ANNUAL REPORT 2020

DEŽELNA BANKA SLOVENIJE

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DEŽELNA BANKA SLOVENIJE

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ANNUAL REPORT
DEŽELNA BANKA SLOVENIJE GROUP
2020

BANK MAMAGEMENT BOARD:

Member of the Management Board:
Barbara Cerovšek Zupančič MSc

President of the Management Board:
Marko Rozman

DEŽELNA BANKA SLOVENIJE d.d.
LJUBLJANA
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Ljubljana, March 2021

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	Deželna banka Slovenije Group	2020	2019	2018
1.	**Statement of financial position** (in EUR thousand)			
	Total assets****	1,045,380	1,042,380	1,009,912
	Total deposits by non-banking sector measured at amortised cost	963,075	888,304	857,834
	- Corporates	178,554	162,269	161,755
	- Individuals	784,521	726,035	696,079
	Total loans to non-banking sector (not held for trading)	764,019	748,574	744,355
	- Corporates	548,250	554,231	569,097
	- Individuals	215,769	194,343	175,258
	Total equity****	68,166	64,804	64,586
	Value adjustments and provisions for credit losses	(19,812)	(17,258)	(27,643)
	Off-balance sheet operations (B.1. to B.4.)	69,093	64,285	63,930
2.	**Income statement** (in EUR thousand)			
	Net interest income	16,552	17,274	17,468
	Net non-interest income**	8,624	7,950	13,018
	Employee benefits cost, overhead and administrative expenses**	(19,088)	(19,118)	(16,758)
	Depreciation and amortisation	(1,375)	(1,466)	(1,106)
	Impairments and provisions (credit losses)	355	(2,549)	(701)
	Profit/loss from continuous and discontinued operations before tax	4,460	1,459	8,921
	Corporate income tax from continuous and discontinued operations	(1,142)	(203)	(1,349)
3.	**Comprehensive income after tax** (in EUR thousand)			
	Comprehensive income for the year after tax	3,413	1,077	7,539
4.	**No. of employees** (at end of period)			
	No. of employees	353	606	584
5.	**Shares**			
	No. of shareholders (at end of period)	275	287	306
	No. of shares (at end of period)*	4,231,682	4,230,997	4,230,997
	Par value (in EUR)	4.172926	4.172926	4.172926
	Book value (in EUR)	16.046302	14.865025	14.935309
6.	**Selected indicators**			
a)	**Capital adequacy** (in %)			
	Common equity tier I capital ratio	15.13	14.74	13.11
	Tier I capital ratio	15.13	14.74	13.11
	Total capital ratio	15.86	15.76	14.52
b)	**Quality of assets and commitments** (in %)			
	Non-performing (on- and off-balance sheet) exposures/Classified on- and off-balance sheet exposures	3.59	4.77	6.26
	Non-performing loans and other financial assets/Classified loans and other financial assets (excluding balances at central bank accounts and sight deposits at banks)	4.94	6.24	7.34
	Non-performing loans and other financial assets/Classified loans and other financial assets (including balances at central bank accounts and sight deposits at banks)***	4.48	5.61	-
	Value adjustments for credit losses/Non-performing loans and other financial assets (excluding balances at central bank accounts and sight deposits at banks)	(40.33)	(32.45)	(31.99)
	Value adjustments for credit losses/Non-performing loans and other financial assets (including balances at central bank accounts and sight deposits at banks)***	(40.33)	(32.45)	-
	Collaterals received/Non-performing loans and other financial assets (excluding balances at central bank accounts and sight deposits at banks)	59.37	67.17	46.93
c)	**Profitability** (in %)****			
	Interest margin	1.60	1.65	1.74
	Financial intermediation margin**	2.44	2.41	3.04
	Return on assets (ROA) after tax	0.32	0.12	0.76
	Return on equity (ROE) before tax	6.74	2.11	13.65
	Return on equity (ROE) after tax	5.01	1.82	11.58
d)	**Operating expenses** (in %)			
	Operating expenses/Average assets**	(1.98)	(1.97)	(1.78)
e)	**Liquidity**			
	Liquidity coverage ratio (in %)			
	- January-March	287.05	240.50	226.95
	- April-June	290.06	253.08	229.36
	- July-September	295.05	269.70	230.16
	- October-December	315.40	284.08	232.70
	Liquidity buffer (in EUR thousand)			
	- January-March	200,057	167,417	152,112
	- April-June	204,243	177,395	152,709
	- July-September	209,866	187,360	155,120
	- October-December	215,453	195,397	160,785
	Net liquidity outflows (in EUR thousand)			
	- January-March	69,695	69,613	67,024
	- April-June	70,414	70,095	66,582
	- July-September	71,129	69,470	67,395
	- October-December	68,311	68,782	69,094

Note: The indicators have been calculated in compliance with the Bank of Slovenia Regulation on the Books of Account and Annual Reports of Banks and Savings Banks.
* The number of shares is in line with the records of the Slovenian Central Securities Clearing Corporation, KDD, less treasury shares.
** The indicators are calculated on the basis of the new methodology for the statement of comprehensive income with effect from 1 June 2020 (Bank of Slovenia: Instructions for preparing the statement of financial position, income statement and statement of comprehensive income and calculation of performance indicators of banks and savings banks).
*** New indicators are based on the Bank of Slovenia Regulation on the Books of Account and Annual Reports of Banks and Savings Banks in use since 13 November 2020.
**** The indicators for 2019 and 2018 have been revised in accordance with the note on the correction of the error in the consolidated financial statements.

I.2. KEY FINANCIAL DATA FOR DEŽELNA BANKA SLOVENIJE d. d.

	Deželna banka Slovenije d. d.	2020	2019	2018
1.	**Statement of financial position** (in EUR thousand)			
	Total assets	1,045,132	1,017,938	990,798
	Total deposits by non-banking sector measured at amortised cost	963,314	888,566	858,234
	- Corporates	178,793	162,531	162,155
	- Individuals	784,521	726,035	696,079
	Total loans to non-banking sector (not held for trading)	761,489	747,149	743,173
	- Corporates	550,053	555,945	570,936
	- Individuals	211,436	191,204	172,237
	Total equity	67,903	62,894	63,191
	Value adjustments and provisions for credit losses	(18,382)	(15,840)	(16,322)
	Off-balance sheet operations (B.1. to B.4.)	69,347	66,197	64,517
2.	**Income statement** (in EUR thousand)			
	Net interest income	16,202	17,029	17,288
	Net non-interest income**	9,854	10,675	12,068
	Employee benefits cost, overhead and administrative expenses**	(18,719)	(18,737)	(16,461)
	Depreciation and amortisation	(1,287)	(1,334)	(951)
	Impairments and provisions (credit losses)	733	(2,819)	37
	Profit/loss from continuous and discontinued operations before tax	6,190	919	6,722
	Corporate income tax from continuous and discontinued operations	(1,138)	(193)	(1,281)
3.	**Comprehensive income after tax** (in EUR thousand)			
	Comprehensive income for the year after tax	5,062	603	5,380
4.	**No. of employees** (at end of period)			
	No. of employees	347	354	340
5.	**Shares**			
	No. of shareholders (at end of period)	275	287	306
	No. of shares (at end of period)*	4,231,682	4,231,682	4,231,682
	Par value (in EUR)	4.172926	4.172926	4.172926
	Book value (in EUR)	16.046302	14.862618	14.932892
6.	**Selected indicators**			
a)	**Capital adequacy** (in %)			
	Common equity tier I capital ratio	15.10	14.71	13.09
	Tier I capital ratio	15.10	14.71	13.09
	Total capital ratio	15.82	15.72	14.50
b)	**Quality of assets and commitments** (in %)			
	Non-performing (on- and off-balance sheet) exposures/Classified on- and off-balance sheet exposures	3.30	4.42	5.66
	Non-performing loans and other financial assets/Classified loans and other financial assets (excluding balances at central bank accounts and sight deposits at banks)	4.55	5.77	6.62
	Non-performing loans and other financial assets/Classified loans and other financial assets (including balances at central bank accounts and sight deposits at banks)***	4.12	5.19	-
	Value adjustments for credit losses/Non-performing loans and other financial assets (excluding balances at central bank accounts and sight deposits at banks)	(39.70)	(30.20)	(27.30)
	Value adjustments for credit losses/Non-performing loans and other financial assets (including balances at central bank accounts and sight deposits at banks)***	(39.70)	(30.20)	-
	Collaterals received/Non-performing loans and other financial assets (excluding balances at central bank accounts and sight deposits at banks)	59.98	69.40	50.25
c)	**Profitability** (in %)			
	Interest margin	1.57	1.67	1.78
	Financial intermediation margin**	2.53	2.72	3.03
	Return on assets (ROA) after tax	0.49	0.07	0.56
	Return on equity (ROE) before tax	9.44	1.41	10.85
	Return on equity (ROE) after tax	7.70	1.11	8.79
d)	**Operating expenses** (in %)			
	Operating expenses/Average assets**	(1.94)	(1.97)	(1.80)
e)	**Liquidity**			
	Liquidity coverage ratio (in %)			
	- January-March	286.76	239.68	225.80
	- April-June	290.21	252.28	228.04
	- July-September	295.29	269.13	228.76
	- October-December	315.32	283.19	232.02
	Liquidity buffer (in EUR thousand)			
	- January-March	200,057	167,417	151,695
	- April-June	204,243	177,395	152,292
	- July-September	209,866	187,360	154,703
	- October-December	215,453	195,397	160,785
	Net liquidity outflows (in EUR thousand)			
	- January-March	69,765	69,851	67,181
	- April-June	70,377	70,318	66,782
	- July-September	71,070	69,617	67,626
	- October-December	68,329	68,998	69,299

Note: The indicators have been calculated in compliance with the Bank of Slovenia Regulation on the Books of Account and Annual Reports of Banks and Savings Banks.
* The number of shares is in line with the records of the Slovenian Central Securities Clearing Corporation, KDD, less treasury shares.
** The indicators are calculated on the basis of the new methodology for the statement of comprehensive income with effect from 1 June 2020 (Bank of Slovenia: Instructions for preparing the statement of financial position, income statement and statement of comprehensive income and calculation of performance indicators of banks and savings banks).
*** New indicators are based on the Bank of Slovenia Regulation on the Books of Account and Annual Reports of Banks and Savings Banks in use since 13 November 2020.

II. THE MANAGEMENT

II.1. REPORT OF THE MANAGEMENT BOARD

In 2020, Deželna banka Slovenije celebrated 30 years of operation on the Slovenian market. Slovenska zadružna kmetijska banka (Agricultural Cooperative Bank of Slovenia) was established in 1990, and renamed Deželna banka Slovenije in 2004. Having had only 33 employees at the time, it successfully evolved and became a universal bank under Slovenian ownership with over 350 employees. In the 30 years of existence, it has developed a wide business network with 78 branches, covering the entire territory of Slovenia and offering its customers the full range of financial services.

Since its initial focus on the agro-food sector, which still remains one of the most important segments, the Bank has successfully developed into a competitive financial services provider for the general population and general legal entities. With increasingly advanced marketing channels, it is also approaching the younger population on the Slovenian market day by day, which is reflected in the growing customer base and other business indicators.

The Bank's performance in 2020 was strong despite the difficult circumstances. The balance sheet total increased by 3% last year to EUR 1.05 billion, with the Bank achieving profit before tax of EUR 6,190 thousand and a 9.44% return on equity.

We managed the bank's balance sheet actively and adjusted our investment opportunities to the current market conditions. We are constantly optimising business processes, streamlining operations and successfully keeping costs under control.

The DBS Group's capital adequacy suffices to counterbalance all potential risks arising out of its operations. Our capital adequacy ratios meet all the requirements imposed by the Bank of Slovenia.

In 2020, funds collected from households – again the most important source of financing – were up 9%, and loans to households increased by 9% as well.

Monitoring and controlling financial risks remain our priorities in 2020. Therefore, we continued to upgrade risk management methodologies and approaches. We have continually improved the quality of our credit portfolio, decreased the amount of non-performing exposures, and minimised impairment charges against current transactions. Careful attention was invested in obtaining adequate collateral for credit transactions, both when entering into new credit arrangements and for existing ones.

Following the successful completion of the financial reconstruction of Semenarna Ljubljana in 2019, the Bank began actively looking for a strategic partner for this purpose. As early as 2015, when the Bank became the 100% owner of Semenarna, thus saving it from assured bankruptcy, we knew that this would not be a long-term but a temporary partnership until Semenarna was ripe for a new, strategic owner. By selling Semenarna to a strategic owner in 2020, the Bank enabled the long-term development and future sustainability of the company. At the Bank, we are especially proud to have rescued this company, which is of strategic importance for Slovenia.

We continued to sell immovable property owned by the Bank in 2020, which was successful given the situation in the field.

Healthy and stable growth gives us the incentive and strength for long-term development. We follow innovations in the financial markets and constantly adapt our own services accordingly. Last year, we were among the first banks in Slovenia to introduce a new instant payment service. Our goal is to keep customers satisfied; and we can only succeed if we know them well enough to be able to offer what they need. Only in this way can we tailor our services, regarding which we focus on high-quality, integrity and, above all, security, to the needs and wishes of both our existing and potential customers. We want our customers, business partners and others to see us as a long-term partner, as this it the only way to keep improving and shaping services tailored to them.

The comprehensive and wide range of the Bank’s services is complemented with our subsidiary DBS Leasing, which offers on the market integrated leasing services with a special emphasis on the financing of agricultural and forestry vehicles and machinery.

We have preserved our function as the authorised reseller of commemorative and collector coins, which brings us close to yet another specialised segment of population.

With our donations and sponsorships, we also fulfil the role of a socially responsible institution. In 2020, we were only able to perform these activities to a limited extent, in light of the circumstances. The Bank has been best recognized as a sponsor of the Women of the Year and Wine Queen events. Both projects highlight positive aspects and the importance of the rural sector of Slovenia. For several years, we have been a partner of the Agrobiznis project that promotes entrepreneurship in agriculture and contributes to its wider promotion and thereby public awareness of the importance of self-sufficiency in Slovenia. At the bank, which, together with its predecessors, has been associated with agriculture for more than a century and cooperates intensively with it, we are convinced that domestic food production is vital for the population.

We are aware that success would not be possible were it not for dedicated and professional employees, as well as loyal customers and business partners. That is why we sincerely thank everyone. The year 2020 brought us the epidemic as an additional challenge, to which we responded appropriately and quickly by adjusting our operations. We have been in constant contact with our customers, as we know that in the situation that has arisen, they need a bank that listens and understands. If problems occur, we always try to find a common solution that suits both the customer and the bank. As we responded adequately and positively to the situation, it did not have a significant impact on the Bank's operations.

The first beginnings of our bank reach back to the second half of the 19th century, whereas in its current form, it has been present on the Slovenian market for 30 years. During this period, we have come a long way in terms of challenges, seized opportunities and improvements in areas where they have been required. We will do our best to ensure that this is also the case in the future. We will continue to perform our work responsibly and professionally while implementing the Bank's development strategy.

Ljubljana, 19 March 2021

BANK MANAGEMENT BOARD:

Member of the Management Board:
Barbara Cerovšek Zupančič MSc

President of the Management Board:
Marko Rozman

DEŽELNA BANKA SLOVENIJE d.d.
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II.2. REPORT OF THE SUPERVISORY BOARD

The Supervisory Board of Deželna banka Slovenije d. d. monitors and oversees the Bank's management and its operations. The framework for its operation and its powers and responsibilities are based on the Banking Act, the Companies Act, Regulation on Internal Governance Arrangements, the Management Body and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks, other applicable regulations and the Bank's internal acts.

At the beginning of the financial year 2020, the Supervisory Board was composed of Chair Peter Vrisk, Vice-Chair Ivan Lenart and members Iris Dežman, Jure Kvaternik, Nikolaj Maver and Tomaž Petrovič.

On 27 January 2020, Peter Vrisk submitted his notice of resignation, ending his term of office immediately. On the same day, the Supervisory Board elected Ivan Lenart as the new Chair and Jure Kvaternik as the Vice-Chair.

On 30 June 2020, the term of office ended for Iris Dežman, Ivan Lenart, Nikolaj Maver and Tomaž Petrovič, i.e. all previous members, except Jure Kvaternik. The General Meeting of Shareholders elected five members at its meeting on 30 June 2020, so that as of 1 July 2020, the Supervisory Board consists of Iris Dežman, Jure Kvaternik, Ivan Lenart, Nikolaj Maver, Gregor Sluga and Boštjan Škufca Zaveršek. At its first meeting on 28 July 2020, the Supervisory Board elected Ivan Lenart Chairman and Boštjan Škufca Zaveršek Vice-Chairman.

In 2020, the Supervisory Board met at ten regular and one extraordinary meeting and additionally convened two correspondence meetings. Due to the epidemic, a total of three regular sessions were held via video link. Regular reports and other pressing matters, as well as major issues related to the Bank's operations, were discussed, and decisions were made regarding transactions within the Board's competence. All meetings were quorate. Chair and the female member of the Board were present at all regular and extraordinary meetings. In order to avoid conflicts of interest, some members of the Supervisory Board were occasionally eliminated at individual items.

The following are the main topics that the Supervisory Board discussed in 2020:

The Bank's financial operations

The Board regularly reviewed the Bank's financial operations and periodic operations reports of the Bank and its subsidiaries in 2020. It gave its consent to the plan for 2020 and approved the 2019 Deželna banka Slovenije Group Annual Report. It monitored the profitability of the Bank's branches and noted the projections of the Bank's operations with regard to the consequences of the epidemic. It discussed the Bank's performance indicators against the Slovenian banking average.

Risk

The Supervisory Board reviewed and approved the Bank's risk profile. It took note of the risk analysis process, Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP). For the latter two, it confirmed the assessment in question. It reviewed and agreed to the revised stress testing programme and reviewed Management Board's reports on activities associated with non-performing receivables. It promptly monitored compliance with capital guidelines and various capital and liquidity management activities.

Management of the Bank

The Supervisory Board reviewed and approved the Bank's 2019 annual report and offered a positive opinion with respect to the certified auditor's report. Together with the Management Board, the Supervisory Board convened for 30 June 2020 the Bank's 37th Annual General Meeting. It proposed five candidates for members of the Supervisory Board to the General Meeting and assessed their suitability.

Internal audit of the Bank

In 2020, the Supervisory Board reviewed the 2019 annual report on the Bank's Internal Audit Department and half-year reports on its activities in the second half of 2019 and the first half of 2020. It also took note of other audit reports, including a special report on the corporate governance review of the DBS Group. Furthermore, it regularly monitored quarterly reports of the Internal Audit Department on outstanding recommendations. It also approved its Annual Work Plan for 2021.

External audit
The Supervisory Board was kept informed about the process of regular annual audits of the bank.

Operations of subsidiaries
The Supervisory Board regularly discussed the financial operations of the subsidiaries Semenarna Ljubljana, d. o. o. (until it was sold), and DBS Leasing d. o. o. It paid particular attention to the disposal of the Bank's shareholding in Semenarna, d. o. o. and gave its consent to the final terms of sale.

The Bank's internal acts
The Supervisory Board updated its rules of procedure and the rules of procedure of its committees, which now provide, inter alia, for the possibility of meetings using electronic means. The Board reviewed and gave its consent to amendments to internal acts of the Bank where the applicable regulations so provide. Also in 2020, a number of the Bank's acts were renewed, including the Risk-taking and Risk Management Strategy, the Remuneration Policy and the Specific Risk Management Policies.

Other relevant activities
The Board reviewed letters and oversight measures imposed by the Bank of Slovenia and other regulators and audit firms. It examined reports on the state of informatics and information and general security. It agreed with the Umbrella Security Policy and approved the Information Technology Development Strategy. It discussed various materials on compliance with the Bank's operations and the prevention of money laundering and terrorist financing. It was regularly acquainted with the important court proceedings in which the Bank is involved, as well as with the Bank's immovable property portfolio and the procedures for the disposal of more valuable property. It actively co-created training schemes for its members. It decided on giving its consent to the decisions of the Management Board when so stipulated by the legislation and the Statutes and discharged other required tasks.

Internal organisation of the Supervisory Board
In 2020, the Supervisory Board received expert support from the Audit Committee, Risk Committee and Nomination Committee. Members of committees are Supervisory Board members. The tasks and competences of each committee are laid down in the Bank’s Statutes and in terms of reference and rules of procedure of each committee. All rules of procedure were updated in 2020. The internal organisation of the Supervisory Board is described in Chapter IV.4. Composition and operations of the management and supervisory bodies and their committees.

Based on adequate and timely reports and information as well as additional clarifications and explanations at the meetings themselves, the Board was able to monitor and oversee the Bank management responsibly and direct it based on what is in the Bank’s best interest considering the circumstances. The Board feels to have collaborated well and constructively with the Management Board, the Bank’s expert departments, and regular auditor. All this has contributed to the Bank’s stable operations in harsh conditions and a favourable budget outturn.

As at 1 April 2021, the Management Board provided the Supervisory Board with the 2020 Deželna banka Slovenije Group Annual Report, which consists of the business report and financial report, the latter containing audited standalone financial statements of the Bank and consolidated statements of the Group, along with the auditor’s report. The auditor believes the financial statements with notes give a true and fair view of the financial position of the Bank and the Group as at 31 December 2020, as well as profit or loss and cash flow for the financial year ended in accordance with the International Financial Reporting Standards.

At its meeting on 22 April 2021, the Supervisory Board confirmed the Deželna banka Slovenije Group 2020 Annual Report.

Ljubljana, 22 April 2021

Chair of the Supervisory Board:
Ivan Lenart

Supervisory Board resolution on examining and approving the Annual Report

Pursuant to the Deželna banka Slovenije d. d. Statutes, the Supervisory Board, at its regular meeting No 2021-04-NS-9 held on 22 April 2021, under the agenda item 9.1, adopted the following

RESOLUTION

1. Based on its examination and consideration, the Deželna banka Slovenije d. d. Supervisory Board hereby confirms the revised Deželna banka Slovenije Group 2020 Annual Report, having no objection to it.

2. The Supervisory Board expresses its positive opinion of the Auditor’s Report by Mazars d. o. o., Ljubljana, for financial year 2020.

Ljubljana, 22 April 2021

Chair of the Supervisory Board:
Ivan Lenart

III. GENERAL INFORMATION ON THE BANK

III.1. THE BANK'S ROOTS AND HISTORICAL DEVELOPMENT

The roots of Deželna banka Slovenije d. d. go back to the era of the early agricultural credit unions and savings and loan undertakings.

1872	• The first credit union in Ljutomer
1883	• The first Slovenian cooperative association (Celje Slovenian Credit Union Association)
1920	• Cooperative business bank Zadružna gospodarska banka
1949	• Savings and credit sections of agricultural cooperatives
1954	• *Cooperative savings banks* (the first new cooperative savings bank in Kranj)
1971	• *The association of savings and loan undertakings* Zveza hranilno-kreditnih služb Slovenije
1990	• *The agricultural cooperative bank* Slovenska zadružna kmetijska banka d. d.
2004	• Deželna banka Slovenije d. d.
2005	• DBS Leasing d. o. o.
2013	• DBS Nepremičnine d. o. o.
2014	• DBS Adria d. o. o. • Semenarna Ljubljana, d. o. o.
2020	• Sale of Semenarna Ljubljana, d. o. o.

III.2. BANK'S SERVICES

Deželna banka Slovenije d. d. is licensed to provide banking services, which include accepting deposits and other repayable funds from the public and lending for the banks' own account. It is also licensed to provide mutually recognised and ancillary financial services.

