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 SKB Group's overall pricing policy for loans, leasing deals and deposits.

³⁹In-house Credit Assessment System

Besides a forward looking model SKB Bank has also established an internal profitability analysis, which measures a profitability of the stock of the portfolios per client(s), organisational units(s), segment(s), product(s) taking into account maturity matched transfer pricing and allocation of fees, overhead expenses and cost of risk. This enables the bank to better monitor implementation of strategic guidelines and execution of policies of the bank, consequently enabling more efficient management of liquidity risk, allocation of costs and benefits and monthly monitoring of the bank's operations' profitability.

The table 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 2023							
Financial liabilities held for trading	9,328	9,328	-	-	-	-	9,328
Financial liabilities measured at amortised cost	4,011,459	2,304,489	196,807	339,274	716,272	538,823	4,095,665
Fair value changes of the hedged items in portfolio hedge of interest rate risk	197	197	-	-	-	-	197
Other liabilities	10,478	10,478	-	-	-	-	10,478
Total undiscounted financial liabilities	4,031,462	2,324,492	196,807	339,274	716,272	538,823	4,115,668
As of 31 December 2022							
Financial liabilities held for trading	11,118	11,118	-	-	-	-	11,118
Financial liabilities measured at amortised cost	3,952,976	2,230,510	161,570	330,580	760,003	573,960	4,056,623
Fair value changes of the hedged items in portfolio hedge of interest rate risk	607	607	-	-	-	-	607
Other liabilities	10,427	10,427	-	-	-	-	10,427
Total undiscounted financial liabilities	3,975,128	2,252,662	161,570	330,580	760,003	573,960	4,078,775

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 2023							
Financial liabilities held for trading	9,328	9,328	-	-	-	-	9,328
Financial liabilities measured at amortised cost	4,004,705	2,297,881	196,804	339,262	716,207	538,758	4,088,912
Fair value changes of the hedged items in portfolio hedge of interest rate risk	197	197	-	-	-	-	197
Other liabilities	5,241	5,241	-	-	-	-	5,241
Total undiscounted financial liabilities	4,019,471	2,312,647	196,804	339,262	716,207	538,758	4,103,678
As of 31 December 2022							
Financial liabilities held for trading	11,118	11,118	-	-	-	-	11,118
Financial liabilities measured at amortised cost	3,951,287	2,228,941	161,568	330,570	759,950	573,907	4,054,936
Fair value changes of the hedged items in portfolio hedge of interest rate risk	607	607	-	-	-	-	607
Other liabilities	5,303	5,303	-	-	-	-	5,303
Total undiscounted financial liabilities	3,968,315	2,245,969	161,568	330,570	759,950	573,907	4,071,964

Contractual expiry by maturity of the Group's contingent financial liabilities and commitments:

SKB Group	2023					
	EUR 000	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years
Contingent financial liabilities and commitments	638,987	26,068	117,901	115,290	37,604	935,850

SKB Group	2022					
	EUR 000	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years
Contingent financial liabilities and commitments	628,233	38,730	101,084	114,400	34,477	916,924

Contractual expiry by maturity of the Bank's contingent financial liabilities and commitments:

SKB Bank	2023					
	EUR 000	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years
Contingent financial liabilities and commitments	639,009	26,068	117,901	115,290	37,604	935,872

SKB Bank	2022					
	EUR 000	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years
Contingent financial liabilities and commitments	628,255	38,730	101,084	114,400	34,477	916,946