In 2020, the Bank was licensed to provide the following mutually recognised financial services under Article 5 of the Slovene Banking Act (ZBan-2):

Service

1. Accepting deposits and other repayable funds;
2. Lending, which includes:
   - Consumer credits,
   - Mortgage credits,
   - Factoring, with or without recourse,
   - Financing of commercial transactions, including forfeiting;
4. Payment transactions;
5. Issuing and managing other payment instruments (such as travellers' cheques and bank bills) that do not fall under the services of the preceding item;
6. Issuing of guarantees and other commitments;
7. Trading for own account or for accounts of customers in:
   - Foreign exchange, including currency exchange transactions;

   Trading for own account:
   - Money market instruments,
   - Financial futures and options,
   - Foreign exchange and interest-rate instruments,
   - Transferable securities,
12. Safekeeping of securities and other services relating to safekeeping;
13. Credit rating services: collection, analysis and provision of information on creditworthiness;

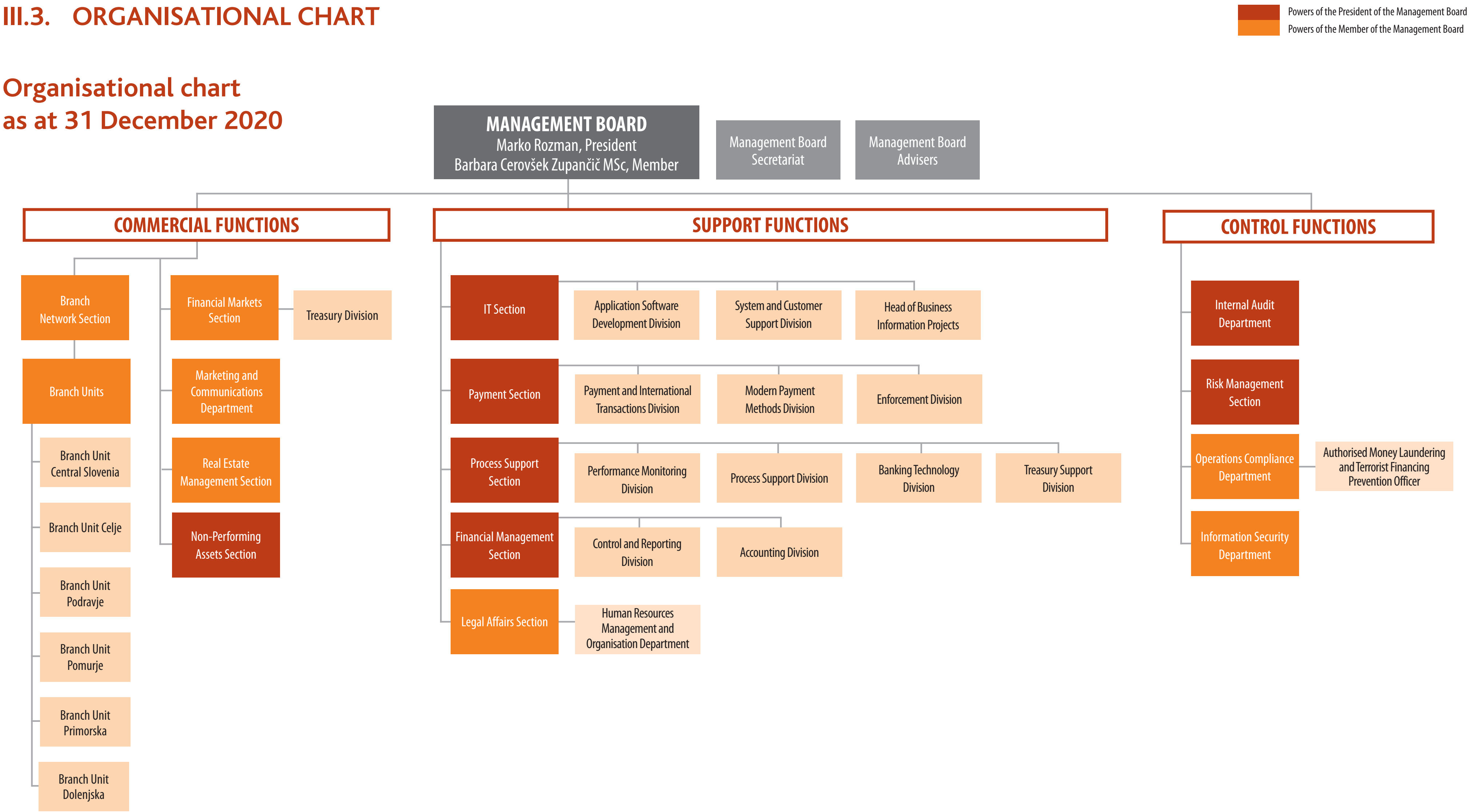
It was also licensed to provide the following ancillary financial services under Article 6 of ZBan-2:

Service

1. Insurance brokerage pursuant to the act governing the insurance business;
6. Leasing.

III.3. ORGANISATIONAL CHART

Organisational chart as at 31 December 2020



Such an organisational structure allows the Bank to implement its strategy, streamline business processes and facilitate risk and human resource management. Its organisation has been tailored to the planned scope of operations, taking into account the front- and back office as well as the management function.

IV. DEŽELNA BANKA SLOVENIJE BANKING GROUP

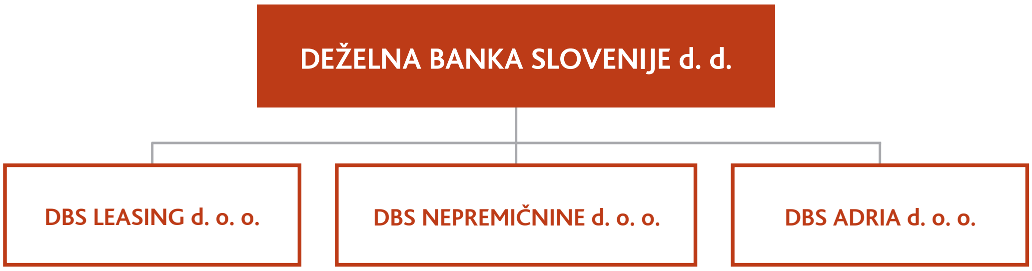
Deželna banka Slovenije d. d. is the controlling company in the Deželna banka Slovenije Group ("Group"). As at 31 December 2020, the Group included the following subsidiaries: the leasing company DBS Leasing d. o. o. ("DBS Leasing"), the real estate company DBS Nepremičnine d. o. o., which trades in the Group's property ("DBS Nepremičnine"), and the real estate company DBS Adria d. o. o. ("DBS Adria").

Deželna banka Slovenije d. d. draws up consolidated financial statements for the entire Group.

Group companies as at 31 December 2020

	Status	DBS's stake in %
DBS d. d.	Controlling company	-
DBS Leasing d. o. o.	Subsidiary	100
DBS Nepremičnine d. o. o.	Subsidiary	100
DBS Adria d. o. o.	Subsidiary	100

DBS Group organisation chart as at 31 December 2020



Performance indicators of the Group's subsidiaries for 2020

Company	DBS Leasing d. o. o.		DBS Nepremičnine d. o. o.		DBS Adria d. o. o.	
	2020	2019	2020	2019	2020	2019
Total assets (in EUR thousand)	14,996	14,629	1,550	1,543	159	163
Equity (in EUR thousand)	2,699	2,681	1,539	1,534	0	0
Profit/loss before tax (in EUR thousand)	22	(73)	6	30	(9)	(8)
Income tax (in EUR thousand)	-	-	(1)	-	-	-
Profit/loss after tax (in EUR thousand)	22	(73)	5	30	(9)	(8)
Return on assets (ROA) before tax (in %)	0.15	(0.50)	0.39	1.97	(5.63)	(4.73)
Return on equity (ROE) before tax (in %)	0.81	(2.65)	0.39	1.98	-	-
No. of employees (at end of period)	6	7	0	0	0	0
Total assets/No. of employees (at end of period) (in EUR thousand)	2,499	2,090	-	-	-	-

DBS Leasing d. o. o.

Registered address: Kolodvorska ulica 9, 1000 Ljubljana
Registration number: 2160854
Business: 64.910 Financial leasing
Initial capital: EUR 3,484 thousand
CEO: Jan Juvan

DBS Leasing is a universal leasing company offering mainly movable property leases (for tractors, farming and forest machines and equipment, and cars). It complements the range of the Bank's and Group's financial services mainly by financing agricultural machinery and equipment.

A profit of EUR 22 thousand was reported for the financial year 2020. The company's total assets were up 3% in 2020, to EUR 14,996 thousand. The majority of investments are finance lease receivables. The main sources of assets are equity and the founding company's loans.

The company actively manages financial risk, and credit risk is controlled by checking customers' creditworthiness before approving each transaction pursuant to the methodology adopted at the Group level. Interest rate risk is controlled through a balanced application of the variable rate in the remuneration of assets and liabilities, and liquidity risk is controlled by balancing the maturity periods of liabilities and assets. The company also devotes numerous efforts to measures for the management of lessee payment discipline and has reduced the volume of bad receivables, especially in the area of vehicle and equipment leases, by undertaking vigilant monitoring of missing payments.

DBS Nepremičnine d. o. o.

Registered address: Kolodvorska ulica 9, 1000 Ljubljana
Registration number: 6290540
Business: 68.100 Buying and selling of own real estate
Initial capital: EUR 2,000 thousand
CEO: Tomo Sokolić

DBS Nepremičnine was founded in January 2013 and is wholly owned by DBS d. d. In the past, the company's core businesses included selling the Group's property, renting and developing real estate projects, whereas, in 2020, the company's core businesses included other production of electricity.

A major part of balance sheet assets is a short-term loan to a subsidiary, and among sources of assets, it is equity.

A profit of EUR 5 thousand was reported for the financial year 2020.

DBS Adria d. o. o.

Registered address: Cvjetno naselje 26, Samobor, Croatia
Registration number: 0103191000 (court ID number: 080906254)
Business: 68.320 Management of real estate on a fee or contract basis
Initial capital: EUR 17 thousand
CEO: Jožef Berdnik

The company was incorporated in March 2014 and is wholly owned by the DBS d. d. bank. The company's core business is selling the Group's property, renting and developing real estate projects.

In 2020 the company reported EUR 9 thousand of loss for the year. Total assets were EUR 159 thousand at the end of 2020. The majority of investments were inventories of real estate abroad, while the majority of liabilities were borrowings from banks.

V. THE BANK'S PERFORMANCE IN 2020

V.1. GENERAL ECONOMIC ENVIRONMENT[1]

The global economic situation[2] improved considerably at the end of 2020. The availability of the COVID-19 vaccine improved sentiment in the real sector and even more so in the financial markets, but differences between economies were marked. An increase in economic growth is implied in China, India, Brazil, the United States and, to a lesser extent, the United Kingdom. It is different in most European countries, where the aggravated epidemic situation has led to marked recessional tendencies in the service sector. The value of some short-term indicators turned upwards in the euro area in December, but no significant improvement is expected at the beginning of 2021. According to the latest forecast of the International Monetary Fund (IMF), published in January, the global GDP is expected to fall by 3.5% in 2020 instead of 4.4% as forecast in October. In 2021, the global economy is expected to grow by 5.5%, which is 0.3 percentage points more than the October estimate. For 2022, the IMF still forecasts 4.2% growth.

The euro area is facing the deepest recession to date due to the COVID-19 pandemic. According to the IMF forecast, the euro area GDP is expected to decline by 7.2% in 2020. This was mainly due to lower private consumption, which was most affected by the closure of non-essential goods stores and services, and reduced investment in equipment and machinery. On the production side, the main reason was the lower added value in services that require direct contact between the provider and the consumer. The shock also hit manufacturing and construction severely. To mitigate the negative effects of the epidemic, comprehensive packages of measures have been adopted at the national, ECB and European Commission level to mitigate the loss of economic and household incomes, provide liquidity and support the recovery of economic activity. The packages are still being supplemented with regard to the epidemic and economic situation.

With the gradual easing of restrictive measures and the improvement of health conditions, economic activity is expected to grow by around 3.9% in 2021. According to the ECB's December forecast, GDP in the euro area is expected to increase by only 3.9% in 2021 and only reach pre-crisis levels in mid-2022.

Unemployment has risen but to a relatively limited extent given the decline in economic activity. The adoption of exceptional measures to mitigate the pandemic shock for the economy has lead to a significant increase in general government deficits and public debt.

In Slovenia, the spread of the COVID-19 epidemic since mid-March 2020 and urgent health measures led to a decline in economic activity already in March and consequently recorded in the first quarter with GDP lower by 2.5%. Due to greater uncertainty and the closure of all non-essential service activities, activity in trade, transport, and tourism-related activities decreased markedly in March, leading to a drop in private consumption. The value of construction output also decreased, investment in machinery and equipment fell sharply, and production in manufacturing fell. Strict restrictive measures in EU countries significantly impacted the demand for local goods; exports and imports have declined markedly. In the second quarter, the decline in economic activity deepened, with the economy slowly starting to recover after the largest decline in April. GDP fell by 13%. The economic expectations of businesses and consumers in Slovenia slowly began to improve in May, after falling to their all-time low in April.

In August, this mood improved for the fourth month in a row, which was associated with the gradual easing of measures. In the last quarter, the domestic epidemic situation was among the worst in the euro area and required a long-lasting tightening of restrictive measures, which led to another sharp drop in economic activity. Services, in particular, were hit hard, and domestic private consumption fell sharply, whereas the situation in construction and industry improved. In its winter forecast, IMAD forecasts a 6.6% decline in GDP for 2020 and an increase of 4.3% in 2021 and 4.4% in 2022. In the summary of the situation in Slovenia, the European

[1] Institute of Macroeconomic Analysis and Development of the Republic of Slovenia (IMAD).
[2] Sources: Bank of Slovenia, Summary of macroeconomic developments, January 2021, Economic and financial developments, January 2021, Monthly report on bank performance, January 2021.
IMAD, Winter Forecast of Economic Trends 2020.

Commission emphasises that the losses on the labour market were lower than expected and that, owing to the measures, an increase in the number of bankruptcies was avoided. After deteriorating in 2020, labour market conditions are expected to improve gradually by the end of 2022.

Inflation in 2020 was, on average, much lower than in the previous year, 2019. After its growth at the beginning of the year was influenced by higher, around 2% food price growth, inflation fell significantly after the outbreak of the epidemic, mainly due to lower energy prices, which is also the main reason for low annual inflation (–1.1%). With the gradual economic recovery, inflation will be slightly higher in 2021 (1.6%) and 2022 (1.8%). This will be mainly due to higher growth in energy prices this year and also higher growth in service prices in 2022.

After the outbreak of the epidemic, the lending activity of banks in Slovenia decreased. Growth in loans to the non-banking sector remained positive, remaining at only 0.5% in November, whereas, after two consecutive monthly increases, growth in corporate loans fell to 2.2%. The decline in consumer loans contributed the most to the decline in loans to households (–7.3%), while relatively solid growth in housing loans has been maintained. Despite the epidemic, deposits of the non-banking sector remained a stable source of funds for the banking system. The share of sight deposits is increasing, accounting for 78% of all deposits in the non-banking system in November. The low dependence of the Slovenian banking system on wholesale sources of funds reduces the possibility of negative effects from international financial markets on the financing of Slovenian banks. The capital and liquidity position of the banking system remained good.

After several months of declining in the last quarter of 2020, non-performing bank exposures (NPEs) began to increase in the groups of clients most affected by the epidemic crisis. The share of non-performing exposures (NPEs) increased to 1.9% by November.

The banking system remained well capitalised. Banks increased their capital by issuing subordinated debt securities and based on last year's profits, which they retained in full. This resulted from a macroeconomic measure introduced by the Bank of Slovenia to strengthen banks' resilience to the epidemic-related economic shock and thus maintain the stability of the banking system. Its capital position is expected to deteriorate in the future due to the lower quality of the credit portfolio and the decline in bank profitability.

V.2. THE BANK’S BUSINESS OPERATING POLICY

The Deželna banka Slovenije d. d. business policy pursues objectives that bring the Bank closer to its key strategic objectives. The Bank’s priorities remain strengthening our capital base and ensuring capital adequacy of the DBS Group in compliance with the requirement of the Bank of Slovenia, preserving liquidity and stability of operations, increasing all types of revenue, and efficient risk management. With a larger volume of business, the goal is to reduce the share of non-performing exposures further and, despite unfavourable economic conditions due to the consequences of the epidemic, close the financial year 2021 with an appropriate positive result.

As a matter of priority market focus, the Bank is targeting households and young customers, especially loans to individuals and farmers. The Bank is boosting the utilisation of its business network, thereby strengthening marketing activities – customers are treated holistically, both individuals and corporates. Other financial services are also marketed, including insurance and leases of farming machines and equipment, with emphasis placed on increasing interest and all types of non-interest income. It will continue its activities to increase the number of transaction accounts, sight deposits and deposits. The Bank plans to develop banking products to service the financing of agriculture, organic food production, renewable energy sources, green economy, and increased food chain self-sufficiency. In accordance with its strategy, the Bank will pay special attention to the approval of mortgage loans, which are also used to realise substantial sales of other products. It will continue to focus on increasing the volume of payment transactions for customers and the number of household and corporate accounts, with an emphasis on fully functional accounts (use of electronic/mobile banking, payment cards and payment card-related products). The Bank will accelerate customers to e-commerce using electronic banking and mobile banking applications, as well as Flik Pay applications for individuals and Flik POS applications for traders. It will effectively manage the existing ATM network while aiming to increase the volume of transactions performed at individual

ATMs and to introduce additional services. In cooperation with a contractual insurance company, the Bank will market insurance services, particularly insofar as they are related to banking services. In rendering services, the Bank is striving for excellent responsiveness both in terms of quality and time.

The Bank will opt for developing new products that bring sufficient added value at an acceptable risk. The Bank is devoted to preserving stability and an adequate maturity of its financial resources. With respect to investments, it intends to increase the quality of its portfolio, placing a major focus on ensuring adequate collateral covers for its receivables, the safety of investments and limiting risks in lending. The Bank will effectively manage all types of risk and seek to ensure that credit exposure is adequately diversified. The Bank will continue dealing in collector and commemorative coins. Marketing activities will be performed by providing communication support to the Bank's key products. The Bank will undertake an active recovery of non-performing loans. It will attend to the efficient management and accelerated marketing of properties not required for the Bank's and Group's operations. The Bank will continue to complement and develop its information support to existing and new services and processes, which will enable operations based on modern banking information technology that is better, faster, sales efficient and more accessible to customers. It will seek to streamline work processes and departments and enhance operating efficiency across all segments of business while also rationalising expenditure. The Bank will lead a wise human resources policy and ensuring the life-long education and training of employees.

By reaching its objectives, DBS d. d. will preserve its market share in Slovenia's banking system at the year-end of 2021, and reaffirm its place among the top three banks according to branching. DBS d. d. will remain Slovenia's leading bank provider of banking and other financial services to the agro-food sector and rural areas. It will remain the leader in servicing the manufacturing sector, hi-tech industries, tourism, ecology-related disciplines, and energetics.

V.3. THE BANK'S PERFORMANCE

V.3.1. CORPORATE BANKING

Corporate lending

The main principles used in soliciting new customers are: knowing the company well, understanding its operations, understanding the risks the Bank is exposed to doing business with the company and identifying the company's needs for financing and other banking products. Based on this, the Bank cross-markets all its services in the areas of corporate banking, treasury, payment transactions and modern payment solutions.

The Bank pursued a conservative investment policy and dispersed its exposure among family-owned companies, SMEs and cooperatives operating in the manufacturing industry, high-tech industries, ecology-related industries, the energy sector, the tourism industry and the agro-food sector. Sales efforts were dispersed selectively, with the Bank allowing exposure to corporates and cooperatives with adequate credit ratings and operations that generate enough cash-flow to repay loans. Attention was devoted to acquiring sufficient collateral for loans. With customers identified as posing increased risk, action for recovery was intensified or additional collateral demanded.

The Bank's investments into loans to non-financial companies, the state and other financial companies totalled EUR 420,634 thousand at the end of 2020. This was a decrease by EUR 14,100 thousand compared to the year-end of 2019.

In 2020, the Bank's non-performing exposures continued to decrease and yet remain one of its major activities. Its non-performing exposures decreased by EUR 10.4 million, thereby reducing their share to 3.30% at the end of 2020. Reduction of non-performing exposures is a relevant factor conditioning the growth of corporate lending and thus the acceleration of the (private) investment cycle. The Bank continued to restructure its receivables from customers with an appropriate business model and market potential for further operations, and actively participated in interbank arrangements for restructuring customers exposed to several creditor banks in accordance with Slovenian restructuring principles adopted by the Association of Slovenian Banks and recommendations of the Bank of Slovenia.

Where it was estimated that repayment would be higher if seizing the collateral rather than upon renegotiation, it stepped up action for recovery.

Running accounts and electronic banking for corporate customers DBS PRONET

In 2020, the number of active corporate transactional accounts in the Bank remained at the 2019 level, with almost 94.81% of its corporate customers that have an active transactional account with the Bank using DBS PRONET at the end of the year.

Payment transactions

In 2020, the Bank followed trends in state-of-the-art developments in payment transactions and complied with legal requirements. In addition to individual credit transfers, it offers its customers SEPA mass payments, SEPA direct debit, payment cards, and the issuing and paying of e-invoices. By joining the new BIPS payment system – BIPS IKP for credit payments between bank accounts in Slovenia and BIPS IP for instant payments – the Bank will enable instant payments for legal entities within the Slovenian project of establishing a domestic scheme for instant payments.

In accordance with the Payment Services Directive (PSD2), the Bank offers a payment ordering service and an account information provisioning service within open banking and has security mechanisms in place for online payments, having introduced strong authentication to ensure the Bank's compliance with the before mentioned directive.

The Bank is integrated into modern payment systems on the basis of extensive maintenance and upgrading of its information support, thereby offering its customers high-quality services. The majority of payments transacted for its corporate customers in the past year were internal and domestic transactions via the BIKS IKP payment scheme and via TARGET2 and international and cross-border transactions via the SEPA EKP system.

With respect to international operations, the Bank offers its customers guarantees, letters of credit, and collection and maintains good business relations with other banks by adequately servicing its current account and correspondent banking network as well as by offering services to other banks.

Corporate deposits

Corporate term deposits, including deposits by foreign entities, deposits by the state, and deposits with characteristics of subordinated debt, amounted to EUR 48,568 thousand as at 31 December 2020, down 15% compared to the previous year. The Bank adjusted its activity aimed at collecting corporate deposits to the liquidity situation, thereby monitoring market conditions and investment opportunities. Corporate sight deposits, including deposits by the state, and deposits by foreign entities amounted to EUR 76,732 thousand as at 31 December 2020, up 21% compared to the previous year. In 2020, the Bank also charged a fee for higher balances of sight deposits.

V.3.2. RETAIL BANKING AND BUSINESS NETWORK

The Bank's operations in the field of retail banking in 2020 were strongly affected by the coronavirus pandemic and the consequent uncertain economic situation, which limited the economic activity of households – individuals, farmers and sole proprietors.

Collected funds

The balance of collected funds from households, including foreign entities and non-profit institutions serving households, and deposits with characteristics of subordinated debt, amounted to EUR 841,669 thousand at the end of 2020. This was up EUR 66,814 thousand, or 9%, compared to the end of 2019. Funds collected from households total EUR 785,051 thousand. An increase in collected assets was reported despite the fact that interest rates are still at very low levels.

The Bank managed to keep sight deposits stable and retain a satisfactory volume of long-term deposits.

Lending

The balance of loans and advances to retail customers amounted to EUR 340,855 thousand at the end of 2020, an increase by EUR 28,440 thousand, or 9%, compared to the year-end of 2019.

Despite difficult conditions due to the pandemic, increased competition and restrictions introduced by the Bank of Slovenia, the Bank managed to achieve growth and preserve the quality of its credit portfolio in lending business for the segment of households. Safety and limitation or risks were again at the forefront in 2020. Expedient and intensified daily debtor treatment have helped the Bank keep the volume of overdue receivables from its retail customers at a manageable level.

Transaction accounts

In 2020, the Bank continued active opening of transaction accounts, which is closely related to the cross-marketing of products. The Bank offers its products in packages that enable customers to expand their cooperation with the Bank to several areas and banking services. In an effort to increase the number of transaction accounts, the Bank continued marketing special offers, such as: Sowing Package, Harvest Package, Secondary On-farm Activity Package, Transferee of a Farm Package, and Package for private entrepreneurs, associations and other legal persons governed by private law. The Bank's primary focus is with customers that ask for full-functionality accounts.

In 2020, the Bank was regularly closing inactive transaction accounts.

Administering payment transactions in the business network

Compared to the previous year, the total number of processed payment orders decreased slightly as part of branches was closed at the time of the pandemic, whereas the contribution of electronic banking was on the rise, which is in line with the Bank's strategy. The share of payment orders processed via E-banking has increased and now represents 64.9%. In 2020, the amount of fees collected by the Bank decreased compared to 2019. The market is still witnessing public cash registers and non-banking providers of payment transactions, which offer payment services at low prices. Some of them have accounts at and conduct payment transactions via the Bank.

In the area of payment transactions, in addition to individual credit transfers, the customers are also offered SEPA direct debit, payment cards, and the paying of e-invoices. As the Bank has joined the BIPS IP payment system, customers can receive instant payments using the Flik Pay application within the established domestic scheme for instant payments.

Numismatics

The Bank continues to sell numismatic – collector and commemorative – coins, numismatics representing an important contribution to maintaining the Bank's visibility in its environment. There were two issues of collector and commemorative coins in 2020: the EUR 2 commemorative coin to celebrate the 500th anniversary of Adam Bohorič's birth, and collector coins to mark the 30th anniversary of the Plebiscite on the Sovereignty and Independence of the Republic of Slovenia.

Electronic banking for individuals – DBS NET

In 2020, the Bank further increased both the number of transactional accounts with the E-banking functionality, and the number of E-bank users. This is the result of a larger number of younger customers, and the Bank actively redirecting existing customers to process payment transactions via the E-bank or mobile bank.

Insurance brokerage

On the basis of the invitation to business cooperation in the field of distribution of insurance products published in 2019, the Bank signed a contract with Zavarovalnica Sava d. d. in 2020. At the same time, it began optimising operations in this area and expanded its range of marketed insurance products.

The Bank's ATM network

In 2020, the Bank optimized its ATM network, which at the end of 2020 included 20 ATMs. It replaced all ATMs with more modern ones with more functionalities. Due to pandemic prevention measures, some ATMs did not operate all the time.

Payment cards

With the active marketing of a wide range of services related to transaction accounts, the trend of growth in the volume of credit card services continued. Both the number of issued Activa Maestro debit cards and Activa Mastercard credit cards were up. We still witnessed considerable interest in the pre-pay bank card in 2020.

Marketing UPN forms via outsourcers

In 2020, the Bank outsourced the marketing of standard payment order forms (so-called UPN forms) to seven providers. Due to the small volume of processed orders, the contract with one contractor was terminated.

V.3.3. OPERATIONS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Operations with domestic and foreign banks in 2020 comprised deposits placed and conversions. A proportion of these operations included transactions with which the Bank managed net open foreign exchange positions.

In 2020, the Bank did not borrow funds in the interbank market. As to investments, exposure to the banking sector was low.

V.3.4. SECURITIES TRANSACTIONS

Debt and equity securities

The Bank's portfolio of debt securities as at 31 December 2020 was worth EUR 149,112 thousand. In line with its adopted strategy, the Bank partly replaced matured and sold debt securities with new ones, focusing mainly on top-rated securities that meet the criteria for eligible underlying assets of the Eurosystem.

To a lesser extent, the Bank has equity securities in the trading portfolio in the total value of EUR 64 thousand.

In purchasing new debt securities, decisions were based on the Bank's needs, which depended on the maturity periods of its liabilities, the liquidity coverage ratio (LCR), the liquidity ratio, the capital adequacy ratio, safety, and return on investment. The Bank's investment policy was highly conservative in general.

Equity investments

The total value of equity investments as at 31 December 2020 amounted to EUR 7,285 thousand, of which investments in subsidiaries represented a 58% share, investment in the Bank Resolution Fund a 37% share, and other investments a 5% share. In March 2020, the Bank sold its subsidiary Semenarna Ljubljana, d. o. o.

V.3.5. PROPERTY MANAGEMENT

In 2020, the Bank increased the volume of its property portfolio by EUR 4,208 thousand or 24%. This was significantly affected by the resolution of a major long-standing problematic investment by exchanging receivables for property, while despite the difficult situation due to the declaration of the COVID-19 epidemic, the sale of the remaining property was successful, as the Bank sold most of it at a profit.

V.4. FINANCIAL RESULTS AND FINANCIAL POSITION

V.4.1. FINANCIAL RESULTS

DEŽELNA BANKA SLOVENIJE GROUP

Profit for the year from ordinary or discontinued operations amounted to EUR 3,318 thousand (2019: EUR 1,256 thousand). In 2020, the Group reported EUR 3,734 thousand of profit from ordinary operations before tax, which is a 13% or EUR 580 thousand decrease year-on-year (2019: EUR 4,314 thousand). After tax, net profit from ordinary operations amounted to EUR 2,594 thousand (2019: EUR 4,117 thousand). Net profit from discontinued operations amounted to EUR 724 thousand after tax and included the effects of the consolidation of Semenarna's profit or loss for the period of its integration into the Group (2019: EUR 2,861 thousand net loss). The lower result of the Group was mainly due to the loss from non-current assets held for sale resulting from the elimination of Semenarna from the Group upon the sale in March 2020. The subsidiaries DBS Leasing and DBS Nepremičnine improved its performance slightly and recorded a profit, while DBS Adria recorded a smaller loss.

Group net interest income amounted to EUR 16,552 thousand, a decrease by EUR 722 thousand year-on-year. The majority of interest income results from the Bank's operations, including loans, borrowings, deposits and securities. The consolidation of subsidiaries into Group statements has increased financing income and net interest income by EUR 350 thousand.

Net gains on the derecognition of financial assets and liabilities not measured at fair value through profit or loss included EUR 247 thousand of net gains on financial assets carried at amortised cost (2019: EUR 923 thousand).

Net fee and commission income amounted to EUR 8,079 thousand, down EUR 110 thousand from a year earlier. The majority of net fee and commission income refer to the operations of the Bank, and are attributable mainly to fee and commission income on payment transactions and the administrative services provided.

Net gains on the derecognition of non-financial assets totalled EUR 447 thousand (2019: EUR 673 thousand). Most of the net gains from sales relate to profits from selling the Bank's properties.

Net income from impairment of financial assets carried at amortised cost and of non-financial assets amounted to EUR 39 thousand. Reversal of impairment on loans and debt securities amounted to EUR 80 thousand net income, down EUR 2,606 thousand compared to the previous year. The impairment charge against investment property contributed EUR 41 thousand of net expenses, Net provision expenses totalled EUR 292 thousand, an increase by EUR 232 thousand compared to 2019.

DEŽELNA BANKA SLOVENIJE d. d.

The Bank recorded a positive result in 2020, achieving profit before tax of EUR 6,190 thousand (2019: EUR 919 thousand) and profit after tax of EUR 5,052 thousand (2019: EUR 726 thousand).

The after-tax comprehensive income is EUR 5,062 thousand (2019: EUR 603 thousand). Operating profit before impairments and provisions, and before tax, was EUR 6,050 thousand (2019: EUR 7,633 thousand).

The result in 2020 was influenced by impairments and provisions, which were lower than in the preceding year and amounted to net income of EUR 140 thousand. Net expenses from impairments of capital investments in subsidiaries, impairments of loans and impairments of investment property were lower, while net income from cancelled provisions was higher.

Net interest income in 2020 amounted to EUR 16,202 thousand, a decrease by EUR 827 thousand year-on-year (2019: EUR 17,029 thousand). Interest income was lower by EUR 1,502 thousand, mostly due to lower interest received on corporate loans and loans to the state, while interest income from loans to households was higher. Interest expense was down EUR 675 thousand year-on-year, attributable to lower interest on household deposits.

Net fee and commission income totalled EUR 8,104 thousand, down EUR 112 thousand year-on-year (2019: EUR 8,216 thousand). Fee and commission income decreased by EUR 159 thousand, mainly on account of lower revenues from domestic and international payment transactions, while fee and commission income from administrative services was higher. Fee and commission expense was down EUR 47 thousand year-on-year.

Net income from reversed impairments amounted to EUR 302 thousand, while impairments were lower by EUR 6,980 thousand compared to the previous year (2019: EUR 6,678 thousand of net expenses). Compared to the previous year, the highest drops in 2020 were recorded with impairments of loans, by EUR 3,158 thousand, and equity investments in subsidiaries, by EUR 3,288 thousand. Most net income in 2020 came from the reversal of impairments on loans and debt securities, in the amount of EUR 329 thousand, and from equity investments in subsidiaries, in the amount of EUR 23 thousand. The impairment charge against investment property contributed EUR 50 thousand of net expenses. There were EUR 162 thousand of net expenses for provisions formed in 2020 (2019: EUR 36 thousand of net expenses). Reversed provisions for potential off-balance sheet liabilities totalled EUR 404 thousand of net income, and other provisions amounted to EUR 566 thousand of expenses.

Other net operating gains totalled EUR 902 thousand (2019: EUR 696 thousand). Gains included EUR 487 thousand of lease income.

The Bank's operating expenses in 2020 amounted to EUR 20,006 thousand (2019: EUR 20,071 thousand). Employee benefits cost totalled EUR 11,803 thousand, up EUR 600 thousand from 2019. Overhead and administrative expenses amounted to EUR 5,629 thousand and were EUR 581 thousand lower than in 2019, mainly due to lower costs of maintaining operating fixed assets and audit services. Costs for payments into the bank resolution fund and the deposit guarantee scheme amounted to EUR 1,287 thousand and were EUR 37 thousand lower than in 2019. Amortisation and depreciation expenses amounted to EUR 1,287 thousand, down EUR 47 thousand compared to 2019.

V.4.2. FINANCIAL POSITION

DEŽELNA BANKA SLOVENIJE GROUP

The Group's total assets amounted to EUR 1,045,380 thousand at the end of 2020, up EUR 3,000 thousand since the beginning of the year. The total assets of subsidiaries amounted to EUR 16,778 thousand, and represent 1.6% of the Group's total assets (31 Dec 2019: 4%). After the elimination of inter-company relationships, the Group's total assets exceeded the Bank's total assets by EUR 248 thousand, i.e. 0.02%.

Loans and other financial assets[3] of the Group amounted to EUR 766,346 thousand at the end of December, up EUR 7,940 thousand. Loans and advances to banks decreased to EUR 206 thousand, while loans and advances to customers (including the state) were up EUR 15,445 thousand to EUR 764,019 thousand.

The carrying amount of tangible assets totalled EUR 33,619 thousand as at 31 December 2020. Investments in the capital of three subsidiaries were deduced from equity investments in the consolidation process in the total amount of EUR 4,238 thousand.

[3] Together with loans at fair value through profit or loss, not held for trading.

Financial liabilities measured at amortised cost (including deposits, loans, subordinated liabilities and other financial liabilities) totalled EUR 973,728 thousand at the end of December. Deposits and borrowings from banks and the central bank were down EUR 49,354 thousand year-on-year, to EUR 2,483 thousand, and deposits from customers, including deposits from the state increased by EUR 72,006 thousand to EUR 966,730 thousand.

DEŽELNA BANKA SLOVENIJE d. d.

The Bank's total assets amounted to EUR 1,045,132 thousand at the end of December 2020. This is an increase by EUR 27,194 thousand year-on-year, attributable mainly to higher deposits by households.

Corporate deposits, including state deposits, were up by EUR 5,168 thousand by the end of December, which was due to an increase in corporate deposits by EUR 8,088 thousand, while deposits by the state decreased by EUR 2,920 thousand. Under investments, loans and advances in this segment were down EUR 14,100 thousand.

Household deposits increased by EUR 66,814 thousand in 2019, with loans and advances to households up EUR 28,440 thousand.

Under borrowings from banks and the central bank, the balance decreased by EUR 49,354 thousand by the end of December due to a loan repaid early to the central bank in the amount of EUR 49,440 thousand. As to investments, balances with the central bank decreased, and totalled together with the minimum reserve EUR 72,883 thousand at the end of December.

Equity investments in subsidiaries totalled EUR 4,238 thousand at the end of 2020, down EUR 783 thousand from the beginning of the year. The biggest change was due to the sale of the Semenarna company, which reduced capital investments by EUR 806 thousand. The equity investment in DBS Leasing increased by EUR 18 thousand due to reversal of impairment, totalling EUR 2,699 thousand at the end of 2020. After the reversal impairment charge, the equity investment in DBS Nepremičnine increased by EUR 5 thousand and totalled EUR 1,539 thousand at the end of the year. As there were no changes in the equity investment in DBS Adria in 2020, it amounted to EUR 0 thousand at the end of the year.

In 2020, the Bank increased the volume of its investment property by EUR 4,519 thousand or 26%. At the year-end of 2020, the total value of property amounted to EUR 21,759 thousand.

V.5. SHAREHOLDERS' EQUITY

The Group's equity as at 31 December 2020 amounted to EUR 68,166 thousand, up EUR 3,362 thousand year-on-year.

The Bank's equity as at 31 December 2020 amounted to EUR 67,903 thousand, up EUR 5,009 thousand year-on-year. The equity increased by EUR 5,052 thousand under the current operating result, by EUR 15 thousand due to a decrease in the loss on accumulated other comprehensive income from actuarial losses for provisions for employees and by EUR 5 thousand due to an increase in loss under changes in the fair value of investments in equity instruments measured at fair value through other comprehensive income, and decreased by EUR 46 thousand, of which EUR 53 thousand from the use of actuarial losses for employees and EUR 7 thousand from the transfer of losses from capital investments to other reserves.

The audited share book value as at 31 December 2020 was EUR 16.046302. It is calculated as follows: share capital less treasury shares, divided by the number of shares recorded in the central securities register of the Slovene Central Securities Clearing Corporation (KDD) less treasury shares.

The Bank's 10 largest shareholders as entered in the KDD central securities register as at 31 December 2020:

Shareholder	Number of shares	Stake in %, considering all shares in KDD
KD Group d. d.	1,006,254	23.635
Kapitalska zadruga, z. b. o.	894,158	21.002
Skupina Prva d. d.	422,557	9.925
Kritni sklad PRVA+ ZAJAMČENI	422,557	9.925
Banca Popolare di Cividale S.C.p.A.	228,289	5.362
ČZD Kmečki glas, d. o. o.	200,000	4.698
Zadružna zveza Slovenije, z. o. o.	171,848	4.036
Raiffeisen Bank International AG (RBI) - fiduciarni račun	106,118	2.493
Kritni sklad PRVA IN PRVA+ DINAMIČNI	95,304	2.239
Generali zavarovalnica d. d., Sklad neživljenjskih zavarovanj	88,050	2.068
Total	**3,635,135**	**85.382**

The Bank's share capital amounts to EUR 17,811,083.54 and is divided into 4,268,248 ordinary no par value shares of the same class. The KDD central registry has on record 4,257,483 no par value shares. The difference of 10,765 shares is due to the fact that certain shareholders have not yet changed their paper stock into dematerialised securities. As at 31 December 2020 the Bank held 25,801 repurchased treasury shares, which is 0.61% of all issued shares.

VI. CORPORATE GOVERNANCE STATEMENT OF DEŽELNA BANKA SLOVENIJE d. d. FOR THE YEAR ENDED 31 DECEMBER 2020

Pursuing a high level of transparency in corporate governance, Deželna banka Slovenije d. d., as the controlling company in the Deželna banka Slovenije Group, is hereby making a corporate governance statement pursuant to the provision of Article 70 (5) of the Companies Act.

VI.1. STATEMENT OF INTERNAL GOVERNANCE ARRANGEMENTS

Based on Article 70 (5) of the Companies Act, Deželna banka Slovenije d. d. is hereby, as part of the Business Report inside its Annual Report, making the following Statement of internal governance arrangements.

Deželna banka Slovenije d. d. pursues an internal governance arrangement, including corporate governance, pursuant to the legislation valid in the Republic of Slovenia, while also abiding by its internal acts.

Deželna banka Slovenije d. d. thereby fully complies with the acts listed in Article 9 (2) of the Banking Act[4].

With a view to strengthening our internal governance arrangements we abide by the following, in particular, in conducting our operations:
1) the provisions of the valid Banking Act on internal governance arrangements, especially the provisions of Chapters 3.4 (Governance System of a Bank) and 6 (Internal Governance Arrangements and Internal Capital Adequacy) referring to banks and 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 Banks,[5] and
3) EBA guidelines on internal governance, the assessment of the suitability of members of the management body and key function holders, and remuneration policies and practices, all on the basis of the relevant Bank of Slovenia resolutions on the application of these guidelines[6].

The Bank has adopted a Management Policy, which defines the basic areas of corporate governance; a summary of the document is publicly disclosed and published on the company's website. The Bank has not committed to apply any of the public codes and has adopted a Code of Conduct, published on its website, the provisions of which it fully complies with in its work.

By signing this declaration we also undertake to continue acting pro-actively towards strengthening and promoting an adequate internal governance arrangement and corporate integrity in the professional public, financial and economic sector, and the general public.

VI.2. OUTLINE OF MAIN CHARACTERISTICS OF INTERNAL CONTROLS AND RISK MANAGEMENT RELATED TO FINANCIAL REPORTING

Deželna banka Slovenije d. d. has an efficient system of internal controls and risk management functioning at all levels of its organisation structure, including at the level of commercial, control and support functions and at the level of each financial service. To this end, the Bank strives to pursue a sturdy and reliable governance system which entails:
- a clear organisation structure with precisely defined, transparent and consistent internal relationships as to responsibility,

[4] Banking Act (ZBan-2), Official Gazette RS 25/15, with amendments.
[5] Bank of Slovenia Regulation on Internal Governance Arrangements, the Management Body and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks, Official Gazette of the RS No 73/15, with amendments.
[6] https://www.bsi.si/financna-stabilnost/predpisi/seznam-predpisov/razkritja-revizija-in-poslovne-knjige

- efficient processes for detecting, measuring and assessing, controlling and monitoring risk, including restoration plans and reporting on the risks that the Bank is or could be exposed to in its operations,
- adequate internal control system that includes the relevant administrative and accounting procedures (work procedures to ensure and preserve timely, comprehensive and reliable data, reporting, limits restricting exposure to risk, and physical and automatic controls),
- adequate remuneration policy and practice consistent with prudent and effective risk management, as promoted by the Bank.

The Bank's objective is to ensure that its business objectives, strategies and policies are adequately balanced with its Risk-taking and Risk Management Strategy and with its policies of risk-taking and risk management for different types of risks that the Bank is or could be exposed to in its operations.

To obtain an independent and objective assessment of the efficiency and compliance with internal controls, the Bank has set up internal control functions (risk management, operations compliance, information security management, and internal audit activity).

Risk management in relation to the financial reporting process includes processes for ensuring the authenticity, accuracy, integrity and completeness of accounting information, and processes for ensuring that financial disclosures are timely and fair in both internal and external reports. In accounting procedures, internal controls are based on an adequate delimitation of powers and responsibilities.

Books of account, business documentation and other administrative records are kept in a manner so as to reveal systematically and at any time whether the Bank's operations comply with risk management regulations.

The Bank has set up an efficient system of risk management also in relation to the prevention of money laundering and terrorist financing, which includes the function of the prevention of money laundering and terrorist financing.

Compliance of our internal control system and risk management with banking rules is inspected annually by external auditors that examine the Bank's annual report.

VI.3. OPERATIONS AND KEY COMPETENCES OF THE GENERAL MEETING, AND A DESCRIPTION OF SHAREHOLDERS' RIGHTS AND HOW THEY CAN BE EXERCISED

The General Meeting (GM) is composed of the Bank's shareholders. It is convened by the Management Board at least once a year and additionally when this is urgent for the Bank's best interest. It may also be convened by the Supervisory Board, especially when the Management Board had not done so in due time or when this is necessary to ensure the Bank's smooth operations. It may also be convened upon demand of the shareholders whose aggregated shares amount to one twentieth of equity.

Pursuant to the Deželna banka Slovenije d. d. Statutes, the General Meeting adopts decisions on the appropriation of distributable profit as proposed by the Management Board and Supervisory Board; endorsing the annual report in case it was not approved by the Supervisory Board or if the Management Board and Supervisory Board leave this decision to the GM; the Internal Audit Department annual report and the related Supervisory Board opinion; discharging the Management Board and Supervisory Board from liability; nominating and recalling Supervisory Board members; capital increases and decreases, except in cases when the Statutes stipulate the decision to be in the competence of the Management Board; adopting amendments and supplements to the Statutes (the GM adopts amendments and supplements to the Statutes by a three-quarters majority of the votes cast); the dissolution of the Bank and changes of its status; appointing auditors; the General Meeting Rules of Procedure, and other matters as provided for by the Statutes and the law. The GM adopts decisions on issues related to managing the Bank's business if so requested by the Management Board after the Supervisory Board had refused its consent.

The GM adopts decisions with a majority of the votes cast, except in cases where the law or the Statutes stipulate a three-quarters majority of the votes cast.

Shareholders who hold ordinary shares registered in the central register of dematerialised securities at the end of the fourth day prior to the General Meeting and who have confirmed their attendance in writing not later than at the end of the fourth day prior to the General Meeting may attend the General Meeting and cast their votes. They may exercise their rights at the General Meeting in person or through their agent or authorised representative.

Pursuant to the Statues and the law, shareholders may propose that additional items be added to the GM agenda or file counterproposals to individual items of the agenda.

The Deželna banka Slovenije d. d. dividend policy is based on the main objectives defined in strategic plans, statutory provisions and recommendations of the Bank of Slovenia and European Central Bank. The recommendations stipulate that the Bank form a conservative dividend policy based on which to be able to comply with minimum capital requirements. The Bank's management and owners are aware at all times that capital adequacy, the related statutory provisions and growth of the volume of business are crucial for the Bank's long-term viability and continual increase of the value of assets invested in its operations.

Deželna banka Slovenije d. d. has devised a dividend payment policy for the period 2020-2024. In the said business period, it will strive for the following:

- regular payment of the dividend if:
  - the bank's capital adequacy is not jeopardized,
  - the payment does not violate the regulator's recommendations or requirements;
- subject to the conditions set out in the preceding indent, after each audited annual report and following a decision of the GM, the Bank will pay the dividend, as a rule, amounting to not more than 25 percent of net profits.