All loan commitments are presented as commitments "On demand" while all other commitments are based on contractual maturity. SKB Bank 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 2023							
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	782,139	39,198	-	-	-	-	821,337
Financial assets held for trading	-	9,769	-	-	-	-	9,769
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	13,015	340	424	13,779
Financial assets at fair value through other comprehensive income	-	(24,354)	-	48,054	187,613	165,599	376,912
Financial assets at amortised cost	55,914	74,323	102,143	556,471	1,623,497	869,614	3,281,962
Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	6,214	6,214
Other assets	-	18,096	-	-	-	-	18,096
Total financial assets	838,053	117,032	102,143	617,540	1,811,450	1,041,851	4,528,069
LIABILITIES							
Financial liabilities held for trading	-	9,328	-	-	-	-	9,328
Financial liabilities measured at amortised cost	2,561,472	170,327	167,429	239,776	499,813	372,642	4,011,459
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	197	-	-	-	-	197
Other liabilities	-	10,478	-	-	-	-	10,478
Total financial liabilities	2,561,472	190,330	167,429	239,776	499,813	372,642	4,031,462
Net balance sheet position	(1,723,419)	(73,298)	(65,286)	377,764	1,311,637	669,209	496,607

SKB Group - As of 31 December 2022

	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	45,615	508,315	-	-	-	-	-	553,930
Financial assets held for trading	-	11,203	-	-	-	-	-	11,203
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	736	15,873	3,678	-	20,287
Financial assets at fair value through other comprehensive income	-	(43,389)	-	-	238,488	166,616	-	361,715
Financial assets at amortised cost	48,353	258,184	194,170	605,287	1,355,346	935,139	-	3,396,479
Other assets	-	26,939	-	-	-	-	-	26,939
Total financial assets	93,968	761,252	194,170	606,023	1,609,707	1,105,433	-	4,370,553
LIABILITIES								
Financial liabilities held for trading	-	11,118	-	-	-	-	-	11,118
Financial liabilities measured at amortised cost	2,548,535	126,526	130,700	228,751	518,176	400,288	-	3,952,976
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	607	-	-	-	-	-	607
Other liabilities	-	10,427	-	-	-	-	-	10,427
Total financial liabilities	2,548,535	148,678	130,700	228,751	518,176	400,288	-	3,975,128
Net balance sheet position	(2,454,567)	612,574	63,470	377,272	1,091,531	705,145	-	395,425

SKB Bank - as of 31 December 2023

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	776,320	37,703	-	-	-	-	814,023
Financial assets held for trading	-	9,769	-	-	-	-	9,769
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	13,015	340	424	13,779
Financial assets at fair value through other comprehensive income	-	(24,354)	-	48,054	187,613	165,599	376,912
Financial assets at amortised cost	55,914	51,140	69,450	490,097	1,768,762	844,507	3,279,870
Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	26,403	26,403
Other assets	-	4,064	-	-	-	-	4,064
Total financial assets	832,234	78,322	69,450	551,166	1,956,715	1,036,933	4,524,820
LIABILITIES							
Financial liabilities held for trading	-	9,328	-	-	-	-	9,328
Financial liabilities measured at amortised cost	2,563,963	161,227	167,426	239,764	499,748	372,577	4,004,705
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	197	-	-	-	-	197
Other liabilities	-	5,241	-	-	-	-	5,241
Total financial liabilities	2,563,963	175,993	167,426	239,764	499,748	372,577	4,019,471
Net balance sheet position	(1,731,729)	(97,671)	(97,976)	311,402	1,456,967	664,356	505,349

SKB Bank - as of 31 December 2022

	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	45,615	508,315	-	-	-	-	-	553,930
Financial assets held for trading	-	11,203	-	-	-	-	-	11,203
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	736	15,873	3,678	-	20,287
Financial assets at fair value through other comprehensive income	-	(43,389)	-	-	238,488	166,616	-	361,715
Financial assets at amortised cost	48,353	240,020	162,819	560,210	1,445,844	929,242	-	3,386,488
Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	20,454	-	20,454
Other assets	-	11,737	-	-	-	-	-	11,737
Total financial assets	93,968	727,886	162,819	560,946	1,700,205	1,119,990	-	4,365,814
LIABILITIES								
Financial liabilities held for trading	-	11,118	-	-	-	-	-	11,118
Financial liabilities measured at amortised cost	2,557,289	116,201	130,698	228,741	518,123	400,235	-	3,951,287
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	607	-	-	-	-	-	607
Other liabilities	-	5,303	-	-	-	-	-	5,303
Total financial liabilities	2,557,289	133,229	130,698	228,741	518,123	400,235	-	3,968,315
Net balance sheet position	(2,463,321)	594,657	32,121	332,205	1,182,082	719,755	-	397,499