VI.4. COMPOSITION AND OPERATIONS OF MANAGEMENT AND SUPERVISORY BODIES AND THEIR COMMITTEES

Deželna banka Slovenije d. d. operates under a two-tier system of governance. The Bank is run by the Management Board, and their work is overseen by the Supervisory Board. The Bank's internal governance and organisational structure are implemented pursuant to the Slovenian and European legislation in force, internal acts, and best practice standards in corporate governance.

Management Board of the Bank

In 2020, the Bank Management Board was composed of:

- Marko Rozman, President
- Barbara Cerovšek Zupančič MSc, member.

The Management Board runs and manages the Bank autonomously and at its own responsibility, which they have to perform with due professional care and thus ensure for the Bank to operate in compliance with the requirements of the Banking Act as well as with highest ethical and professional standards of governance, while also being attentive to prevent potential conflicts of interest. Pursuant to the Slovene Banking Act, the two members of the Management Board represent the Bank jointly.

The members and president of the Management Board are appointed and discharged by the Supervisory Board. They are appointed for a maximum five-year renewable term. The Management Board has two members, who hold weekly meetings. The function of member of the Bank's Management Board may only be performed by a person who has obtained the requisite licence. The Supervisory Board must make a decision regarding the appointment of an individual as member of the Bank's Management Board – and obtain, to that end, the Nomination Committee's estimate on the suitability of this person to act as member of the Management Board – prior to this person filing for the licence for acting as member of the board.

The Management Board is fully responsible for the Bank's operations and its risk management, including for approving the Bank's strategic goals and overseeing their implementation, for defining, adopting and regularly revising the strategy of risk-taking and risk management, for internal governance arrangements, for ensuring the integrity of accounting and financial reporting systems, and for overseeing information disclosure procedures and reporting to the competent authorities. The Management Board is also responsible for providing efficient supervision of senior management.

Activity of the Management Board is governed by the General Meeting Rules of Procedure. The Management Board may transfer certain rights. Important roles are also assigned to different boards and committees which make decisions in line with their respective powers and competences: Credit Board, Asset Liability Management Board, Non-performing Loans Board, Liquidity Committee, Property Board, Investment Board, Operational Risk Board, Information Security Board, Safety Board and Crisis Team.

Members of the Supervisory Board are elected by the Bank's General Meeting at the recommendation of the Supervisory Board, with a simple majority of the votes cast, for a four-year re-electable term. The GM recalls members of the Supervisory Board with a three-quarter majority of the votes cast.

Supervisory Board

From 1 January 2020 to 30 June 2020, the Supervisory Board was composed of:
- Peter Vrisk, Chair (until 27 January 2020)
- Ivan Lenart, Vice-Chair, Chair from 27 January 2020,
- Nikolaj Maver, member,
- Tomaž Petrovič, member,
- Jure Kvaternik, member, from 27 January 2020 Vice-Chair,
- Iris Dežman, member.

From 1 July 2020, the Supervisory Board was composed of:
- Ivan Lenart, Chair,
- Boštjan Škufca Zaveršek, Vice-Chair,
- Nikolaj Maver, member,
- Gregor Sluga, member,
- Jure Kvaternik, member,
- Iris Dežman, member.

The Supervisory Board supervises how the Bank's business is being run, in particular how its strategic goals are implemented. It designs, adopts and regularly revises the strategies of risk-taking and risk management, and contributes to setting up and coming to life of a stable internal governance arrangement in the Bank, thereby taking into account the policies and measures aimed at preventing the occurrence of conflicts of interest.

The Supervisory Board makes decisions on nominating and recalling members of the Management Board, and approval of contracts between members of the Supervisory Board and the Bank, adopts the Remuneration Policy and oversees its implementation, proposes to the General Meeting members of the Supervisory Board for election and auditors for appointment, verifies the annual report and proposal for the distribution of the distributable profit and submits to the General Meeting a related written report, confirms the annual report and verifies financial and other reports composed by the Management Board and gives opinion on any such report. The Supervisory Board gives its consent to the Bank regarding the matters laid down in law or statutes.

Supervisory Board committees

The Supervisory Board appoints committees acting as its advisory bodies. They have three or, exceptionally, four members each, who are also members of the Supervisory Board and who act in line with the relevant Rules of Procedure.

The Audit Committee provides the Supervisory Board with expertise related to operations compliance, internal audit and the system of internal controls, and it offers professional support in assessing the composition of annual reports. It monitors the financial reporting process and oversees the accuracy of financial information, helps determine areas of audit and undertakes other related tasks. In 2020, the Committee met in four regular meetings and had one meeting by correspondence.

Until 26 February 2020, the Committee was composed of:
- Jure Kvaternik, President,
- Peter Vrisk, member (until 27 January 2020),
- Iris Dežman, member.

From 26 February 2020 to 30 June 2020, the Committee was composed of:
- Jure Kvaternik, President,
- Iris Dežman, member
- Ivan Lenart, member.

Since 28 July 2020, the Committee has been composed of:
- Iris Dežman, President,
- Jure Kvaternik, member,
- Nikolaj Maver, member.

The Risk Committee attends to efficient and prudent risk management at all levels of the Bank's operations, monitors the efficiency of risk management systems, and advises the Supervisory Board on what are current and future acceptable risks for the Bank. In 2020, the Committee met at four meetings.

Until 30 June 2020, the Committee was composed of:
- Nikolaj Maver, President,
- Ivan Lenart, member,
- Iris Dežman, member.

Since 28 July 2020, the Committee has been composed of:
- Boštjan Škufca Zaveršek, President,
- Ivan Lenart, member,
- Gregor Sluga, member.

The Nomination Committee is the Supervisory Board's expert working body charged with appointing members of the management body, determining the tasks and conditions to be met in order to win an appointment, assessing the suitability of individual members and the management body as a whole, and with different advisory HR tasks and other related assignments. In 2020, the Committee met at three meetings.

Until 27 January 2020, the Committee was composed of:
- Ivan Lenart, President,
- Peter Vrisk, member,
- Tomaž Petrovič, member.

Until 27 January 2020, the Committee had no meetings in 2020. As at 27 January 2020, the powers of this Committee were transferred to the Supervisory Board.

Since 28 July 2020, the Committee has been composed of:
- Gregor Sluga, President,
- Boštjan Škufca Zaveršek, member,
- Nikolaj Maver, member.

Number of directorships held by members of the Management Board and Supervisory Board in other companies and organisations

	Number of directorships in other companies and organisations pursuant to Article 435 (2) (a) of the CRR Regulation	Number of directorships in other companies and organisations pursuant to Article 36 of the ZBan-2
Management Board		
Marko Rozman	0	0
Barbara Cerovšek Zupančič	1	1
Supervisory Board		
Ivan Lenart	1	1
Nikolaj Maver	3	3
Iris Dežman	1	1
Jure Kvaternik	2	2
Boštjan Škufca Zaveršek (since 1 July 2020)	6	4
Gregor Sluga (since 1 July 2020)	2	1
Peter Vrisk (until 27 January 2020)	3	1
Tomaž Petrovič (until 30 June 2020)	2	2

VI.5. DESCRIPTION OF THE DIVERSITY POLICY

In accordance with the Policy for the Selection of Members of the Management Body, the complementarity and diversity of competencies of individual members of the management body should be achieved. Diversity in the body's composition is reflected in its members' diverse professional experience and know-how, age, education, expertise and personal characteristics. The later includes gender balance in the management body, which is achieved by increasing the number of members of under-represented gender. The Nomination Committee sets the target representation of the under-represented sex and the guidelines for achieving this target.

VI.6. INFORMATION UNDER ARTICLE 70 (6) OF THE COMPANIES ACT

Major direct and indirect shareholdings

As at 31 December 2020, the Bank had five shareholders with qualified stakes as outlined in the Takeovers Act (of over 5%), as follows:

1. KD Group d. d.	1,006,254 shares (23.635%)
2. Kapitalska zadruga, z. b. o., Ljubljana	894,158 shares (21.002%)
3. Prva osebna zavarovalnica, d. d.*	644,506 shares (15.138%)
4. Skupina Prva d. d.	422,557 shares (9.925%)
5. Banca Popolare di Cividale S.C.p.A.	228,289 shares (5.362%)

* The insurer Prva osebna zavarovalnica, d. d., holds shares in its own name and for the account of pension guarantee funds it manages, as follows:

• KRITNI SKLAD PRVA+ ZAJAMČENI	422,557 shares (9.925%)
• KRITNI SKLAD PRVA IN PRVA+ DINAMIČNI	95,304 shares (2.239%)
• KRITNI SKLAD PRVA IN PRVA+ URAVNOTEŽENI	80,884 shares (1.900%)
• KRITNI SKLAD PRVA ZAJAMČENI	45,761 shares (1.074%)

As at 31 December 2020, the Bank had two shareholders on stakes above 5%:

1. Alenka Žnidaršič Kranjc	1,068,660 shares (25.101%)
2. Zadružna zveza Slovenije, z. o. o.	371,848 shares (8.734%)

Special control rights

All Bank's issued shares are of the same class and carry the same rights. None of the shareholders have special control rights.

Restrictions related to voting rights

Pursuant to Article 8 of the Bank's Statutes, the shares of Deželna banka Slovenije have limited transferability. Any person acquiring shares needs a prior approval from the Bank's Management Board if their purchase is resulting in a holding of up to 5% and the prior approval of the Supervisory Board if their purchase is resulting in a holding of over 5%. Details on how and when voting rights can be exercised, are given in Chapter VI.3. Operations and key competences of the General Meeting, and description of shareholders' rights and how they can be exercised, p. 26.

The Bank's rules on appointments and replacements of members of management and supervisory bodies, and on amendments of the Statutes

Rules on appointments and replacements of members of management and supervisory bodies are given in Chapter VI.4. Composition and operations of the management and supervisory bodies and their committees, p. 27.

Rules on amendments of the Statutes are outlined in Chapter VI.3. Operations and key competences of the General Meeting, and description of shareholders' rights and how they can be exercised, p. 26.

Employee Share Scheme

The Bank has no employee share scheme.

Restrictions related to voting rights

There are currently no restrictions on voting rights.

Agreements among shareholders known to the Company that may result in limitation of share transfer or voting rights

The company has not been informed of any such agreements.

Rules on appointments and replacements of members of management and supervisory bodies, and on amendments of the Statutes

The President of the Management Board is appointed by the Supervisory Board, for a renewable term of up to five years. Members of the Management Board are appointed by the Supervisory Board at the preliminary proposal of the President of the Management Board, for a renewable term of up to five years. The Supervisory Board may recall a member of the Management Board or cancel the appointment of the President in case the relevant person has seriously breeched their obligations or are unable to manage the Bank, as well as for statutory reasons. Members of the Supervisory Board are elected by the Bank's General Meeting at the recommendation of the Supervisory Board, for a four-year re-electable term. A simple majority of votes is sufficient for election. The General Meeting may recall any member of the Supervisory Board by a three-quarters majority of the votes cast if the relevant person has lost the trust of shareholders, if they no longer meet the legal requirements or have disclosed a trade secret.

Amendments to the Articles of Association are adopted by the General Meeting by a three-quarters majority of votes.

Authorisation of members of the management regarding issue or purchase of treasury shares

Members of the management are not authorised to issue or purchase the company's treasury shares. A member of the Management Board may purchase shares in the company in their own name and for their own account with the prior consent of the Supervisory Board.

Agreements under item 10 of Article 70 (6) of the Companies Act (ZGD-1)

In rare cases, the counterparty has the right to withdraw from the contract concluded with the Bank under certain conditions in the event of a qualified change of ownership in the Bank.

Agreements under item 11 of Article 70 (6) of the Companies Act (ZGD-1)

Members of the Management Board are entitled to severance pay in the event of termination of the employment contract due to dismissal for business and economic reasons. Members of the Bank's senior management are entitled to severance pay under individual employment contracts in the event that they are dismissed due to status changes.

Ljubljana, 22 April 2021

Management Board of the Bank:

Marko Rozman
President of the Management Board

Barbara Cerovšek Zupančič MSc
Member of the Management Board

DEŽELNA BANKA SLOVENIJE d.d.
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Supervisory Board:

Ivan Lenart
Chair of the Supervisory Board

VII. NON-FINANCIAL STATEMENT OF THE DEŽELNA BANKA SLOVENIJE GROUP FOR THE YEAR ENDED 31 DECEMBER 2020

The non-financial statement of the Deželna banka Slovenije Group has been devised pursuant to the requirements of the Companies Act (ZGD-1) and Directive 2014/95/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups.

VII.1. INTRODUCTION

Deželna banka Slovenije d. d. has always been the financial pillar supporting the Slovene agriculture sector and rural areas. Its operations and development have primarily been directed to supporting farmers, the agricultural activity, cooperatives, SMEs, associations, members of cooperatives and agro-food companies. Having diverse ownership, the Bank exploits mutual advantages and strives towards economic, social and cultural development of local communities. The Bank has a major impact on the preservation of natural and cultural heritage. The success of our Group is mainly influenced by customers, employees and other stakeholders.

VII.2. BUSINESS MODEL

The Deželna banka Slovenije Group (Group) consists of the Bank and three subsidiaries: leasing company DBS Leasing d. o. o., real-estate company DBS Nepremičnine d. o. o., and the Croatia-based real estate company DBS Adria d. o. o. In the implementation of strategic orientation and sustainable development targets, the Group acts as one.

The Group is consistent in respecting the fundamental principles and values, which include:
- ethical, responsible, professional and fair business conduct,
- fair and equal treatment of employees,
- responsible environmental management,
- close links with local communities, and social responsibility,
- respect for fundamental human rights,
- accessibility in meeting the needs of customers, buyers, owners and the wider environment.

The basic principles and values are defined in more detail in the Code of Conduct, which is publicly available on the Bank's website.

The Bank is a universal all-Slovenian bank. With its widespread network of branches, it operates across Slovenia, providing a wide range of banking and financial services. Its subsidiaries are active in the leasing of moveable property, including farming machines and equipment, trading and management of immovable properties.

The current model has proven successful in terms of business performance, with the Bank constantly supplementing its services to the, primarily, rural client, and thus offering a complete solution. Thus, we are using mutual advantages and aiming at the economic, social and cultural development of local communities. This has a major impact on the preservation of natural and cultural heritage.

In order to achieve profitability and Bank’s long-term performance, we are constantly upgrading our business model, adapting it to challenges of the external environment where we operate and to the expectations of all stakeholders integrated into the Bank’s operation.

Rapid technological development, changing customers’ demands and needs, and competitive providers of financial services are making the Bank adapt actively to changes in the financial market. At the Bank, we follow trends in banking and effectively introduce market innovations into our operations. The major part of activities is implemented to improve the user experience, rationalise the Bank's business processes, and introduce new products and services while also using all opportunities provided by the latest information technology and ensuring safe banking operations.

In performing business activities, employees in the Group follow the principles of sustainable development and social responsibility, as described below.

VII.3. MATERIAL ASPECTS (environment)

a) Social corporate responsibility

We are a socially responsible Group, placing a strong emphasis on close ties with the environment and coordinating the activities of local communities and the economy, thus contributing to the development of society.

As a Group, we are a link in the chain ensuring the sustainable development of Slovenian rural areas, participating with our services and products in numerous projects that are of vital importance for ensuring a better quality of life, new jobs, use of renewable resources, green tourism, high quality ecologically produced food, a range of indigenous Slovenian varieties and orderliness of the living environment and landscape. Approximately a half of all agricultural subsidies being directed through our Bank, we are an important distributor of aid for rural development from European and national funds.

The Group is a recognisable donor and sponsor of various agricultural, charitable, cultural, educational and sports events across Slovenia. Our support goes to societies, non-profit making organisations, projects, clubs, individuals and institutes. When making decisions to choose the recipients of sponsor or donor funds, we take into consideration the partnership with the recipient, their consistency with the values and objectives of the Group, enhancement of visibility and reputation, and social responsibility. We support projects that emphasise positive values and tradition, and contribute to a better quality of life.

We have supported the Slovenian Rural Youth Association for several years, encouraging the young to see and pursue their future in the rural areas, driving them to use their knowledge, ambition and innovative drive to follow global trends and bring added value to this segment. This will consequently enhance the appeal of agriculture as a profession, encouraging the young to take over farms to the fullest possible extent and preserve agricultural activity in Slovenia.

By annually supporting the Agrobiznis (Agro-business) project, run by the Slovene financial daily Finance, we help encourage entrepreneurship and innovation in the area of food self-sufficiency.

Being a Group deeply incorporated in the agro-food sector and rural areas, we are the general sponsor of the Wine Queen event, the importance which we see in building the public image of Slovenian wines and vine growing regions, as is the mission of the reigning title holder.

b) Concern for the environment

All employees in the Group abide by environmental regulations. We encourage them to have a healthy attitude towards the natural environment, e. g. by recommending them to use the railway and other public transport to commute, and reimbursing the costs of such transport. To reduce our impact on the environment, we centralised printers a while ago (prior to which each office had their own machine), reducing their number by approximately 50.

Employees are encouraged to use electronic means of communication only. Thus, in 2020, most of the previously physical meetings were conducted using videoconferencing applications (Skype, Teams, etc.). Because this also holds for meetings with employees in business units, we avoided many business trips and reduced the use of vehicles. In 2020, due to measures to limit the spread of the COVID-19 epidemic, many employees (over 100) who worked at home were provided with remote access to the Bank's information system. This has also reduced the use of vehicles for commuting.

In 2020, the Bank replaced all its ATMs. The old ATMs were replaced with new, more powerful and energy-efficient ones. It started using an advanced e-training platform, thus significantly reducing the number of business trips.

With the renovation of bank branches, the Bank began installing LED lights, which are more energy-efficient than conventional ones.

In 2020, we launched two projects for the digital transformation of business processes. The first is the digitisation of cash operations by introducing electronic signatures and the use of signature pads at bank counters, which will significantly reduce the consumption of paper in the long run, in this case, pre-printed deposit and withdrawal forms, and payment orders. The second project is the digitisation of the document flow for the preparation of materials for the Lending Committee and other Bank committees. In the long run, this will also allow us to significantly reduce paper consumption in the preparation and storage of credit application and other documents. In both cases, the documents will be signed electronically, which will allow us to avoid printing and signing paper documents and scanning them (for long-term storage in an electronic document management system). The documents will be originally in electronic form, which consequently means reduced use of printers and scanners or multifunction devices. Electronic signing is also increasingly used for signing many other internal documents (e.g. materials for board meetings, authorisations, etc.), as well as certain contracts or annexes to contracts.

The Group has had a separate waste collection system with eco points for years, thereby increasing the awareness among employees on how to prevent environmental pollution. Waste that poses ecological concern is submitted to a relevant authorised organisation for recycling or destruction.

Several years ago, plasticware was replaced by glassware at hospitality events to contribute to reducing waste. We use around 1,800 items of different-sized glass drinkware a year, which we return so that it is 100% recycled. This saves energy and, above all, reduces the amount of plastic waste. Whenever possible, we only use glass water jugs at meetings.

VII.4. HUMAN RESOURCE MANAGEMENT

Since employees of the Group spend most of our time at work, the Group has undertaken to ensure a healthy and safe working environment. Therefore, the companies in the Group have adopted various programmes for the protection and maintenance of health at the workplace.

The following measures were introduced in the working process: flexible working hours, working from home at workplaces that should allow it, particularly for employees belonging in the vulnerable group, encouraging employees to take active breaks at the workplace, the option of working part-time, encouraging employees to drink a sufficient volume of soft drinks, participation at sports events, participation at winter and summer banking games. As part of health promotion at work, the Bank occasionally also offers seasonal fruits of local production to employees, enables them to take cholesterol tests and have their blood pressure measured, and posts videos of fitness and stretching exercises for office jobs on its intranet page. Due to all the restrictions related to the COVID-19 epidemic, these or any planned measures were not fully implemented in 2020. The Bank will implement them as soon as the situation allows.

Due to the epidemic, in 2020, we were forced to cancel two traditional employee meetings (a picnic in May and New Year's gathering in December), which are informal socialising events of a relaxed nature and allow employees to meet their colleagues, especially those they usually don't encounter due to working at different locations.

The Bank considers human resource risk to be a material risk and has therefore set up procedures to monitor and manage it in compliance with the adopted HR Risk-taking and Risk Management Policy, which is reviewed, renewed, and updated annually. Given the available resources, the Bank resolved human resource needs with internal staff, trying to motivate employees by promoting them at their current employer and thus having them work their best as well as build their loyalty to the Bank and its values. When it was not possible or relevant to redeploy existing employees, the Bank recruited off the market.

As at 31 December 2020, the Bank had 347 employees, 7 less than in 2019. As to gender, 79% were women and 21% men. The average age of the Bank's employees is 47 and has increased by one year compared to the previous year.

43% of all employees, i.e. 149 people, work at the Bank's headquarters, while the business network employs a further 57%, i.e. 198 employees.

In 2020, the Bank hired 31 new employees, 17 at the headquarters and 14 across the business network. 32 employees left the Bank, either due to retirement, termination of a fixed-term employment contract or by mutual agreement.

Subsidiary DBS Leasing d. o. o. had 6 employees at the end of 2020. There was no new recruitment in 2020, and one employee stopped working for the company.

In the Bank and the Group:

- all employees are responsible for working professionally and with due care, respecting the rules, internal acts and standards of operation in force; compliance with professional standards and ethical values strengthens relationships between employees and other stakeholders; based on open communication and collaboration, we ensure commitment to common goals; employees put the Bank's interests before their own;
- there is zero tolerance of unlawful and unethical conduct and disrespect for the Bank's values that might damage its reputation;
- we avoid all circumstances the related financial interests and benefits of which could be contrary to the interests and benefits of the Bank and which could compromise the impartial and objective performance of tasks; the Bank is strictly committed to protecting confidential information and banking secrecy, and we are consistent in implementing measures to prevent their abuse and safeguard them permanently;
- we perform our duties fairly, prudently, diligently – according to the principles of due commercial care and in accordance with banking regulations.

Number of Group employees as at 31 December 2020

Year	2020	2019	2018
Number of employees*	353	606	584

* DBS Nepremičnine d. o. o. and DBS Adria d. o. o. have no employees. The decrease in the number of employees of the Group in 2020 is a result of the sale of Semenarna Ljubljana, d. o. o.

Average number of Group employees by education profile as at 31 December 2020

	Average number of employees		
Staff education profiles	DBS Leasing d. o. o.	Deželna banka Slovenije d. d.	Total
Level VIII/1	0	11	11
Level VII	1	53	54
Level VI/2	2	91	93
Level VI/1	1	53	54
Level V	2	139	141
Less than or level IV	0	5	5
Total	**6**	**352**	**358**

Age structure of Group employees as at 31 December 2020

	Number of employees		
Age	DBS Leasing d. o. o.	Deželna banka Slovenije d. d.	Total
Under 30	0	19	19
30 to 40	1	60	61
40 to 50	3	104	107
50 to 60	2	131	133
Over 60	0	33	33
Total	**6**	**347**	**353**

Throughout the year, employees in the Group actively participate in various training courses. Internal training courses that we provide are run by experts assisted by external advisers or contractors who, under normal circumstances, are invited to individual companies as required. In 2020, due to the epidemic situation, we organized fewer training courses compared to the previous year, mostly in electronic form. Periodical training courses for employees cover the following areas: safety at work, prevention of money laundering, service and product marketing, and new legislative features. The major part of external training courses is executed in cooperation with the Training Centre of the Bank Association of Slovenia, Slovenian Institute of Auditors, and other authorised institutions.

Information regarding human resource management is stated in Chapter IX.5. Human resource management, p 53.

a) Respect for human rights

Employee relations in the Group are based on collegiality, mutual respect and help.

Bank employees take utmost account of provisions of the Code of Conduct, the Deželna banka Slovenije d. d. Rules on Prevention of Sexual and Other Harassment and Workplace Mobbing, and the Employment Relationship Act, which stipulate respectful treatment of employees and protection of human rights, among other things. In this context, the Bank has established a method of identifying, preventing and dealing with the consequences of sexual and other harassment and maltreatment at the workplace.

The fundamental values and principles of corporate integrity are enshrined in the Code of Conduct. They are complied with by the members of the management and supervisory bodies and other Bank employees. The Bank has adopted the Policy of Safeguarding Integrity, which aims to protect the integrity, core values and reputation of the Bank, and all employees abide by it. The Policy of Safeguarding Integrity provides that in order to uphold the core professional and ethical standards and standards of integrity, all types of wrongdoings and the procedure or way to report suspected wrongdoing by any Bank employee have to be defined. There is zero tolerance in the Bank for unlawful and unethical conduct and disrespect of the Bank's values. The Bank has set up a system of controlling and managing this Policy to prevent any form of unlawful practice constituting a violation of the rules in terms of operations compliance. The system enables employees to report suspected violations of regulations and wrongdoing, assuring them the report does not have negative effects. The report can be anonymous. A link to the rapid and anonymous reporting of violations was established on the Bank's intranet, both within the Bank and directly to the Bank of Slovenia through a "whistleblowing" link. Employees are acquainted with the possibility of anonymous reports of all forms of violations with a special circular and as part of internal training.

Special attention is devoted to the following types of wrongdoing: deception, fraud and business fraud, corruption and unauthorised receipt and giving of gifts, misuse of inside information and abuse of the market in financial instruments, money laundering and terrorist financing, conflict of interests, misuse of personal data, disclosure or unjustified acquisition of business secrets, hacking into business information systems, falsifying or destroying business documents, secret agreements and abuse of position or trust, embezzlement and unjustified use of foreign assets, and extortion and harassment at the workplace.

These wrongdoings can adversely affect the Bank's reputation, cause financial loss, and regulatory sanctions can affect employees, customers, suppliers, shareholders and other stakeholders.

With its Money Laundering and Terrorist Financing Risk Management Policy, the Bank has established a system for the implementation of measures to prevent and detect money laundering and terrorist financing. It enables the Bank to effectively manage operational and legal risk and the risk of loss of reputation potentially caused by financial crime related to money laundering or terrorist financing. The Bank's approach is based on an internal risk assessment, in turn, based on knowing the customer, and in the detection and prevention of money laundering and terrorist financing, and the operation of internal controls and internal supervision over the implementation of measures. The responsibilities of employees in carrying out these tasks are accurately delimited. Relevant employees are regularly trained in this respect, this being one of the key elements for the effective implementation of the established system and risk management in the Bank. Protecting against the negative effects that might ensue from being engaged in money laundering or terrorist financing is a matter of the Bank's strategic orientation since any abuse in this respect would not only compromise the reputation of the Bank but the reputation of the country's entire financial system.

The Bank implements procedures for verifying customers before entering into business transactions with them as part of a review of the customer and other records as required by applicable legislation and follows the KYC principle – Know Your Customer.

The Internal Audit Department regularly reviews the applicable system in order to identify potential weaknesses and strengthen the relevant internal controls.

In order to effectively implement the policy and manage the risk of abuse, the Bank has set up various reporting lines between individual stakeholders involved in the prevention and detection of money laundering and terrorist financing.

The Bank carefully carries out measures for the prevention of money laundering and terrorist financing, successfully supporting risk management with in-house software that is constantly being updated with the latest findings on the forms of and trends in money laundering.

b) Diversity Policy

The Group aims at equal and balanced representation of men and women at all levels.

The Group's management structure is balanced, having both genders represented fairly equally. Diverse knowledge and experience are also guaranteed as required for efficient operation and long-term risk management.

At the year-end of 2020, the Bank's management body comprised six men and two women. The policy for the selection of suitable candidates of the management body prescribes for the diversity of members of the management body to show in diverse professional experience, age, education and expertise, and in diverse characteristics of members of the management body. Information regarding the selection of the Bank's management body is provided in the Policy for the Selection of Suitable Candidates.

The average age of employees in the Group is above 45, which is why the Group's HR policy aims at acquiring younger employees in the future, who are trained particularly in fields of new technologies and specialist knowledge. However, the fundamental aim is to select employees who possess diverse knowledge, adequate qualifications and relevant experience.

c) Learning, growth

To excel at non-financial performance indicators, the Bank provides the necessary infrastructure (people, systems and procedures) that enables it to reach its targets. We invest in additional employee training, in improving information technology and process optimisation, in short, in growth and learning.

Employees continually build on their skills via internal and external training courses, thus maintaining and increasing the quality of their work. Ideas for improving processes and customer service come directly from employees, as they are the ones that know internal processes and Bank customers best. Employee performance is monitored as part of their productivity and satisfaction assessment, a basis for which is annual development interviews.

The fluctuation level in the Bank is below the Slovenian average, with the largest number of employees leaving the bank due to retirement or mutual termination of the employment relationship. Successful employees being keepers ensures that intellectual capital remains in the Bank; their departure would be a great loss for the Bank.

Quality and timely information is paramount for successful work in today's financial environment. We provide it to our employees by continuously upgrading our information system capacity, which is a prerequisite for risk management and process improvement.

VII.5. NON-FINANCIAL PERFORMANCE INDICATORS

a) Retail banking

In dealing with customers, we monitor the levels of their satisfaction, loyalty, customer retention, and how profitable they are for the Bank.

The Bank's market share is stable, meaning that the existing customer base is stable and increasing.

By digitising the Bank, we have been introducing various innovations in the use of modern marketing channels to enable our services anywhere and anytime, in real time.

We are acutely aware of the importance of banking in person and of the fact that our customers also include generations with an aversion to modern ways of doing business. At the same time, other users are provided with faster and more cost-effective online and mobile banking solutions. Our employees act as professionals and are quick to respond to customer inquiries. In designing and introducing new services, special attention is devoted to the safety of operations. Changes also result in increased risks, which the Bank manages and safeguards from effectively.

Bank employees strive to fulfil the wishes and meet the needs of customers by abiding by the operating rules, policies and strategic objectives of the Bank. We build trust by delivering on given promises, with honesty, protecting the rights and benefits of our customers, mutual respect, accessibility, and ensuring the protection of personal and confidential information. Our customers are briefed comprehensively, including on risks related to a service or product. We accept responsibility for our actions and are always looking for common solutions that lead to long-term cooperation.

Being aware that knowing your customer is essential for the successful operation of the Bank, we ensure it by having a customer relationship management (CRM) system[7]. It helps keep customer details up to date, helps us regularly and actively track every customer interaction, and manage the customer's needs, wishes, compliments and complaints. We do not enter into business relationships with customers that do business unlawfully and unethically. If such a customer is identified, the case is evaluated on the basis of a risk assessment, whereupon we act in accordance with the procedures envisaged for these cases. We are constantly striving to maintain and strengthen our customers' trust. The Bank has set up a system for monitoring customer proposals, complaints and comments, based on the Rules on Extrajudicial Settlement of Customer Complaints.

Customer complaints are attended to with special care and resolved quickly, taking into account both the benefits of the customer and the Bank's reputation. Written replies are always sent within a reasonable time. In 2020, all customer complaints were resolved in extrajudicial procedures.

Customers are informed regularly and in a timely manner of all changes in the terms and conditions of the Bank's operations. They are familiarised in a transparent and comprehensible way with the types of our services, pricing and other conditions according to the fair rules of marketing communication and establishing connections with customers. We do this using channels such as the Bank's website, regular monthly statements, and similar.

We received over 3,500 messages via e-channels – the web form or e-mail – from either existing or potential customers or external third parties (for example, information on garnishment). These messages refer to our range of services, requests for calculations of loans, requests for assistance in entering the E-bank, requests for data on properties sold by the Bank, inquiries about garnishment and bankruptcy procedures, open positions, and other. The Marketing and Communication Department, which receives these messages, forwards them regularly, on a daily basis, either to the branch nearest to the customer or the competent department in the Bank, for resolving.

One of the most important indicators of successful customer service is offering solutions for our target customer segments. To this end, the Bank has developed tailor-made products and services. Being a banking specialist for

[7] CRM - customer relationship management.

rural customers, we focus on servicing farmers, cooperatives, agro-food companies, SMEs, sole traders and young people. These are the segments that we adjust marketing processes and product and service development to, to the greatest extent possible. Despite being a universal banking institution, the Bank devotes special attention to agriculture. We have the Sowing Package for new customers, and we offer existing, long-standing customers the Harvest Package. We also have custom-made solutions for young farm transferees and a banking package for secondary activities on farms. Customers can choose between short-term and long-term loans of different maturities tailored to the agricultural activity. We provide cash and special-purpose loans, seasonal loans, eco loans and livestock loans.

In line with its strategic objectives, the Bank has decided to support projects from areas designated as having priority in the long term: increasing the productivity and self-sufficiency in Slovenian agriculture; market organisation of agriculture; strengthening the food and agro-food chains; increased visibility and quality of organic and locally produced products; promoting agricultural practices that have a positive impact on the conservation of natural and renewable energy sources; adaptation to climate change; green jobs; coherent and sustainable rural development; organic farming; green tourism; and social entrepreneurship.

As a bank of universal nature, in 2020, it also paid special attention to housing loans; at the end of the year, its favourable offer ranked at the very top of the Slovenian market. It financed quite a number of purchases, constructions and renovations of residential properties.

The Bank has maintained a large network of branches (78), providing people outside urban areas with access to financial services.

b) Improving the internal customer relationship management process

For a number of years, the Bank has been improving customer relationship management to unify work processes across the business network in processing different types of customers, and automating the processing of applications and requests by the users of our services.

The CRM application provides an overview of working with customers as well as the activities of salespeople. CRM is defined as a corporate activity fostering the acquisition of new customers and the preservation of existing ones. The CRM management tool enables us to integrate all CRM activities, centralising and managing all messages, reminders and comments that had previously been recorded in various different places. The CRM application is aimed at soliciting new customers, upgrading the existing customer databases, offering a comprehensive overview of a customer, monitoring the profitability of individual customers, monitoring customer habits and customer satisfaction, identifying customers' needs, and measuring the quality of customer relationships. We have started adding potential customers into CRM application, recording sales projects and identifying activities for each customer. Every Bank employee monitors the realisation of sales activities on a daily basis. On the other hand, the application allows the Bank's management to monitor sales activities across the network. The CRM application is constantly being updated and upgraded.

The following internal business processes have been designated for upgrades in the future:
- approval and activation of mass transactions (extraordinary limits, credit cards, quick loans, changes in ATM and card limits),
- automatic processing of orders and requests submitted via the E-bank (deposits, requests for SMS notifications, My BA, requests to change ATM limits, requests to change card limits...),
- possibility of making changes to cards (orders of new cards, early replacement, card blocks),
- possibility of scanning and archiving cash register records upon data entry into banking applications,
- adding "interactive instructions" when using and entering data,
- introduction of electronic signing for deposits, claims, contracts between the Bank and customers.

The Bank nevertheless continues to place great emphasis on the personal touch and one-on-one treatment of customers.

VII.6. PREVENTION OF CORRUPT ACTS AND FRAUD

Employees of each company in the Group are committed to protecting the integrity, fundamental values and reputation of the Group. It is the task and responsibility of all employees in the Group to ensure zero tolerance of unlawful conduct, which also includes fraud and corrupt acts.

The Bank has established appropriate procedures and mechanisms for dealing with suspected unlawful practice and measures to protect the applicant. It also has various channels in place to report any suspected unlawful practice. The Bank provides training for all employees with regard to unlawful practice, available channels for reporting suspicions of unlawful practice and violations of the Code of Conduct and other internal acts of the Bank.

Unlawful conduct, the mode of reporting and investigation procedure are also detailed in the Bank's internal acts.

The Bank is a party to the Declaration of Fair Business, which was devised by the United Nations Global Compact Slovenia, and has thus committed to transparent and fair business and rejection of any corrupt activity. We have also undertaken to include the anti-corruption clause in our legal transactions and to take account of anti-bribery principles in our business.

Examples of fraud and abuse identified in the Bank in 2020 were of external origin. All cases were identified in time, and adequate measures were taken to prevent any negative consequences.

As one of a few companies in Slovenia, Deželna banka Slovenije d. d. signed an agreement with the Financial Administration of the Republic of Slovenia to be part of a programme promoting voluntary compliance with tax liabilities, as it pursues a tax payment optimisation policy and prevention of propensity for aggressive tax planning or deliberate increase of tax risk.

Management Board of the Bank:

Marko Rozman
President of the Management Board

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Barbara Cerovšek Zupančič MSc
Member of the Management Board

Supervisory Board:

Ivan Lenart
Chair of the Supervisory Board

Ljubljana, 22 April 2021

VIII. RISK MANAGEMENT

VIII.1. RISK MANAGEMENT OBJECTIVES AND POLICIES (Article 435 of the CRR, items 1a, 1b, 1c, and 1d)

Pursuant to provisions of the regulatory framework, the Group considers the following risks as banking risks: credit, market, operational, interest, liquidity, capital, strategic risk, profitability risk, reputation risk, management risk, financial leverage risk and other property portfolio risks.

The purpose of risk management is to ensure the Group's stable and safe operations and compliance with risk management standards, achieving appropriate investment quality, preventing and limiting losses resulting from individual risks. The Group pursues these objectives by setting up and complying with the Risk-taking and Risk Management Strategy. The strategy sets out the main risk management starting points and the general guidelines for taking on and managing the key risks the Bank is exposed to in its operations.

The Group's risk appetite is defined as moderate (i.e. low to medium), meaning that the Group pursues a conservative approach in its operations. To measure exposure to different types of risk, the Group uses internal methodologies and approaches in addition to regulatory ones, which facilitates close monitoring of risks and their management.

Credit risk is the risk that a borrower will cause a financial loss to the Group by failing to fully discharge an obligation when due without calling on collateral, for whatever reason, whether this obligation be of a financial nature or another contractual obligation. The Group estimates that credit risk is the most important risk it is exposed to. Therefore, it devotes special attention to this type of risk.

In order to adequately manage credit risk, the Group performs the following activities:
- has a defined Risk-taking and Risk Management Policy for Credit Risk, which determines the manner of implementing credit risk management;
- regularly monitors its customers (e.g. financial statements);
- has an early warning system for increased credit risk (EWS);
- has a limit system in place that is in line with the risk strategy and risk appetite;
- regularly monitors blacklists;
- prepares regular reports on the management of non-performing exposures of debtors, on the restructuring of receivables from debtors and on the fulfilment of commitments from financial restructuring plans of legal entities;
- report regularly to the relevant decision-making and management bodies.

The Group also classifies liquidity risk among significant risks. **Liquidity risk** is the risk that the Bank is unable to discharge all its matured liabilities or that, due to its inability to provide sufficient funds to settle its matured liabilities, the Bank is forced to obtain liquidity at costs significantly higher than average market costs.

In order to adequately manage liquidity risk, the Group performs the following activities:
- has a defined Risk-taking and Risk Management Policy for Liquidity Risk, which determines the manner of implementing liquidity risk management;
- applies rules and measures to implement the procedures for mitigation and diversification of liquidity risk;
- identifies and measures liquidity risk using the system of internal limits and quantitative indicators from the restoration plan, establishing the liquidity position on a daily basis, making cash flow projections and calculating liquidity ratio (LCR);
- has liquidity buffers that strengthen the Bank's resistance to liquidity risks in crisis situations;
- maintains at all times an adequate amount of unencumbered assets that can be used as a secondary liquidity reserve;

- prepares daily or monthly reports[8], which are the basis for making management decisions that involve liquidity risk, with important reports being made available to the management body and the Asset and Liability Committee.

Disclosure of LCR indicator on an individual basis

in EUR million

	Scope of consolidation (on an individual basis)	Unweighted total (average)	Weighted total (average)			
	Quarter ended		31. 3. 2020	30. 6. 2020	30. 9. 2020	31. 12. 2020
	Number of data points used to calculate average values		12	12	12	12
21	LIQUIDITY BUFFER		200	204	210	215
22	TOTAL NET LIQUIDITY OUTFLOWS		70	70	71	68
23	LIQUIDITY COVERAGE RATIO (in %)		286.76	290.21	295.29	315.18

Disclosure of LCR indicator on a consolidated basis

in EUR million

	Scope of consolidation (on a consolidated basis)	Unweighted total (average)	Weighted total (average)			
	Quarter ended		31. 3. 2020	30. 6. 2020	30. 9. 2020	31. 12. 2020
	Number of data points used to calculate average values		12	12	12	12
21	LIQUIDITY BUFFER		200	204	210	215
22	TOTAL NET LIQUIDITY OUTFLOWS		70	70	71	68
23	LIQUIDITY COVERAGE RATIO (in %)		287.05	290.06	295.05	315.27

The Group pays special attention to operational risk management. **Operational risk** is the risk of loss due to an inappropriate or unsuccessful implementation of internal processes, the human factor, system operations or external factors. It also includes legal and model risk.

In order to adequately manage operational risk, the Group performs the following activities:
- has a defined Risk-taking and Risk Management Policy for Operational Risk, which determines the manner of implementing operational risk management;
- has established boundaries within the restoration plan;
- has a loss event reporting system in place;
- prepares regular operational risk reports for managing bodies.

The major part of other risks are monitored monthly in the context of the Bank's operations analysis and discussed at the Asset and Liability Committee, which includes the Management Board. The Group also appropriately includes these risks in the internal capital adequacy assessment process (so-called ICAAP).

In addition, there is a series of other reports, the purpose of which is to inform the management body of different types of risk. The Risk Management Section, therefore, prepares a comprehensive risk analysis, which includes an analysis of the current credit portfolio and inherent credit risk, analyses of market risk, liquidity risk, interest rate risk, operational risk and exchange rate risk, concentration risk, profitability risk, and an analysis of regulatory capital and capital adequacy. The risk analysis is prepared quarterly and reviewed by the Management Board, the Risk Committee, and the Supervisory Board. For the Management Board, the Risk Management Section also prepares quarterly reports on overdrafts and on operational risk events, and proposed limits of large exposure and

[8] Daily liquidity reports, monthly liquidity plan, liquidity ratio movement simulation, calculations of the ratio of highly liquid assets and liabilities, calculations of growth levels of retail deposits, liquidity coverage ratio (LCR), net stable funding ratio (NSFR), liquidity ratio (LR), stress tests for exceptional scenarios, the minimum level of unencumbered liquid assets, reports on structural liquidity risk ratios and other reports.

exposure to the Group's related parties (and their groups), to be prepared as required but at least once a year, to be reviewed by the Management Board, the Risk Committee, and the Supervisory Board. The capital adequacy report (ICAAP) used to estimate the capital needed to cover all major risks, the liquidity adequacy report (ILAAP) used to estimate liquidity and liquidity risk management, and the risk profile report are reviewed by the Management Board, the Risk Committee, and the Supervisory Board at least once a year or as required. As part of the ICAAP and ILAAP processes, the management body also issues an annual capital and liquidity adequacy statement.

Regarding risk management, control environment and capital adequacy, the Group has adopted the following framework documents (that were confirmed by the Bank's Supervisory Board) to establish risk management guidelines:

- The Risk-taking and Risk Management Strategy and Concise Risk Statement Approved by the Management Body (Risk Appetite Statement – RAS),
- The Risk-taking and Risk Management Policy for Credit Risk,
- The Risk-taking and Risk Management Policy for Market Risk,
- The Risk-taking and Risk Management Policy for Operational Risk,
- The Risk-taking and Risk Management Policy for Interest Rate Risk,
- The Risk-taking and Risk Management Policy for Liquidity Risk,
- The Risk-taking and Risk Management Policy for Compliance Risk,
- The Risk-taking and Risk Management Policy for Profitability Risk,
- Disclosure Policy,
- The Risk-taking and Risk Management Policy for Strategic Risk,
- The Risk-taking and Risk Management Policy for Reputation Risk,
- The Risk-taking and Risk Management Policy for the Risk of Capital Inadequacy,
- The Policy on Using External Service Providers,
- The Financial Leverage Management Policy,
- Policy on Related Party Transactions,
- The Integrity Safeguarding Policy.

The Risk-taking and Risk Management Strategy, together with a Concise Risk Statement Approved by the Management Body, sets out the main starting points for risk management and the general guidelines for taking and managing key risks that the Bank is exposed to in its operations. The purpose of risk management is to ensure the Bank's stable and safe operations and compliance with risk management standards, achieve appropriate investment quality, and prevent and limit losses resulting from individual risks.

Associated with individual types of risk, policies operationalise the starting points of the risk-management strategy, detailing organisational rules, procedures for establishing, measuring, assessing and monitoring risks, and internal risk reporting, determining the rules for the internal controls system and for activities associated with calculating the internal capital adequacy assessment.

To monitor its operations and the major related risks that could affect its existence, the Group has laid down an array of quantitative indicators in the Group Restoration plan. Limit values have been set for each indicator, marking the point of commencement for internal processes based on the restoration plan. The document provides an array of measures to be carried out by the Group to reestablish and normalise its operations.

VIII.2. DECLARATION APPROVED BY THE MANAGEMENT BODY ON THE ADEQUACY OF RISK MANAGEMENT ARRANGEMENTS (Article 435 of the CRR, item 1e)

Declaration approved by the management body on the adequacy of risk management arrangements

Pursuant to Article 435 (e) of Regulation (EU) No 575/2013 of the European Parliament and of the Council on Prudential Requirements for Credit Institutions and Investment Firms (CRR), the management body – which consists of the Management Board:

Marko Rozman, President of the Management Board, and Barbara Cerovšek Zupančič MSc, Member of the Management Board,

and the Supervisory Board:

Ivan Lenart, Chair of the Supervisory Board,

confirm, by signing this declaration, that the Bank's risk management arrangements are adequate. The Bank has set up a risk management function as independent in terms of organisation and functionality from the Bank's other functions, ensuring that risk management arrangements reflect the Bank's risk profile and its risk-taking and risk management strategy.

Ljubljana, 22 April 2021

Management Board of the Bank:

Marko Rozman
President of the Management Board

Barbara Cerovšek Zupančič MSc
Member of the Management Board

Supervisory Board:

Ivan Lenart
Chair of the Supervisory Board

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VIII.3. CONCISE RISK STATEMENT APPROVED BY THE MANAGEMENT BODY (Article 435 of the CRR, item 1f)

Risk management

The Bank's Management Board and Supervisory Board approved the Concise Risk Statement Approved by the Management Body (Risk Appetite Statement – RAS), which stipulates the aggregate level of risk, including the levels of individual risks that Deželna banka Slovenije d. d. (hereafter: Bank) and the Deželna banka Slovenije Group (hereafter: Group) are exposed to or are willing to assume in order to meet their strategic goals while minding their risk tolerance.

The Group seeks to meet its strategic objectives within predefined levels of acceptable risk. The acceptable risk level is defined as moderate (i.e. low to medium), meaning that the Bank pursues a conservative approach in its operations.

The predefined common level of acceptable risk represents an important element of the decision-making process and is intended to ensure that the Group performs with sufficient profitability even in exceptional situations.

The main risk categories connected with the Bank's operations are credit risk, market risks, operational risk, interest rate risk, liquidity risk, capital inadequacy risk, strategic risk, profitability risk, reputation risk, management risk, the risk of high financial leverage and property portfolio risk. The purpose of risk management is to ensure that the Bank's operations are stable and safe, that the standards for risk management are met, and that the quality of investments is suitable.