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 2023				
	EUR 000	Within 12 months	After 12 months	Total
ASSETS				
Cash, cash balances at central banks and other demand deposits at banks		821,337	-	821,337
Financial assets held for trading		9,769	-	9,769
Non-trading financial assets mandatorily at fair value through profit or loss		13,015	764	13,779
Financial assets at fair value through other comprehensive income		23,701	353,211	376,912
Financial assets at amortised cost		842,712	2,439,250	3,281,962
Investments in subsidiaries, associates and joint ventures		621	5,593	6,214
Tangible assets		1,317	39,054	40,371
Intangible assets		129	13,672	13,801
Tax assets		4,917	4,917	9,834
Other assets		18,049	47	18,096
Total financial assets		1,735,567	2,856,508	4,592,075
LIABILITIES				
Financial liabilities held for trading		9,328	-	9,328
Financial liabilities measured at amortised cost		403,763	3,607,696	4,011,459
Fair value changes of the hedged items in portfolio hedge of interest rate risk		197	-	197
Provisions		6,398	9,205	15,603
Tax liabilities		3,513	-	3,513
Other liabilities		10,478	-	10,478
Total financial liabilities		433,677	3,616,901	4,050,578
Net balance sheet position		1,301,890	(760,393)	541,497

SKB Group - as of 31 December 2022

	EUR 000	Within 12 months	After 12 months	Total
ASSETS				
Cash, cash balances at central banks and other demand deposits at banks		553,930	-	553,930
Financial assets held for trading		11,203	-	11,203
Non-trading financial assets mandatorily at fair value through profit or loss		736	19,551	20,287
Financial assets at fair value through other comprehensive income		(43,389)	405,104	361,715
Financial assets at amortised cost		1,167,497	2,228,982	3,396,479
Tangible assets		1,295	38,401	39,696
Intangible assets		129	14,585	14,714
Tax assets		5,915	5,914	11,829
Other assets		26,939	-	26,939
Total financial assets		1,724,255	2,712,537	4,436,792
LIABILITIES				
Financial liabilities held for trading		11,118	-	11,118
Financial liabilities measured at amortised cost		264,596	3,688,380	3,952,976
Fair value changes of the hedged items in portfolio hedge of interest rate risk		607	-	607
Provisions		2,984	6,060	9,044
Tax liabilities		3,512	-	3,512
Other liabilities		10,427	-	10,427
Total financial liabilities		293,244	3,694,440	3,987,684
Net balance sheet position		1,431,011	(981,903)	449,108

SKB Bank - As of 31 December 2023

	EUR 000	Within 12 months	After 12 months	Total
ASSETS				
Cash, cash balances at central banks and other demand deposits at banks		814,023	-	814,023
Financial assets held for trading		9,769	-	9,769
Non-trading financial assets mandatorily at fair value through profit or loss		13,015	764	13,779
Financial assets at fair value through other comprehensive income		23,701	353,211	376,912
Financial assets at amortised cost		749,746	2,530,124	3,279,870
Investments in subsidiaries, associates and joint ventures		2,640	23,763	26,403
Tangible assets		704	29,101	29,805
Intangible assets		-	12,265	12,265
Tax assets		3,829	3,829	7,658
Other assets		4,017	47	4,064
Total financial assets		1,621,444	2,953,104	4,574,548
LIABILITIES				
Financial liabilities held for trading		9,328	-	9,328
Financial liabilities measured at amortised cost		394,338	3,610,367	4,004,705
Fair value changes of the hedged items in portfolio hedge of interest rate risk		197	-	197
Provisions		5,931	8,513	14,444
Tax liabilities		1,924	-	1,924
Other liabilities		5,241	-	5,241
Total financial liabilities		416,959	3,618,880	4,035,839
Net balance sheet position		1,204,485	(665,776)	538,709