The Group monitors the Bank's risk profile on the basis of quantitative and/or qualitative assessments of measurable and immeasurable risks it assumes in its operations. The key parameters along which the Bank's risk profile is monitored are the overall capital requirement ratio (OCR), the common equity tier 1 capital ratio, the quality of assets and loan commitments given, and return on assets before tax.

The limit system provides the Bank with clear limits of acceptable risk-taking. Efficient risk management that includes regular monitoring and reporting of risks enables timely responses upon predetermined levels of risk acceptability, even before the top limit value is reached. Risks are promptly presented to the management body, the Bank's senior management, the Internal Audit Department and the Operations Compliance Department.

Within a prudent credit process, the Group runs a conservative policy of assuming and managing **credit risk**. To this end, it aims to:

- increase the diversification of its credit portfolio so that i) capital requirements and needs for credit risk, and ii) the expected losses are as low as possible, which will be achieved by pursuing the following orientations:
  - increase exposure to large businesses, where exposure does normally not exceed EUR 3 million;
  - increase exposure to individuals, farmers and SMEs, where exposure does normally not exceed EUR 1.5 million;
  - increasing the quality of insurance deals and their suitability for reducing capital requirements;
  - increasing the proportion of customers with credit ratings A and B;
- focus primarily on clients to whom it can provide independent and comprehensive financing, together with all other related banking services;
- assess, in the process of approving a loan or concluding another contract, the debtor's capacity to meet its obligations to the Bank (i.e. creditworthiness) and the quality of collateral for the Bank's receivables by type and amount of collateral (i.e. achieving a collateral factor of at least 1: 1.5 or LTV ratio - loan to value - of 67%) in accordance with the Bank's internal acts;
- monitor, throughout the duration of the business relationship with a customer, the customer's operations and adequacy of received collateral;
- steer its credit portfolio and commercial activity into transactions, groups of businesses and regions which turn out to be characterised by relatively lower credit risk and a relatively higher expected non-interest income;
- make use of the Early Warning System (EWS) for increased credit risk;
- intensify action for the recovery of past due default claims and/or the restructuring of non-performing exposures.

Save in exceptional circumstances and only on the basis of compelling arguments, the Group will not:
- finance acquisitions and new purchases of securities, business stakes and mutual fund shares when assessing increased risk;
- enter into new financing of heavily indebted customers, customers with bad credit ratings and customers that do not display adequate creditworthiness;
- grant loans when the only or predominant collateral is such with a strong correlation between the customer's creditworthiness and the value of collateral;
- finance legal entities engaged in shadow banking;
- finance projects associated with the speculative financing of property.

In risk-taking and managing **market risks**, the Group will:
- maintain the volume of its securities investments portfolio at a level that makes an impact on capital requirements acceptable from the perspective of available capital.

The Group will not:
- increase its volume of equities above those stipulated in the Deželna banka Slovenije Group System of Limits;
- place liquidity surpluses into long-term debt securities that require in the calculation of capital requirements a risk weight for credit risk of more than 20% and increase the risk-based capital requirement for credit risk.

In risk-taking and managing **operational risks**, the Group will:
- consistently record and intensely monitor operational risk events;
- implement activities to reduce the frequency and impact of similar loss events arising out of operational risk;
- regularly examine and update the Group's business continuity plan.

The Group will not:
- engage in new transactions or spread its operations if that were to cause a considerable increase in the possibility of operational risk (loss) events.

In risk-taking and managing **interest rate risks**, the Group will:
- maintain the Bank's balance sheet interest rate structure so that it is adequately hedged against interest rate risk; in particular, it will use techniques of the so-called natural hedge against interest rate risk, without the use of derivatives;
- ensure that the maximum decrease of the economic value of Tier I capital in any of the six stress scenarios, calculated in accordance with the Methodology for Calculating Internal Capital Requirements, does not exceed 10% of the economic value of Tier I capital;
- ensure that in times of low or negative interest rates on the market, it compensates for the loss of interest income by increasing other non-interest income, usually with the aim of achieving a financial intermediation margin of 2.18%, i.e. above the yellow level set in the restoration plan that allows the Bank sufficient profitability;
- actively monitor and assess exposures due to the risk of changes in the credit spread resulting from non-trading book activities (CSRBB).

In risk-taking and managing **liquidity risk**, the Group will:
- adapt its liquidity risk-taking and managing strategy to its size, taking into account the nature, scale and complexity of the business it conducts;
- maintain such a liquidity position and volume of liquidity reserves to meet the survival criteria in all stress scenarios as defined in the Methodology for Liquidity Stress Scenarios and Calculation of Liquidity Ratios, and identify appropriate measures to prevent and eliminate the causes of potential liquidity shortages;
- maintain a diversified pool of liquidity reserves in the form of cash and other highly liquid assets that are free from encumbrances and at the Bank's disposal at any time;
- review at least once a year the adequacy of its liquidity risk management strategy, policies, and procedures and the relevant liquidity position of the Bank.

In risk-taking and managing **profitability risk**, the Group will:
- ensure appropriate revenue composition or dispersion and proper management of all expenses so as to maintain adequate profitability;
- intensively monitor all relevant internal and external factors affecting the Bank's profitability and take appropriate measures to prevent or reduce the negative impact on profitability;
- consistently abide by the tax legislation provisions and implement them in all areas of business. By having set up adequate internal control mechanisms and by correctly and timely filling in returns and paying due levies, it will make sure it is exposed to as low tax risks as possible.

In risk-taking and managing **capital risk**, the Group will:
- plan its business strategy according to the amount of available regulatory capital in order to ensure the prescribed amount of capital ratios at all times;
- maintain such a volume of regulatory capital with which it could cover all potential risks it is exposed to according to the internal assessment of capital requirements and needs in accordance with the Methodology for Calculating Internal Capital Requirements;
- maintain the volume of regulatory capital as required by the regulator.

In risk-taking and managing **strategic risk**, the Group will:
- implement a conservative business strategy, thereby limiting exposure to strategic risk;
- intensely monitor its business environment and promptly respond to changes in it in order to decrease the Bank's exposure to strategic risk.

In risk-taking and managing **reputation risk**, the Group will:
- operate so as to reduce reputation or goodwill risk to the minimum. This means it will act ethically, in accordance with good business customs and practices, taking into account to the greatest extent possible the needs and expectations of the environment in which it operates (as to violations of regulations, legal disputes, involvement in money laundering and financing of terrorism and corruption, failure to comply with embargoes, international conventions and business regulations), and abide by its Code of Conduct.

The Group will not:
- pursue business practices and actions that could cause it to lose its reputation or goodwill.

In risk-taking and managing **leverage risk**, the Group will:
- maintain such a structure of financing that its financial leverage ratio remains above 3%. The stated percentage has not yet been specified by law and will only take effect with the implementation of CRR2 as at 28 June 2021. Notwithstanding the aforementioned, the Group will be monitoring the fulfilment of the required ratio on the precautionary principle as of now.

The Group has put in place a system of internal controls to control and limit the mentioned risks, which includes:
- internal controls: for this purpose, it has adopted rules and procedures defined by the relevant instructions, rulebooks and other internal acts, and internal controls over the implementation of organisational, business, and work procedures; it has also set up a system of reporting with internal controls in the area of reporting, and a limit system including measures in case of breaches;
- internal control functions, which include the Risk Management Section, the Internal Audit Department, the Operations Compliance Department, and the Information Security Department.

The following is also of key importance to ensure long-term performance of the Group: distribution of competence and responsibility among management and supervisory bodies and other stakeholders; relations between them, and other factors, such as the Group's responsibility to environmental and societal interests of the community in which it operates, based on which the Group operates pursuant to applicable regulations, best-practice standards in corporate governance and highest standards of professional ethics.

To monitor its operations and the related major risks that could affect its existence, the Group has laid down an array of quantitative indicators in the Group Restoration plan: capital and capital adequacy, liquidity, profitability, asset quality and macroeconomic indicators. Limit values have been set for each indicator, marking the point of commencement for internal processes based on the restoration plan. Recovery measures are stipulated to be intensified depending on achieving yellow or red limit values, enabling the Bank to react timely to the emergence of factors that could threaten its operation.

Quantitative Risk Indicators

Indicator	Category	Unit	Early intervention limit (Yellow Level)	Recovery decision-making limit (Red level)
Common Equity Tier 1 ratio (CET-1)	Equity	%	14.38	14.28
Total capital ratio	Equity	%	15.10	14.15
Leverage ratio	Equity	%	4.50	3.50
Liquidity coverage ratio (LCR)	Liquidity	%	125.00	110.00
Net stable funding ratio (NSFR)	Liquidity	%	125.00	110.00
Wholesale funding costs	Liquidity	T EUR	1000.00	2000.00
Return on assets (ROA)	Profitability	%	0.10	0.02
Return on equity (ROE) before tax	Profitability	%	1.50	0.01
Considerable operating losses	Profitability	T EUR	1500.00	2000.00
Net interest margin	Profitability	%	2.18	2.00
Gross non-performing loans growth rate (excluding balances at central bank accounts and sight deposits at banks)	Asset quality	%	5.00	15.00
Coverage rate (excluding balances at central bank accounts and sight deposits at banks)	Asset quality	%	25.00	20.00
Gross non-performing loans/total loans (excluding balances at central bank accounts and sight deposits at banks)	Asset quality	%	20.00	25.00
GDP change	Macroeconomic indicators	%	0.00	(0.20)
Credit default swaps (CDS) related to sovereign debt	Macroeconomic indicators	b.p.	150.00	300.00

VIII.4. DESCRIPTION OF INFORMATION FLOW ON RISK TO THE MANAGEMENT BODY (Article 435 of the CRR, items 2d and 2e)

The description of the information flow on risk to the management body is disclosed in the annual report pursuant to Article 435 (2) (e) of the Regulation. The Risk-taking and Risk Management Strategy defines, among other things, the responsibilities of the Supervisory Board, the Management Board and senior management regarding risk management. The Group's Risk Management Plan, which is an annex of the said Strategy, defines for each type of risk the types of reports to be made, the bodies that review them, the persons in charge, and frequency of reporting. Efficient risk management that includes the regular monitoring and reporting of risks enables timely responses upon predetermined levels of risk acceptability, thus even before the top limit value is reached. Risks are promptly presented to the management body, senior management, the Internal Audit Department and the Operations Compliance Department.

The Management Board actively takes part in risk management through relevant committees and based on materials prepared to this effect by the Risk Management Section. The Group has also adopted the Concise Risk Statement Approved by the Management Body, establishing and describing the predefined overall risk profile, including individual risk levels that the Group is ready to take with a view to realising its strategic objectives given its risk tolerance. The Concise Risk Statement Approved by the Management Body is presented in detail in Chapter VIII.3. The Group regularly updates its Risk-taking and Risk Management Strategy, a uniform document stating its objectives and general orientations for taking and managing key risks that the Group is exposed to in its operations. Risk is monitored by the Risk Management Section, which is in charge of, among other things, designing and updating individual strategies and policies of risk-taking and risk management, overseeing their implementation, continually improving the system of measuring, monitoring and controlling all major types of risk, and preparing in-house risk reports and risk reports for regulators. The Group has also set up the Asset and Liability Committee (ALCO) and the Risk Committee, which – together with the Supervisory Board and senior management – regularly monitor the Group's exposure to risk, its risk profile and its risk appetite.

The Supervisory Board gives consent to the Bank's business policy and financial plan as proposed by the Management Board, assesses the adequacy of risk-taking and risk management strategies and policies with the establishment of an internal controls system and gives consent to related persons limits and large exposure limits, i.e. planned excesses over the threshold of large exposure. The Bank's Management Board approves and reviews strategies and policies and ensures that they remain up to date regarding the changes in the internal and external environment. The Board also ensures their coherence and proportionality within risks that the Group is or could be exposed to in its operation. On a regular basis, or at least once a year, the Management Board also monitors and verifies the effectiveness of the management system, ensures a clear and documented decision-making process for major issues and establishes a clear delimitation of competences and tasks, approves or confirms the limit system, encourages improvements of organisational culture, which contributes to the fair and proper execution of business operations, and keeps the Bank's Supervisory Board informed of the management system. Senior management devises and implements the strategy and policies, informs management bodies of risks, establishes and maintains the risk management process and internal control system, establishes procedures and devises instructions or orientations to execute the Bank's risk-taking business operations, and establishes and controls limits for reducing risk exposure.

Providing information to relevant organisational units is ensured by having decisions of the Management Board and the related documents sent to directors or heads of units that the amendments concern when such documents are amended. Each document also states which organizational units are responsible for devising, or taking part in devising, amendments to the document, and also sets deadlines for the preparation. The Bank's Management Board has also appointed an Operations Compliance Officer who participates in preparing amendments to internal acts, including those related to risks.

IX. DEVELOPMENT OF THE BANK

IX.1. INVESTMENTS

For several years now, the Bank has devoted a lot of attention to refurbishing its branches or moving them to technically and spatially more appropriate locations and making them compliant with security and other banking standards. The security level is maintained in accordance with the security standards of the Bank Association of Slovenia, whereby the Bank takes care of the security of customers, employees and property. An appropriate level of safety is achieved through technical, mechanical and organisational measures. Thus, in 2020, the Bank continued to renovate and relocate branches, and according to the plan for 2021, it will continue these activities in the future.

In addition to the Bank’s branch network, the largest amount of investment funds in 2020 was dedicated to IT. In line with the information technology development strategy and information technology investment plan for 2020, it continued the upgrade of the banking information and communication infrastructure, which started in 2019, and established a comprehensive redundancy infrastructure to ensure the continuous operation of the Bank's information system in high availability mode. The investments mainly included the upgrade of the disk system to provide adequate capacities for the operation of physical and virtual servers, the upgrade of communication equipment for faster and more efficient operation of the banking data network, the upgrade of the optical transport network to connect physically separate locations of the computer centre, and the definitive revamp of the backup and data recovery system. Investments in the field of information security included the upgrade of the e-mail system and the installation of a new solution for user authentication for the needs of secure remote access to the Bank's information system. Due to measures to curb the COVID-19 epidemic, which also includes work at home, in 2020, the Bank additionally invested in computer hardware, thus enabling employees safe and reliable work in the home environment.

IX.2. INFORMATICS AND BANKING TECHNOLOGY

In the field of application software development, the major part is own development, based on which, in 2020, the Bank ensured application support to all regulatory requirements as well as business processes in accordance with the needs and requirements of the Bank's business. The development, which required the integration of the Bank's core system with other systems, took place as a combination of own and external development. Adjustments to the application support included adjustment of the system for immediate data reporting to the SISBIZ system for the exchange of information on the indebtedness of business entities, adjustment of support for reporting detailed information on securities financing transactions (SFTR), adjustment of support for risk assessment of the customer (OTZ) based on the ZPPDFT-1 act, adjustment of support for reporting data for resolution plans (RESOL), adaptation of reporting modules for supervisory reporting by institutions (ITS) in accordance with the requirements of the European Banking Authority (EBA), adjustment of support for the Bank window module for the introduction of the secure Laurentius e-service, adjustment of reporting support under the ZDLGPE Act and Article 65 of the ZIUZEOP Act, adjustment of support for providing data for activation of the mobile application for instant payments (Flik Pay and My DBS), and many other adjustments.

In the field of digital transformation of procedures, in 2020, the Bank used a document system to establish an information solution for the digitisation of the document flow for the preparation of materials for the Bank's committees, which will be put into production in 2021 and carried out pre-project activities to launch the project of digitising cash operations using the cloud service for electronic signing and signature pads at bank windows, which will be implemented in 2021. In 2020, the Bank launched the project of renovating its banking websites, which will continue in 2021. Also, in 2020, development activities began for inclusion in the new TIPS payment system for cross-border payments and for the replacement of the process centre for ATM and card operations. In parallel, activities related to the renovation of online banking took place. These activities will continue into 2021. However, development activities to ensure business continuity for STAND-IN instant payments were completed.

IX.3. INFORMATION AND CYBERSECURITY

With the development and digitisation of operations, information technology and data in digital form are playing a key role in supporting new banking services. This also creates new security threats related to the operation of the information system and the confidentiality, availability and integrity of data. The Bank is aware of the presence of security threats and their constant adaptation; therefore, it pays special attention to the management of security risks in the field of information technology. Information technology risk management is a process of continuous evaluation and improvement of security controls, as this is the only way for the Bank to follow the development of technology and global trends, which are increasingly targeting interconnection and online presence.

Thus, in 2020, the Bank also performed a risk assessment of the information system and self-assessment of the development of information and communication technology (ICT) in the field of information and cybersecurity, based on which it formed new and improved corrective measures. It also regularly performed independent assessments and reviews of security controls of the Bank's solutions, thus ensuring a higher level of cyber resilience. In 2020, in the field of information security, special attention was paid to the training of employees and the verification of their protective behaviour in order to identify security threats. As part of the process of regular improvement of security controls, other activities were carried out, which mainly included the harmonisation of information security with regulatory requirements, improvement of the process of information technology business continuity, improvement of monitoring security events and management of outsourcing risk. Monitoring of fulfilment of security activities, reporting on implemented measures, monitoring of security events and incidents, and new proposals for improving security are discussed quarterly by the Security Committee, which is the highest security body of the Bank.

With its activities in 2020, which included both organisational and technical measures based on a firmly established management framework, the Bank continues to meet the regulatory requirements, the expectations and guidelines of supervisory authorities, and follows good practice in information security and technology. Still, it continues to ensure that cybersecurity is not adversely affected by business processes and the organisation of work and that cybersecurity is always considered an important aspect in implementing a particular business process.

IX.4. MARKETING AND COMMUNICATION

In 2020, marketing and sales activities were again dedicated to attracting new customers and informing its existing customers of the current offers, novelties and changes in the Bank's operations. Having been traditionally devoted to the agro-food sector and the countryside, the Bank still pays special attention to these sectors consistent with its strategic orientation. Operating a business network of 78 branches across Slovenia, the Bank maintains an image of a universal bank, thus also approaching the general population.

One of the Bank's information channels for external communicationis its website, which the Marketing and Communications Department updates regularly with relevant information regarding the Bank's operation. The Bank is also present on Facebook and LinkedIn and a YouTube channel. All these channels and the e-bank enable two-way communication with customers, who have the opportunity to submit questions, suggestions, compliments and complaints online, and the Bank tries to answer them promptly and professionally. An intranet portal is used for internal communication in the Bank. At the end of 2020, the Marketing and Communications Department, in cooperation with the Human Resources Management Department, introduced DBS Novice, a newsletter for bank employees. Once a month or more often, if necessary, they get acquainted with the latest activities that concern all employees or with important information. The bulletin was received exceptionally positively among the employees.

Due to the COVID-19 epidemic, all fair-related activities were stopped, and all major events in which the Bank would have otherwise participate were cancelled. Thus, instead of presenting our offer at the Agra international fair, we presented it on the web portal of this event.

We again participated in the Agrobiznis project, which is implemented by the Finance paper. It is a project that purposefully and actively promotes the development of entrepreneurship and the introduction of new technologies in agriculture, and presents examples of good practices to the general and business public, while also awarding the best of them. Participation in this project is positive for the Bank in terms of positioning and strengthening the brand in the wider business community in the agro-food market. Since the project was not carried out in 2020 due to the epidemic, it was postponed by the organiser to 2021. The activities will take place as much as possibilities will allow.

As a socially responsible institution, in 2020, the Bank continued to give back as much as possible to the environment in which it operates through sponsorships and donations. Local sponsorships aim to strengthen relationships with local communities and stimulate their development, whereas those at the national level are complementary to cooperation at the local level. The projects we supported include the Ognjišče Radio online gala evening, the Woman of the Year event and the Wine Queen event. Already in 2019, the Bank joined the humanitarian project Chain of Good People run by The Association of Friends of Youth Ljubljana Moste-Polje and has remained its member. It is a country-wide project whose primary goal is for socially and economically disadvantaged families to gradually solve the problems that they encounter and stand on their own two feet.

In terms of advertising, the Bank was very active in 2020. A housing loan campaign was carried out in the spring and autumn. Regular advertising channels were complemented by television advertising, which was very successful, reaching more than 60% of the target population. We addressed the agro-food sector by advertising on national television, in the specialized show People and the Earth, and had weekly advertisements published in the Kmečki Glas newspaper for both the agro-food sector and the general population. With an e-mail campaign, we addressed our customers who do not yet have a MasterCard credit card, informing them about the new functionality, i.e. the possibility of paying in instalments.

Coverage in various Slovenian media is monitored daily. Based on media coverage, analysis of the Bank's media appearances is made annually to assess the reputation indicators and plan our corporate communication. For the second year in a row, we monitored the media by expanded keywords. In addition to internal keywords, these are also oriented at the Bank's owners and representatives.

In 2020, we recorded over 950 different media items on the Bank, and together with the expanded keywords, more than 2,400. The greatest number of articles were on the Bank's operations, on the activities of the Bank's representatives and its owners, and on the Bank as being authorised to sell numismatic products. In the media review for 2020, the Bank ranked at the very top with its housing loan offer. It also ranked on top of the list with the introduction of the Flik Pay application, which it was among the first to offer on the Slovenian market.

In 2020, a project to renovate the Bank's website began, which required a lot of commitment from the wider project team, i.e. the employees involved. The Bank will launch the renewed website in the first quarter of 2021. The new website will follow the current trends in the field, enable even better communication with customers, and contain the latest optimisation technology.

IX.5. HUMAN RESOURCE MANAGEMENT

IX.5.1. HUMAN RESOURCE POLICY

Due to rapid changes in the business environment, the Bank's needs for capabilities and knowledge change rapidly, requiring constant adaptations. HR management activities are in line with the Bank's development strategy and tailored to the daily needs of the extensive branch network and changing legislation.

The Bank has adopted the HR risk-taking and risk management policy, which is adapted to the size of the Bank, taking into consideration the nature and complexity of our activities. As part of the process, the Human Resources Management Department continually assesses the competence, education and experience of staff with regard to their powers, responsibilities and the complexity of the tasks they perform, defines key members of staff, proposes changes to the Remuneration Policy, records potential breaches of labour legislation and other acts, and proposes the adoption of measures to prevent repeat violations. Together with the Management Board and members of senior management, the Department assesses the HR risk level by holding regular interviews with the employees.

As at 31 December 2020, the Bank had 347 employees, 7 less than the previous year-end. The Bank replaced absent staff selectively: new recruitment from the market was only executed when the Bank had no suitable existing employees. In 2021, the HR policy will rest on top-quality professionals, the promotion of loyalty to the Bank and its values, and the gradual increase in the proportion of younger staff.

Employees by education profile are presented in Chapter VII.4. Human Resource Management.

Employees by gender, for the Bank
31 Dec 2020

	Women	Men	Total
No. of staff	275	72	347
Share of staff (in %)	79	21	100

31 Dec 2019

	Women	Men	Total
No. of staff	280	74	354
Share of staff (in %)	79	21	100

The average age of employees as at 31 December 2020 was 47, whereby 3.5% of staff had limited capability for work.

As assessed by the Bank, the education profile of all employees in the Bank is adequate regarding the needs of the business process; 59% of the Bank's employees have at least higher education, and 41% have intermediate or lower education.

The fluctuation level in the Bank is below the Slovenian average, with the largest number of employees leaving the Bank due to retirement or mutual termination of the employment relationship.

IX.5.2. RECRUITMENT POLICY

Disclosure of Recruitment Policy for the Selection of Members of the Management Body

The selection and appointment of members of the Bank's management body are regulated pursuant to the Slovenian legislation in force, recommendations of the Bank of Slovenia, the European Banking Authority (EBA) regulation and Bank's internal acts.

The Bank's Recruitment Policy for the Selection of Members of the Management Body lays down the criteria for the selection and appointment of members of the management body, a body which consists of the Bank's Management Board and Supervisory Board. The overall composition must ensure that members of the management body have the requisite expertise, skills and experience needed for an in-depth understanding of the Bank's operations and the risks it is exposed to and that members are able to commit sufficient time to working in the Bank. The composition of the management body has to be ensured to comprise complementary and diverse competences of its individual members. Diversity in the body's composition is reflected in its members' diverse professional experience and know-how, age, education, expertise and personal characteristics.

Adequate knowledge, skills and experience are considered to comprise theoretical experience gained through education and training, practical experience gained at previous positions, and knowledge and skills gained and proven by the member through their business conduct.

Based on a previous proposal by the President of the Management Board, the Supervisory Board Nomination Committee identifies and recommends to the Supervisory Board candidates for members of the Management

Board and identifies and recommends to the Bank's General Meeting candidates for members of the Supervisory Board. It also determines the tasks and requirements for each appointment and assesses the estimated time needed for the member of a management body to perform their function. The Bank informs a member of the management body of the estimated time they should dedicate to their duties and may require a confirmation from the member that they can, in fact, allocate sufficient time to exercising their function.

At least once a year, the Nomination Committee of the Supervisory Board evaluates the structure, size, composition and performance of the Management Board and the Supervisory Board and makes recommendations on possible changes, and at least once a year evaluates the knowledge, skills and experience of individual members of the Management Board and the Supervisory Board and the body as a whole.

IX.5.3. EMPLOYEE TRAINING

The Bank's employees attend various training and education courses to gain adequate expert competence. Due to the epidemic, most of them were carried out in electronic format in 2020. The major part of education was held to ensure improvement and training to meet the requirements of various work processes, for areas of banking and finance, marketing of non-bank products, information technology, and due to various legislative changes and developments.

Internal training courses were run by the Bank's expert colleagues, and external courses were held in cooperation with the Bank Association of Slovenia Education Centre and other expert institutions. The Bank also used e-learning courses.

Staff development is also ensured based on annual development interviews that are used to assess the performance of tasks in the past period and employee competences and to devise goals for the upcoming financial period.

In the recruitment procedure for vacant posts, the Bank prioritises existing employees, thus giving them the opportunity to acquire new knowledge and be promoted, while the staff structure of each organisational unit is also restructured internally.

Employees who achieve above-average results at work are rewarded monthly in accordance with the Rules on Performance, Promotions and Remuneration of Employees who perform their work on the basis of a collective labour agreement. Each year, employees are rewarded for having worked in the Bank continuously for a period of time by receiving performance bonuses. There is also a scholarship system for children of deceased employees and a solidarity aid system for employees that might need it.

IX.5.4. REMUNERATION POLICY

Information concerning the decision-making process used for determining the remuneration policy (Article 450 (a) of Regulation (EU) No 575/2013)

The Policy, which is applied at the Group level, was designed on the basis of the Banking Act (ZBan-2), the Bank of Slovenia Resolution on Internal Governance Arrangements, the Management Body and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks, Commission Delegated Regulation (EU) No 604/2014 and Delegated Regulation (EU) No 527/2014, as well as Guidelines on Sound Remuneration Policies in accordance with articles 74(3) and 75(2) of the Directive 2013/36/EU, and disclosures in accordance with Article 450 of the Regulation (EU) No 575/2013.

The Bank's remuneration policy reflects the Bank's position inside the Slovenian banking sector, its internal organisation, the nature, volume and complexity of the Bank's business and the Bank's financial standing, and is based on the results of the Bank, a separate organisational unit and individual employees.

Its objective is to set up the company's remuneration framework defining remuneration types and the criteria and rules on the basis of which employees receive payment.

The Supervisory Board has the authority to approve the Remuneration Policy once it is adopted by the Management Board, and it also has the competences that the Banking Act (ZBan-2) provides for a remuneration committee. The Supervisory Board makes independent professional assessments of remuneration policies and practices. These assessments constitute a basis for its forming and adopting proposals for the management body to make decisions regarding the remuneration that impacts risk, the Bank's risk management, capital and liquidity. The Supervisory Board also oversees the remuneration of senior management and employees with control functions.

Information on the link between pay and performance
(Article 450 (b) of Regulation (EU) No 575/2013)

Remuneration of identified staff is defined in their employment contract and consists of a fixed and variable component. The variable component is not a major factor in the overall remuneration amount, but it represents an efficient motivation pushing employees to reach or even exceed targets. Fixed remuneration is a high enough share of total employees' earnings for the Bank to be able to pursue an entirely flexible variable pay policy.

The total variable remuneration depends on the achievement of the projected results of the Bank.

The most important design characteristics of the remuneration system
(Article 450 (c) of Regulation (EU) No 575/2013)

Having been devised pursuant to national and European legislation and taking into account the principle of proportionality, the Remuneration Policy reflects the size, internal organisation, nature, scope and complexity of transactions, i.e. the Bank's activity.

These are the fundamental principles of the Remuneration Policy:
- the remuneration policy is compatible with and encourages wise and efficient risk management; exposure to risks above the risk levels acceptable for the Bank is not stimulated;
- the remuneration policy complies with the Bank's business strategy, goals, values and long-term interests, and it includes measures to prevent conflicts of interest;
- employees with control functions are independent of the organisational units they oversee; they have the required competences and receive adequate remuneration proportionate to meeting targets associated with their functions, independent of the performance of the business units they oversee.

The Bank has determined – taking into account its size, nature, volume and complexity of its operations – that the total variable pay amount for all Identified Staff, if not exceeding EUR 50,000 annually, does not represent variable remuneration for the purposes from Article 170 (1), items 7 and 8, of the Banking Act (ZBan-2).

Variable remuneration, including deferred components, is paid and becomes payable only if this is financially sound considering the financial standing of the Bank as a whole and if it is justified with the Bank's and each individual's performance.

The ratio between fixed and variable remuneration
(Article 450 (d) of Regulation (EU) No 575/2013)

The Remuneration Policy clearly differentiates between the criteria for determining:
- fixed remuneration, which should particularly reflect professional experience and level of the person's responsibility in the Bank, as laid down in the description of a person's duties, which constitute conditions of employment, and
- variable remuneration, which must reflect sustainable and risk-weighted performance above the expected

performance level, as laid down in the description of an employee's duties, which constitute conditions of employment. The variable component is based on a combination of the performance review of an individual and their business and organisational unit, and the Bank's overall financial result.

The necessary preconditions for variable pay are the Bank's reporting a profit and its reaching all fundamental targets.

Variable remuneration of Identified Staff may not exceed 100% of their fixed remuneration, and the remuneration of the holders of independent internal controls may not exceed 50% of their fixed remuneration.

Information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based
(Article 450 (e) of Regulation (EU) No 575/2013)

Performance criteria are laid down at the beginning of a financial year for the ongoing financial year. They are tailored to an individual's level of responsibility and the Bank's risks and capital requirements. Performance criteria in respect of other forms of variable remuneration for Identified staff are determined subject to the conditions and rules for variable remuneration.

Criteria to evaluate each individual's performance level

In addition to financial performance, other, non-financial criteria are also relevant to the Bank's generation of long-term value and are therefore taken into account; they include compliance with the valid rules and ethical standards, fostering innovation, acquired knowledge, personal development, respect for internal controls, devotion to the Bank's strategy and policies, successful risk management and internal controls, cooperation with other organisational units, particularly with internal control functions, contribution to teamwork, contribution to the development of junior staff, staff and customer satisfaction, concern for the Bank's reputation, attainment of own objectives, results-oriented approach, proper, diligent, professional and timely performance of work tasks, quality of written materials, concern for transfer of knowledge, and education.

Employees with control functions are independent of the organisational units they oversee; they have the required competences and receive adequate remuneration proportionate to meeting targets associated with their functions, independent of the performance of the business units they oversee.

Criteria at the level of an organisational unit

Commercial functions
a) Quantitative criteria: account shall be taken of meeting or exceeding the sales plan and the planned action for recovery, the success rate of streamlining the organisational unit, the profitability of operations.
b) Qualitative criteria: criteria important for creating long-term value of the Bank, including respect of rules and ethical standards, proposals made and proposed innovations, respect of internal controls, dedication to the strategy and policies of the Bank, the effectiveness of risk management and internal control, collaboration skills, particularly with internal control functions, teamwork and motivation, concern for the transfer of know-how, quality of writings, compliance with deadlines, the satisfaction of employees and customers, concern for the Bank's reputation.

Control or oversight functions
a) Qualitative criteria: non-financial criteria, including compliance with the valid rules and ethical standards, proposed innovations or their number, respect of internal controls, devotion to the Bank's strategy and risk policies, successful risk management and internal controls, quality of cooperation, teamwork and motivation, concern for the transmission of knowledge, quality of writings, respect for time limits, staff and customer satisfaction, concern for the reputation of the Bank.

Unethical behaviour and behaviour incompatible with regulations and internal acts cannot be replaced by financial success.

The main parameters and rationale for any variable component scheme and any other non-cash benefits (Article 450 (f) of Regulation (EU) No 575/2013)

The methodology for calculating pay under the collective labour agreement, the method of forming and distributing the aggregate volume of variable pay, and the system of promotions and remuneration for employees are governed by the rules on pay based on merit and performance, promotions and remuneration of employees who perform their work on the basis of a collective labour agreement, and separately for Identified Staff.

Eligibility criteria for variable remuneration of Identified Staff are stipulated in the Remuneration Policy. They are based on a combination of collective and individual performance criteria, taking into account the Bank's performance, the performance of an individual's organisational unit and the individual employee's performance. The criteria and their weight depend on whether Identified Staff have a commercial or control function.

The methodology for the assessment of Identified Staff is detailed in the internal Rules on the Remuneration of Identified Staff.

The business success of the bank is a prerequisite for variable remuneration.

Aggregate quantitative information on remuneration, broken down by business area Article 450 (g) of Regulation (EU) No 575/2013

	Supervisory Board	Manage-ment Board	Investment banking	Retail banking	Asset manage-ment	Corporate functions	Independent internal control functions	Other
Members (number of employees)	8	2						
Number of identified staff in terms of FTE				8.00		4.98	3.98	4.04
Number of identified staff in senior management positions				9		5	4	6
Total fixed remuneration (in EUR)	84,633.20	343,329.63		529,853.38		335,147.02	268,582.29	262,222.44
Total fixed in cash	84,633.20	343,329.63		529,853.38		335,147.02	268,582.29	262,222.44
Total fixed in equity								
Total fixed in other instruments								
Total variable remuneration (in EUR)		6,188.59		4,502.83		2,744.20	2,195.36	15,212.39
Total variable in cash		6,188.59		4,502.83		2,744.20	2,195.36	15,212.39
Total variable in equity								
Total variable in other instruments								
Total amount of variable remuneration deferred in year N (in EUR)								
Additional information on amount of total variable remuneration								
No. of employees eligible to severance pay								1.00
Total severance paid in year N (in EUR)								13,104.00
Maximum severance paid to individual (in EUR)								13,104.00

The table shows remuneration amounts for 2020, aggregated by business segments.

Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the Bank's risk profile, and total remuneration for each member of the management body or senior management (Article 450 (h) of Regulation (EU) No 575/2013)

The required information is disclosed in the Financial Report (Chapter 4.34. Related party transactions).

X. INTERNAL AUDIT DEPARTMENT

The Internal Audit Department operates in accordance with the Banking Act, the International Standards for the Professional Practice of Internal Auditing, the Code of Professional Ethics of Internal Auditors, and the Internal Audit Code of Ethics. The Department's operations are based on the Rules of Operation of the Internal Audit Department, which stipulate its powers, responsibilities and operations.

It is a standalone, independent organisational unit, functionally and organisationally separate from other units and directly subordinated to the Management Board, which ensures it can act independently. It regularly reports its findings and on its operations to the Management Board, Audit Committee and Supervisory Board.

The Internal Audit Department makes independent and impartial assurances with regard to the quality and effectiveness of internal governance arrangement, risk management, and the functioning of internal controls, thus contributing to improved functioning of the Bank and achieving its objectives. Its duties and responsibilities are carried out in accordance with the annual and strategic work plan approved by the Bank's Management Board and confirmed by the Supervisory Board. At the request of the Bank's Management Board, the Supervisory Board or at its own discretion, the Internal Audit Department also performs extraordinary audits.

In 2020, the Internal Audit Department operated in accordance with the approved annual work plan and performed 23 regular and two extraordinary internal audits. All internal audit reports were discussed by the Bank's Management Board, with half-yearly reports also reviewed by the Audit Committee and the Supervisory Board. The planned audits were based on risk analysis and regulatory requirements. As part of internal audits, the internal audit focused on checking credit and operational risks related to the Bank's strategy or statutory reviews, mainly in the areas of corporate and retail lending and other areas related to credit operations, information technology risks and property management. Audits of interest rate and personnel risk management and a comprehensive audit of the Bank's corporate governance were also performed. Audits of the restoration plan and the implementation of the remuneration policy were carried out due to regulatory requirements. The Department monitored compliance with the recommendations made on a monthly basis. The Internal Audit Department submitted quarterly reports on the implementation of recommendations to the Management Board, the Audit Committee and the Supervisory Board.

In 2020, the Department also engaged in advisory activities and coordinated the audits carried out by external supervisory institutions. The objectives of advisory activities are in line with the Bank's business policy and strategy. In addition to internal auditing and advisory activities, the Internal Audit Department staff devoted a significant part of their available time to monitoring the implementation of the recommendations given in the audits.

The Department had a staff of four internal auditors at the end of 2020. They all have a deep insight into banking processes, key risks and the auditing profession and regularly attend training. In 2019, external quality assurance of operation of the Internal Audit Department was also carried out, which confirmed the compliance of the Department’s work with the International Standards for the Professional Practice of Internal Auditing, its independence and impartiality.

XI. EVENTS AFTER THE 2020 FINANCIAL YEAR

The new coronavirus disease (COVID-19) epidemic, which began in early March 2020 and reappeared in autumn 2020, continues in January 2021. In this regard, the Group rapidly introduced all the preventive measures recommended by the National Institute of Public Health and those it deems necessary and will continue to implement them for the duration of the pandemic in 2021. It duly called upon employees to implement increased hygiene and protective measures, made recommendations to customers regarding banking operations, prepared a DBS Emergency Plan during the epidemic, envisaged additional measures to ensure smooth operations, convened a Crisis Team and further adopted appropriate decisions and related measures also based on the current decisions of the Government of the Republic of Slovenia, depending on the spread of the new virus.

At the beginning of January 2021, the Government of the Republic of Slovenia approved the eighth act to remedy the consequences of the epidemic, its key measures being the payment of the crisis allowance for December 2020, subsidising the increase in the minimum wage and extending the lay-off subsidy.

In January 2021, the Bank sold a major property it had owned for a long time.

No other relevant events occurred between the end of the reporting period and the date of the financial statements, such as would have an impact on the operations of the Bank and Group.

Impacts of COVID-19 on the Group's operations in 2021

While the epidemic did not have a major impact on the Bank's operations in 2020, we estimate that it could potentially increase in 2021, as most of the approved legal moratoriums expire this year, and the future course and duration of the epidemic are still unclear. If the epidemic does not end before the moratorium expires and if measures are still in place to close part of economic activities in Slovenia, customers may be unable to pay their obligations, resulting in an increase in non-performing loans and the need for additional impairments. We also expect a negative effect when new borrowers' financial statements for 2020 are submitted, as we estimate that their credit ratings will be lowered, which will be the basis for reclassifying customers into Group 2 in accordance with IFRS 9 and creating lifelong impairments, thereby increasing the scope of group impairments.

It is not possible to predict exactly what this effect will be, as we have observed that some customers performed even better in 2020 than in previous years, while others successfully responded to the situation with active cost reduction, and with the assistance of the state with its legal interventions and subsidies, which, despite the closure of certain activities, stabilised the business operations of the companies and helped maintain employment. We also note that the Bank's exposure to companies in the industries most affected by the epidemic is relatively limited. As at 31 December 2020, the Bank had deferred liabilities approved in the amount of EUR 6.342 million, of which most in trade in the amount of EUR 1.742 million and EUR 1.256 million in manufacturing, and only EUR 421 thousand in catering, which is one of the most affected activities. The amount of deferred liabilities to natural persons amounts to EUR 922 thousand. The share of deferred liabilities in all receivables to be classified in the Bank is 0.61%.

Notwithstanding the above, in preparing the plan for 2021, the Bank took into account the probability of the formation of higher impairments due to the epidemic, especially in 2021, namely in the amount of EUR 3.1 million, and in 2022 in the amount of EUR 4.3 million, after which the situation is expected to normalise. From a revenue point of view, we additionally estimate that the ECB's monetary policy, which is even more expansive due to the epidemic, will have a greater impact on the Bank's interest income, which in turn affects the strongly negative Euribor values as well as negative earnings on the debt securities market, where the Bank places its liquid assets. The effect of this is projected as a decline in interest income of EUR 1 million in 2021. Due to restrictions on the operation of branches, the continuation of the epidemic will also have an impact on non-interest income, but this cannot be estimated because of the uncertain duration of the epidemic. At the cost level, additional or higher costs resulting from the epidemic than in 2020 are no longer expected.

The Bank has an adequate amount of formed capital ratios, including the so-called capital buffer, which is intended primarily for crisis situations. The final impact of COVID-19 on the Bank's operations in 2021 will depend mainly on the duration of the epidemic; if it ends sooner, its impact on the Bank's operations is expected to be correspondingly lower.

FINANCIAL STATEMENTS

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Deželna banka Slovenije Group
and
Deželna banka Slovenije d. d.

Financial Statements under International Financial Reporting Standards for the year ended 31 December 2020

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Management Board hereby approves the financial statements of the Deželna banka Slovenije Group and Deželna banka Slovenije d. d. for the year ended 31 December 2020 (pages 72 to 77 of the Annual Report), along with the accounting policies used and notes to the financial statements (pages 78 to 181 of the Annual Report).

We hereby reaffirm our responsibility for the Annual Report, which is a true and fair presentation of financial standing of the Group and the Bank as at 31 December 2020, and for the results of their operations for the year ended on the same day.

The Management Board confirms that suitable accounting policies were consistently adhered to, and that accounting estimates were conducted in accordance with fair value. The financial statements were drawn up on the assumption of going concern and pursuant to the legislation and stipulations of International Financial Reporting Standards as adopted by the European Union.

The Management Board is responsible for the appropriate management of accounts, for the adoption of the measures required to safeguard company assets, and for the detection and prevention of fraud and other irregularities and illegal activities.

The Tax Authority may conduct a tax inspection of the current reporting period any time within the following five years, and in this connection impose additional tax assessments and penalties. The Management Board knows of no circumstances that could give rise to a potential material liability in this regard.

BANK MANAGEMENT BOARD:

Member of the Management Board: Barbara Cerovšek Zupančič MSc	President of the Management Board: Marko Rozman

DEŽELNA BANKA SLOVENIJE d.d. LJUBLJANA 1

Ljubljana, 19 March 2021

INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report

To the shareholders of DEŽELNA BANKA SLOVENIJE d.d.

Opinion

We have audited the separate financial statements of DEŽELNA BANKA SLOVENIJE d.d. (the Company) and the consolidated financial statements of DBS Group (the Group), which comprise the statement of financial position and the consolidated statement of financial position as at 31 December 2020, the income statement and the consolidated income statement, the statement of other comprehensive income and the consolidated statement of other comprehensive income, the statement of changes in equity and the consolidated statement of changes in equity, the statement of cash flows and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements and the consolidated financial statements present fairly, in all material respects, the financial position of the company DEŽELNA BANKA SLOVENIJE d.d. and DBS Group as at 31 December 2020 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with the 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 of the Council"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Emphasise of matters

As disclosed in note 5.9 "Impact of COVID-19 on the Group's operations in 2020" in the financial section of the annual report, the COVID-19 pandemic had a significant impact on the company's and the Group's operations in the 2020 financial year. Note 4.36 "Significant events subsequent to the statement of financial position date" in the financial section of the annual report presents an assessment of the expected impact of the COVID-19 pandemic on the company's and the Group's future performance. The impact on the future performance of the company and the Group cannot be reliably estimated due to the high level of uncertainty. Management has made its best estimate of the potential impact on the company's and the Group's operations for 2021. Our opinion with regard to the emphasis of matter is unmodified.

We emphasise that the presented amounts without the corrections in the Group's consolidated financial statements described in note 2.3 "Correction of errors in the Group's financial statements" in the financial section of the annual report based on the Group's consolidated financial statements as at 1 January 2019 and 31 December 2019. As part of our audit of the Group's consolidated financial statements for the 2020 financial year, we audited the corrections described in the "Correction of errors in the Group's financial statements" note. In our opinion, those corrections to the Group's consolidated financial statements are appropriate and have been properly taken into account by the Group. The error correction did not have any impact on the separate financial statements of the company. Our opinion with regard to the emphasis of matter is unmodified.

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 the 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. The key audit matters and the audit procedures in connection to the key audit matters are described below.

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Impairment of loans to customers

As at 31 December 2020, the Company's separate financial statements presented gross loans to customers measured at amortised cost in a total amount of €777.1 million and a related impairment allowance of €16.9 million. As at 31 December 2020, the Group's separate financial statements presented gross loans to customers measured at amortised cost in a total amount of €780.8 million and a related impairment allowance of €17.9 million.

The recognition of adequate impairment allowances for loans to customers constitutes the best possible estimate of expected credit losses. Due to the materiality of the amount and the use of significant judgements and estimates by management based on the application of complex methods, we considered the impairments for loans to customers to be a key audit matter. The Bank and the Group calculate expected credit losses using the expected credit loss model in accordance with IFRS 9. Management has presented further information on loan impairments in sections 4.7 Loans to non-bank customers measured at amortised cost, 3.14 Impairments and 5.1 Credit risk of the annual report.

The expected credit loss model includes the measurement of expected credit losses for a period of up to one year or the entire lifetime, depending on whether circumstances have arisen since the approval of the loan that have the effect of increasing credit risk.

The model uses a dual-measurement approach under which the impairment allowance is measured as either 12-month expected credit loss or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition.

Our audit procedures included, among others:

- Reviewing the methodology for estimating expected credit losses at the level of the Bank or the Group, assessing its compliance with the requirements of IFRS 9 and enquiring about any changes to the methodology compared to the previous year;
- Verifying the adequacy of the IT system and the general IT controls in place in the areas of the control environment, data security and access authorisation;
- Testing the operating effectiveness of selected key internal controls over the approval, recording and monitoring of loans to customers, the identification of deterioration in the creditworthiness of customers, the classification of loans to customers as performing or non-performing, the calculation of days past due, collateral valuation and the calculation of the adequacy of recognised impairment allowances.

Impairments on performing loans to customers (Stage 1 and Stage 2 in the IFRS 9 hierarchy) and non-performing loans to customers (Stage 3 in the IFRS 9 classification hierarchy) are calculated by the Bank using the credit loss model.

The model's assumptions are based on historical information, the identification of loans to customers with a significant increase in credit risk and forward-looking information. As the inputs for the credit loss model are subject to change and reflect management's subjective judgments, we have obtained sufficient audit evidence in response to audit risk to provide a basis for our opinion.