SKB Bank - as of 31 December 2022

	EUR 000	Within 12 months	After 12 months	Total
ASSETS				
Cash, cash balances at central banks and other demand deposits at banks		553,930	-	553,930
Financial assets held for trading		11,203	-	11,203
Non-trading financial assets mandatorily at fair value through profit or loss		736	19,551	20,287
Financial assets at fair value through other comprehensive income		(43,389)	405,104	361,715
Financial assets at amortised cost		1,102,331	2,284,157	3,386,488
Investments in subsidiaries, associates and joint ventures		2,045	18,409	20,454
Tangible assets		914	30,000	30,914
Intangible assets		-	13,036	13,036
Tax assets		5,072	5,072	10,144
Other assets		11,737	-	11,737
Total financial assets		1,644,579	2,775,329	4,419,908
LIABILITIES				
Financial liabilities held for trading		11,118	-	11,118
Financial liabilities measured at amortised cost		254,259	3,697,028	3,951,287
Fair value changes of the hedged items in portfolio hedge of interest rate risk		607	-	607
Provisions		2,758	5,645	8,403
Tax liabilities		3,210	-	3,210
Other liabilities		5,303	-	5,303
Total financial liabilities		277,255	3,702,673	3,979,928
Net balance sheet position		1,367,324	(927,344)	439,980

7.7. 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 2023 SKB Group's encumbrance ratio stood at the level of 1.39 % as the SKB Group had EUR 64 million of encumbered assets compared to EUR 65 million encumbered assets and 1.47 % encumbered ratio as at 31. 12. 2022.

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 13 million, capital investment in Single Resolution Fund in amount of EUR 13 million, government bonds reserved due to Market in Financial Instruments Act (ZTFI) in the amount of EUR 1 million ECB required mandatory reserve which has to be held on the Bank of Slovenia target account in the amount of EUR 35 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 2023												
		Carrying amount of encumbered assets			Fair value of encumbered assets			Carrying amount of unencumbered assets			Fair value of unencumbered assets	
			of which: central bank's eligible	Of which notionally eligible EHQLA and HQLA			of which: central bank's eligible	Of which notionally eligible EHQLA and HQLA			of which: central bank's eligible	Of which notionally eligible EHQLA and HQLA
		EUR 000	010	030	035	040	050	055	060	080	085	090
010	Assets, of which:	64,058	14,038	14,038	-	-	-	4,528,017	669,597	1,246,044	-	-
020	• Loans on demand	37,145	-	-	-	-	-	763,594	-	743,854	-	-
030	• equity instruments	12,875	-	-	12,875	-	-	904	-	-	904	-
040	• debt securities	14,038	14,038	14,038	14,038	14,038	14,038	502,190	456,064	502,190	440,870	394,744
070	of which: issued by general governments	14,038	14,038	14,038	14,038	14,038	14,038	502,190	456,064	502,190	440,870	394,744
080	of which: issued by financial corporations	-	-	-	-	-	-	-	-	-	-	-
100	• Loans and advances other than loans on demand	-	-	-	-	-	-	3,142,842	213,532	-	-	-
110	of which: mortgage loan	-	-	-	-	-	-	1,129,072	78,091	-	-	-
120	• other assets	-	-	-	-	-	-	118,487	-	-	-	-

SKB Group - as of 31 December 2022												
		Carrying amount of encumbered assets			Fair value of encumbered assets			Carrying amount of unencumbered assets			Fair value of unencumbered assets	
			of which: central bank's eligible	Of which notionally eligible EHQLA and HQLA			of which: central bank's eli- gible	Of which notionally eligible EHQLA and HQLA			of which: central bank's eligible	Of which notionally eligible EHQLA and HQLA
		EUR 000	010	030	035	040	050	055	060	080	085	090
010	Assets, of which:	65,123	14,319	14,319	-	-	-	4,371,67	646,905	959,110	-	-
020	• Loans on demand	38,460	-	-	-	-	-	489,522	-	469,959	-	-
030	• equity instruments	12,343	-	-	12,343	-	-	7,944	-	-	7,944	-
040	• debt securities	14,319	14,319	14,319	14,319	14,319	14,319	489,151	445,134	489,151	426,348	382,330
070	of which: issued by general gov- ernments	14,319	14,319	14,319	14,319	14,319	14,319	489,151	445,134	489,151	426,348	382,330
080	of which: issued by financial corporations	-	-	-	-	-	-	-	-	-	-	-
100	• Loans and advances other than loans on demand	-	-	-	-	-	-	3,254,734	201,771	-	-	-
110	of which: mortgage loan	-	-	-	-	-	-	1,142,345	59,418	-	-	-
120	• other assets	-	-	-	-	-	-	130,319	-	-	-	-

Table B: Collateral received

SKB Group - as of 31 December 2023						
		Unencumbered assets				
		Fair value of encumbered collateral received or own debt securities issued			Fair value of collateral received or own debt securities issued available for encumbrance	Nominal of collateral received or own debt securities issued non available for encumbrance
			of which: central bank's eligible	Of which notionally eligible EHQLA and HQLA		
		EUR 000	010	030	035	040
130	Collateral received by the reporting institution	-	-	-	-	2,671,302
230	• other collateral received	-	-	-	-	2,671,302
250	TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	64,058	14,038	14,038	-	-

SKB Group - as of 31 December 2022						
		Unencumbered assets				
		Fair value of encumbered collateral received or own debt securities issued			Fair value of collateral received or own debt securities issued available for encumbrance	Nominal of collateral received or own debt securities issued non available for encumbrance
			of which: central bank's eligible	Of which notionally eligible EHQLA and HQLA		
		EUR 000	010	030	035	040
130	Collateral received by the reporting institution	-	-	-	-	2,072,601
230	• other collateral received	-	-	-	-	2,072,601
250	TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	65,123	14,319	14,319	-	-

Table C: Sources of encumbrance

SKB Group		2022		2021	
		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own securities issued	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own securities issued
EUR 000		010	030	010	030
010	Carrying amount of selected financial liabilities	300	981	300	969

Table D: Encumbrance information**Encumbrance information**

SKB Group maintained very low level of encumbered assets in year 2023.

At the end of the year 2023 SKB Group's encumbrance ratio stood at the level of 1.39% as the Group had EUR 64 million of encumbered assets compared to EUR 65 million encumbered assets and 1.47% encumbered ratio as at 31.12.2022.

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 13 million, capital investment in Single Resolution Fund in amount of 13 million, government bonds reserved due to Market in Financial Instruments Act (ZTFI) in the amount of EUR 1 million ECB required mandatory reserve which has to be held on the Bank of Slovenia target account in the amount of EUR 35 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.

7.8. 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 declaration, we, the undersigned members of SKB banka d.d. Ljubljana's General Management and Board of Directors, affirm the implementation of risk management system aligned with our predetermined risk tolerance and limits as defined in the Risk Appetite Framework, Risk Appetite Statement and in accordance with business strategy on the SKB Group level. This affirmation is made in accordance with Article 435(1.e) of the Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms.

The General Management and Board of Directors acknowledge the commitment to achieving the SKB Group's sustainable risk appetite, ensuring that risk management practices are well-suited to the SKB Group's risk profile and aligned with its strategic objectives. The independent nature of risk management at SKB banka d.d. Ljubljana enables the effective assessment and allocation of economic capital among relevant risks.

Integral to SKB Group risk management monitoring system are stress tests, which play a pivotal role in the planning and optimization of capital, liquidity and regulatory requirements. Additionally, the SKB Group's approach to monitoring prudential ratios is explicitly outlined in the Risk Appetite Statement, serving as a tool for evaluating performance across business lines.

In consideration of the macroeconomic and financial environment and in alignment with the SKB Group's strategic and financial objectives, the prepared Risk Appetite Framework actively governs and exercises risk appetite within defined limits.

Members of the Board of Directors

Signature

Anna Mitkova Florova



Attila Kovács



Anita Stojčevska



Vojka Ravbar



Spyridon Ntallas



Imre Bertalan



Draga Cukjati



György Gáldi



Ljubljana, 7. 3. 2024



Anita Stojčevska
Chief Executive Officer

SKB BANKA D.D. LJUBLJANA RISK MANAGEMENT STATEMENT

At SKB Group, we are committed to maintaining a robust risk management framework that aligns with our overall business strategy and ensures the sustainability of our operations. Our risk strategy is integrated into key management processes, including the Internal Capital Adequacy Assessment Process (ICAAP), Risk Appetite Framework (RAF), Risk Appetite Statement (RAS), Recovery Plan, and Internal Liquidity Adequacy Assessment Process (ILAAP). Additional adopted guidelines to risk management framework were EBA (European Banking Authority) and Bank of Slovenia's regulations. This statement outlines the key aspects of our risk management approach:

Risk Identification:

We diligently identify all material risks through SKB Group catalogue. This comprehensive catalogue serves as the primary source for defining risks across entities, including SKB Leasing and SKB Leasing Select. One of the main goals of risk catalogue is, to have the same approach for covering a spectrum of risks within ICAAP, RAS, Recovery plan and ILAAP process.

ICAAP (Internal Capital Adequacy Assessment Process):

The ICAAP process incorporates both quantitative and qualitative elements to identify risks with a significant impact on the SKB Group's risk exposure. The qualitative assessment, performed annually, evaluates SKB Group's risk exposure and its control systems.

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, ICT and security risk, risks related to data protection, AMLFT related risk and HR risk;
- strategic and profitability risk;
- interest rate risk from the banking book (IRRBB) including credit spread risk from the banking book (CSRBB);
- liquidity risk;
- market risk;
- capital risk.

When 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 internal estimate of capital needs is a cornerstone of our risk management. Calculated on a quarterly basis (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 and encompasses all relevant risks, including credit risk, operational risk, concentration risk, counterparty risk, interest rate risk, strategic risk and model risk. In the ICAAP process, the SKB Group uses economic³⁴ and normative³⁵ perspective with 3 year horizon, taking into account base budget and stress budget scenarios. Capital buffer and ratios, such as Tier 1 capital ratio, CET 1 capital ratio, and total capital ratio are continually monitored to ensure their alinement with the Group's risk appetite. The aggregate of all internal capital requirements serves as the internal assessment of capital needs for the SKB Group. This internal estimate of capital needs is indicative of whether the existing level of regulatory capital is adequate to absorb various risks to which the SKB Group is exposed, encompassing stress test scenarios.

ESG (Environmental, Social and Governance):

SKB Group is subjected to integrate ESG factors into its corporate culture and promote environmental awareness and responsibility throughout the organization. The SKB Group has integrated robust strategies and practices into day-to-day operations and performed an assessment to identify environmental, social and governance risks associated with the SKB Group's activities including direct and indirect impacts. Internal training for employees on environmental risks, regulations and best practices were performed. SKB Group is committed to consider ESG criteria in evaluating new products, services and business opportunities.

ILAAP (Internal Liquidity Adequacy Assessment process):

SKB Group's ILAAP process is closely related with the ICAAP process, analyzing liquidity position both qualitatively and quantitatively, 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 SKB Group's overall liquidity risk management framework considering liquidity risk tolerance limits in accordance to the Risk Appetite Framework and Risk Appetite Statement. Liquidity coverage ratio (LCR) and Net stable funding ratio (NSFR) consistently comply with regulatory requirements, reflecting our commitment to sound liquidity risk management.

³⁴Economic 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.

³⁵The 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.

In conclusion, SKB Group remains dedicated to proactive risk management, leveraging a comprehensive framework to identify, assess, and mitigate risks. Ongoing commitment to evaluating and adapting SKB Group's risk management practices ensures the resilience and sustainability of Group operations.

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 SKB Group level.

Members of the Board of Directors

Signature

Anna Mitkova Florova



Attila Kovács



Anita Stojčevska



Vojka Ravbar



Spyridon Ntallas



Imre Bertalan



Draga Cukjati



György Gáldi



Ljubljana, 7. 3. 2024



Anita Stojčevska
Chief Executive Officer

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