Our audit procedures included assessing the appropriateness of the assumptions and methodologies used to recognise impairments in accordance with IFRS 9. The appropriateness of the assumptions and methodologies used was verified by performing the following audit procedures:

- Assessing the appropriateness of the definition of defaults and their classification in accordance with the requirements of IFRS 9;
- Assessing the appropriateness of the approach for calculating expected credit losses, including the calculation of risk parameters and macroeconomic factors (probability of default, loss given default and exposure at default);
- Making enquiries with the Bank's credit risk management staff, in particular in relation to assessing the appropriateness of the consideration of the expected impact of the COVID-19 pandemic on the Group's operations.

In testing the Group's estimation of collective expected credit losses, our audit procedures included, among others:

- Testing the credit loss estimation model, including model approval and validation processes;
- Obtaining an understanding of the key internal rating system for the hierarchical staging of loans to customers, together with determining the threshold for a significant credit obligation past due and assessing the underlying assumptions and the sufficiency of the data used by management;

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- Assessing the appropriateness of the forward-looking information used in the estimation of expected credit losses;
- Challenging the applied LGD and PD parameters by back-testing, using historical default data and by reference to historical realised losses on defaults;
- Assessing the appropriateness of the staging of credit exposures to customers based on a selected sample;
- Verifying the compliance of the recognised impairments with the model used to determine expected credit losses based on a selected sample;
- Assessing subsequent changes in credit risk to determine whether there has been a significant increase in credit risk resulting in changes in staging and consequently in a requirement to measure lifetime expected credit losses;
- Verifying the rationale for the changes made to the model parameters in 2020, by reference to our understanding of the Bank's business and current economic trends, including the impact of the COVID-19 pandemic;
- Assessing the adequacy of the impairment allowances in relation to the proportion of gross non-performing loans to customers in total credit exposures to customers and the coverage of provisions for non-performing exposures.

For non-performing exposures, the individual assessment of the necessary impairments is based on an analysis of each individual borrower as well as an estimate of the fair value of the collateral. The amount of necessary impairment allowances is based on estimates of future cash flows, which includes significant subjective estimates that are associated with a higher audit risk.

In testing the individual estimation of expected credit losses, our audit procedures included, among others:

- Selecting a sample of non-performing exposures, with a focus on those with the greatest potential impact on the Bank's and the Group's financial statements due to their magnitude and risk exposure. The sample included loans to customers operating in higher-risk industries that may be affected by the COVID-19 pandemic, loans to customers with low provision coverage and loans to customers with a significantly changed risk assessment compared to the previous financial year;
- Assessing the factors on the basis of which loans have been classified as non-performing loans to customers, including reviewing loan files and making enquiries with the competent authorities to identify factors that would indicate a need to reclassify those loans as performing loans;
- Obtaining an understanding of the latest situation for selected borrowers and the basis for measuring impairment, for which we also performed a review of the inputs to verify the accuracy of the calculation;
- Assessing the adequacy of the impairment allowances recognised on non-performing loans, which we tested by critically assessing the appropriateness of the assumptions used in the estimates of future cash flows based on the types of scenarios used by the Bank to calculate the necessary impairment allowances. We paid particular attention to reviewing the estimate of discount rates used in the estimation of future cash flows and the estimated value of the collateral together with the estimated liquidation period. Where necessary, we verified the appropriateness of the valuations prepared by the Bank with the help of a specialist (an independent real estate valuation expert).

We assessed the adequacy of the disclosures to the financial statements in accordance with the requirements of the standards regarding supplementary information on financial assets measured at amortised cost (loans to non-bank customers), the impairment of financial assets and credit risk presented in the annual report.

Other information

Management is responsible for the other information. Other information comprise the information included in the Annual Report other than the separate and the consolidated financial statements and auditor`s report thereon.

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, legal requirements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. Based on the procedures performed, to the extent we are able to assess it, we report that:

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- The other information describing the facts that are also presented in the separate and consolidated financial statements is, in all materials respects, consistent with the separate and consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation;
- Based on the knowledge and understanding of the Company and Group obtained in the audit, on the other information obtained, we have not identified any material misstatement.

Responsibilities of management and the supervisory board for the separate and the consolidated financial statements

Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the EU and for such internal control as management determines 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, management is responsible for assessing the Company's and Group's ability to continue as going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and Group or to cease operations, or has no realistic alternative but to do so.

The supervisory board is responsible for overseeing the Company's and the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the separate and the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the separate and the consolidated financial statements as a whole are free from material misstatement whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA and Regulation (EU) No 537/2014 of the European Parliament and of the Council 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 ISA and Regulation (EU) No 537/2014 of the European Parliament and of the Council, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

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

We also provide the audit committee and the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee and the supervisory board, we determine those matters, that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other reporting obligations in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council

Appointment and Approval of the Auditor

We were appointed as the statutory auditor of the Company's and Group's separate and consolidated financial statements by the Companies shareholders at the shareholders' meeting held on 31 May 2019 for the first time for financial years 2019 – 2022.

Consistence with the Additional Report to the 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 Company and Group, which we issued on 19 March 2021.

Provision of Non-Audit Services

We hereby declare that we did not provide any of the prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 of the European Parliament and of the Council to the audited Company and the Group, and that we ensured our independence from the audited Company and Group in conducting the audit.

Apart from statutory audit services and the services disclosed in the annual report and in the separate and consolidated financial statements, no other services which were provided by us to the Company and its controlled undertakings.

Ljubljana, 19. March 2021

MAZARS d.o.o.

Jure Marko, certified auditor

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I. Financial statements as at 31 December 2020

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

in EUR thousand

Code	Items	Note	Group DBS 1-12 2020	Group DBS 1-12 2019	DBS d. d. 1-12 2020	DBS d. d. 1-12 2019
1	Interest income		17,525	18,921	17,175	18,677
2	Interest expense		(973)	(1,647)	(973)	(1,648)
3	**Net interest income** (1 - 2)	3.1.	**16,552**	**17,274**	**16,202**	**17,029**
4	Dividends	3.2.	26	29	26	29
5	Fee (commission) income		9,996	10,153	10,014	10,173
6	Fee (commission) expense		(1,917)	(1,964)	(1,910)	(1,957)
7	**Net fee (commission) income** (5 - 6)	3.3.	**8,079**	**8,189**	**8,104**	**8,216**
8	Realised gains/losses from financial assets and liabilities not measured at fair value through profit or loss	3.4.	221	895	224	895
9	Net gains/losses on financial assets and liabilities held for trading	3.5.	138	164	138	165
10	Net gains/losses on non-trading financial assets mandatorily at fair value through profit or loss	3.6.	25	0	25	0
11	Foreign exchange translation	3.7.	(2)	3	0	2
12	Net gains/losses on derecognition of assets	3.8.	447	673	435	672
13	Other net operating gains/losses	3.9.	1,027	840	902	696
14	Administrative expenses	3.10.	(17,801)	(17,794)	(17,432)	(17,413)
15	Cash contributions to resolution funds and deposit guarantee schemes	3.11.	(1,287)	(1,324)	(1,287)	(1,324)
16	Depreciation and amortisation	3.12.	(1,375)	(1,466)	(1,287)	(1,334)
17	Provisions	3.13.	(292)	(60)	(162)	(36)
18	Impairment charge	3.14.	39	(3,121)	302	(6,678)
19	Net gains/losses from non-current assets held for sale and related liabilities	3.15.	(2,063)	12	0	0
20	**PROFIT/LOSS FROM CONTINUOUS OPERATIONS BEFORE TAX** (3 + 4 + sum (7 to 19))		**3,734**	**4,314**	**6,190**	**919**
21	Income tax	3.16.	(1,140)	(197)	(1,138)	(193)
22	**PROFIT/LOSS FROM CONTINUOUS OPERATIONS AFTER TAX** (20 + 21)		**2,594**	**4,117**	**5,052**	**726**
23	Profit/loss from discontinued operations, net of tax	3.17.	724	(2,861)	0	0
24	**PROFIT/LOSS FOR THE YEAR** (22 + 23)		**3,318**	**1,256**	**5,052**	**726**
	a) Attributable to owners of the parent		3,318	1,256	5,052	726

The accompanying notes form an integral part of these financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

in EUR thousand

Code	Items	Note	Group DBS 1-12 2020	Group DBS 1-12 2019	DBS d. d. 1-12 2020	DBS d. d. 1-12 2019
1	**PROFIT/LOSS FOR THE YEAR AFTER TAX**		**3,318**	**1,256**	**5,052**	**726**
2	**OTHER COMPREHENSIVE INCOME AFTER TAX** (3)		**95**	**(179)**	**10**	**(123)**
3	**ITEMS NOT TO BE RECLASSIFIED TO PROFIT/LOSS** (3.1 + 3.2 + 3.3 + 3.4)		**95**	**(179)**	**10**	**(123)**
3.1	Actuarial gains/losses on defined benefit pension plans	4.28.	96	(198)	11	(195)
3.2	Gains/losses associated with changes in the fair value of investments into equity instruments measured at fair value through other comprehensive income	4.4. b	(6)	66	(6)	66
3.3	Income tax relating to components of items not be reclassified to profit or loss		5	6	5	6
3.4	Gains/losses relating to non-current assets held for sale		0	(53)	0	0
4	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR AFTER TAX** (1 + 2)		**3,413**	**1,077**	**5,062**	**603**
	a) Attributable to owners of the parent		3,413	1,077	5,062	603

The accompanying notes form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

in EUR thousand

Code	Items	Note	Group DBS		DBS d. d.	
			2020	2019*	2020	2019
1	Cash, balances at central banks, and sight deposits at banks	4.1.	87,281	98,951	87,275	98,944
2	Financial assets held for trading	4.2.	88	110	88	110
3	Non-trading financial assets mandatorily measured at fair value through profit or loss	4.3.	1,258	1,562	1,258	1,562
4	Financial assets measured at fair value through other comprehensive income	4.4.	3,047	3,041	3,047	3,041
5	Financial assets measured at amortised cost		914,200	874,601	911,581	873,099
	- Debt securities	4.5.	149,112	117,757	149,112	117,757
	- Loans and advances to banks	4.6.	206	6,618	206	6,618
	- Loans and advances to customers	4.7.	762,761	747,012	760,231	745,587
	- Other financial assets	4.8.	2,121	3,214	2,032	3,137
6	Long-term equity participation in subsidiaries, associates and joint ventures	4.9.	0	0	4,238	4,215
7	Tangible assets		33,619	28,715	32,028	28,209
	- Property, plant and equipment	4.10.	10,562	11,475	10,269	10,969
	- Investment property	4.11.	23,057	17,240	21,759	17,240
8	Intangible assets	4.12.	584	591	505	529
9	Income tax assets	4.13.	3,938	5,306	3,938	5,306
	- Current tax assets		233	528	233	528
	- Deferred tax assets		3,705	4,778	3,705	4,778
10	Other assets	4.14.	1,212	3,444	1,174	2,117
11	Non-current assets held for sale, and discontinued operations	4.15.	153	26,059	0	806
12	**TOTAL ASSETS** (from 1 to 11)		**1,045,380**	**1,042,380**	**1,045,132**	**1,017,938**
13	Financial liabilities held for trading	4.16.	24	110	24	110
14	Financial liabilities measured at amortised cost		973,728	951,010	973,933	951,249
	- Deposits by banks and central banks	4.17.	426	339	426	339
	- Deposits by customers	4.18.	966,730	894,724	966,969	894,987
	- Borrowings from banks and central banks	4.19.	2,057	51,498	2,057	51,498
	- Other financial liabilities	4.20.	4,515	4,449	4,481	4,425
15	Provisions	4.22.	2,383	1,753	2,360	2,198
16	Income tax liabilities	4.23.	35	76	34	76
	- Current tax liabilities		30	73	29	73
	- Deferred tax liabilities		5	3	5	3
17	Other liabilities	4.24.	1,044	1,695	878	1,411
18	Liabilities relating to non-current assets held for sale and discontinued operations	4.25.	0	22,932	0	0
19	**TOTAL LIABILITIES** (from 13 to 18)		**977,214**	**977,576**	**977,229**	**955,044**
20	Share capital	4.26.	17,811	17,811	17,811	17,811
21	Share premium	4.27.	31,257	31,257	31,257	31,257
22	Accumulated other comprehensive income	4.28.	(657)	(752)	(660)	(670)
23	Revenue reserves	4.29.	15,097	14,378	15,097	14,378
24	Treasury shares	4.30.	(601)	(601)	(601)	(601)
25	Retained earnings (including profit/loss for the year)	4.31.	5,259	2,711	4,999	719
26	**EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** (from 20 to 25)		**68,166**	**64,804**	**67,903**	**62,894**
27	TOTAL EQUITY (26)		68,166	64,804	67,903	62,894
28	**TOTAL EQUITY AND LIABILITIES** (19 + 27)		**1,045,380**	**1,042,380**	**1,045,132**	**1,017,938**

* Consolidated financial statements taking into account the error correction as at 1 Jan 2019.

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

Group DBS in EUR thousand

Code	Items	Share capital	Share premium	Accumulated other comprehensive income	Revenue reserves	Retained earnings (including profit/loss for the year)	Treasury shares (deduction)	Equity attributable to owners of the parent (from 3 to 8)	Total equity (9)
1	2	3	4	5	6	7	8	9	10
1	**OPENING BALANCE FOR THE PERIOD (before adjustment)**	**17,811**	**31,257**	**(752)**	**14,378**	**2,711**	**(601)**	**64,804**	**64,804**
2	**OPENING BALANCE FOR THE PERIOD** (1)	**17,811**	**31,257**	**(752)**	**14,378**	**2,711**	**(601)**	**64,804**	**64,804**
3	**Comprehensive income for the year (net of tax)**	**0**	**0**	**95**	**0**	**3,318**	**0**	**3,413**	**3,413**
4	Allocation of net profit to revenue reserves	0	0	0	719	(719)	0	0	**0**
5	Other	0	0	0	0	(51)	0	(51)	**(51)**
6	**CLOSING BALANCE FOR THE PERIOD** (2 + 3 + 4 + 5)	**17,811**	**31,257**	**(657)**	**15,097**	**5,259**	**(601)**	**68,166**	**68,166**

REVISED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

Group DBS in EUR thousand

Code	Items	Share capital	Share premium	Accumulated other comprehensive income	Revenue reserves	Retained earnings (including profit/loss for the year)	Treasury shares (deduction)	Equity attributable to owners of the parent (from 3 to 8)	Total equity (9)
1	2	3	4	5	6	7	8	9	10
1	**OPENING BALANCE FOR THE PERIOD (before adjustment)**	**17,811**	**31,257**	**(573)**	**11,701**	**8,918**	**(612)**	**68,502**	**68,502**
2	Effects of error correction	0	0	0	0	(3,916)	0	(3,916)	**(3,916)**
3	**OPENING BALANCE FOR THE PERIOD** (1 + 2)	**17,811**	**31,257**	**(573)**	**11,701**	**5,002**	**(612)**	**64,586**	**64,586**
4	**Comprehensive income for the year (net of tax)**	**0**	**0**	**(179)**	**0**	**1,256**	**0**	**1,077**	**1,077**
5	Dividends paid (accounted)	0	0	0	0	(892)	0	(892)	**(892)**
6	Allocation of net profit to revenue reserves	0	0	0	2,677	(2,677)	0	0	**0**
7	Other	0	0	0	0	22	11	33	**33**
8	**CLOSING BALANCE FOR THE PERIOD** (3 + 4 + 5 + 6 + 7)	**17,811**	**31,257**	**(752)**	**14,378**	**2,711**	**(601)**	**64,804**	**64,804**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

DBS d. d. in EUR thousand

Code	Items	Share capital	Share premium	Accumulated other comprehensive income	Revenue reserves	Retained earnings (including profit/loss for the year)	Treasury shares (deduction)	Total equity (from 3 to 8)
1	2	3	4	5	6	7	8	9
1	**OPENING BALANCE FOR THE PERIOD (before adjustment)**	**17,811**	**31,257**	**(670)**	**14,378**	**719**	**(601)**	**62,894**
2	**OPENING BALANCE FOR THE PERIOD** (1)	**17,811**	**31,257**	**(670)**	**14,378**	**719**	**(601)**	**62,894**
3	**Comprehensive income for the year (net of tax)**	**0**	**0**	**10**	**0**	**5,052**	**0**	**5,062**
4	Allocation of net profit to revenue reserves	0	0	0	719	(719)	0	**0**
5	Other*	0	0	0	0	(53)	0	**(53)**
6	**CLOSING BALANCE FOR THE PERIOD** (2 + 3 + 4 + 5)	**17,811**	**31,257**	**(660)**	**15,097**	**4,999**	**(601)**	**67,903**
7	**ACCUMULATED PROFIT FOR THE YEAR**	**0**	**0**	**0**	**0**	**4,999**	**0**	**4,999**

* Losses through other comprehensive income.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

DBS d. d. in EUR thousand

Code	Items	Share capital	Share premium	Accumulated other comprehensive income	Revenue reserves	Retained earnings (including profit/loss for the year)	Treasury shares (deduction)	Total equity (from 3 to 8)
1	2	3	4	5	6	7	8	9
1	**OPENING BALANCE FOR THE PERIOD (before adjustment)**	**17,811**	**31,257**	**(547)**	**11,701**	**3,570**	**(601)**	**63,191**
2	**OPENING BALANCE FOR THE PERIOD** (1)	**17,811**	**31,257**	**(547)**	**11,701**	**3,570**	**(601)**	**63,191**
3	**Comprehensive income for the year (net of tax)**	**0**	**0**	**(123)**	**0**	**726**	**0**	**603**
4	Dividends paid (accounted)	0	0	0	0	(892)	0	**(892)**
5	Allocation of net profit to revenue reserves	0	0	0	2,677	(2,677)	0	**0**
6	Other*	0	0	0	0	(8)	0	**(8)**
7	**CLOSING BALANCE FOR THE PERIOD** (2 + 3 + 4 + 5 + 6)	**17,811**	**31,257**	**(670)**	**14,378**	**719**	**(601)**	**62,894**
8	**ACCUMULATED PROFIT FOR THE YEAR**	**0**	**0**	**0**	**0**	**719**	**0**	**719**

* Losses on equities through other comprehensive income.

The accompanying notes form an integral part of these financial statements.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

in EUR thousand

		Group DBS		DBS d. d.	
Code	Items	2020	2019	2020	2019
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**				
a)	**Interest received**	**16,244**	**18,266**	**15,925**	**17,959**
	Interest paid	(1,244)	(2,117)	(1,245)	(2,117)
	Dividends received	26	29	26	29
	Fee and commission received	10,018	10,169	10,037	10,189
	Fee and commission paid	(1,916)	(1,956)	(1,911)	(1,949)
	Realised gains on financial assets and liabilities not measured at fair value through profit or loss	198	1,046	201	1,046
	Realised losses on financial assets and liabilities not measured at fair value through profit or loss	(28)	(139)	(28)	(139)
	Net trading income	133	164	134	165
	Cash payments to employees and suppliers	(16,825)	(17,393)	(16,461)	(17,019)
	Other income	1,039	851	913	705
	Other expenses	(2,461)	(2,524)	(2,411)	(2,515)
	Cash flows from operating activities before changes in operating assets and liabilities	**5,184**	**6,396**	**5,180**	**6,354**
b)	**(Increases)/decreases in operating assets (no cash equivalents)**	**(13,527)**	**(8,712)**	**(13,115)**	**(8,931)**
	Net (increase)/decrease in financial assets held for trading	24	(98)	24	(98)
	Net (increase)/decrease in financial assets designated at fair value through profit or loss	304	962	304	962
	Net (increase)/decrease in financial assets measured at fair value through other comprehensive income	(12)	11	(12)	11
	Net (increase)/decrease in loans and other financial assets measured at amortised cost	(14,672)	(7,917)	(14,133)	(7,732)
	Net (increase)/decrease in non-current assets held for sale	18	(12)	0	0
	Net (increase)/decrease in other assets	811	(1,658)	702	(2,074)
c)	**Increases/(decreases) in operating liabilities**	**25,805**	**30,880**	**26,446**	**30,280**
	Net increase/(decrease) in liabilities with central bank	(82)	108	(82)	108
	through profit or loss	26,219	29,646	26,248	29,744
	Net (increase)/decrease in liabilities from non-current assets held for sale	(332)	1,126	280	428
č)	**(Increases)/decreases in non-current assets held for sale and discontinued operations**	**1,372**	**1,134**	**0**	**0**
d)	**Cash flows from operating activities** (a + b + c + č)	**18,834**	**29,687**	**18,511**	**27,703**
e)	**Income taxes (paid)/received**	**192**	**(1,314)**	**192**	**(1,314)**
f)	**Net cash from operating activities** (d + e)	**19,026**	**28,373**	**18,703**	**26,389**
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**				
a)	**Investing inflows**	**11,468**	**29,105**	**11,319**	**28,990**
	Proceeds from sale of property, plant and equipment, and investment property	2,489	9,175	2,340	9,175
	Proceeds from sale of intangible assets	0	115	0	0
	Proceeds from sale of investments in debt securities measured at amortised cost	8,423	19,815	8,423	19,815
	Proceeds from non-current assets or liabilities held for sale	556	0	556	0
b)	**Investing outflows**	**(45,150)**	**(29,891)**	**(45,124)**	**(29,842)**
	(Purchase of property, plant and equipment, and investment property)	(6,379)	(961)	(6,378)	(940)
	(Purchase of intangible long-term assets)	(136)	(267)	(111)	(239)
	(Purchase of debt securities measured at amortised cost)	(38,635)	(28,663)	(38,635)	(28,663)
c)	**Inflows/(outflows) from non-current assets held for sale and discontinued operations**	**(447)**	**(267)**	**0**	**0**
č)	**Net cash from investing activities** (a + b + c)	**(34,129)**	**(1,053)**	**(33,805)**	**(852)**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**				
a)	**Inflows from financing activities**	**70**	**0**	**70**	**0**
	Issue of subordinated liabilities	70	0	70	0
b)	**Outflows from financing activities**	**(2,670)**	**(3,892)**	**(2,670)**	**(3,892)**
	(Dividends paid)	0	(892)	0	(892)
	(Repayment of subordinated liabilities)	(2,670)	0	(2,670)	0
	(Other outflows from financing activities)	0	(3,000)	0	(3,000)
c)	**Inflows/(outflows) from non-current assets held for sale and discontinued operations**	**0**	**(2,057)**	**0**	**0**
č)	**Net cash from financing activities** (a + b + c)	**(2,600)**	**(5,949)**	**(2,600)**	**(3,892)**
D.	**Effects of exchange rates on cash and cash equivalents**	**(282)**	**220**	**(282)**	**220**
E.	**Net increase in cash and cash equivalents** (Af + Bč + Cč)	**(17,703)**	**21,371**	**(17,702)**	**21,645**
F.	**Opening balance of cash and cash equivalents** (Note 4.1. b)	**105,364**	**83,773**	**105,357**	**83,492**
G.	**Closing balance of cash and cash equivalents** (D + E + F) (Note 4.1. b)	**87,379**	**105,364**	**87,373**	**105,357**

The accompanying notes form an integral part of these financial statements.

The Management Board of Deželna banka Slovenije d. d. hereby approves the financial statements and the notes to the statements.

BANK MANAGEMENT BOARD:

Member of the Management Board:
Barbara Cerovšek Zupančič MSc

President of the Management Board:
Marko Rozman

DEŽELNA BANKA SLOVENIJE d.d.
LJUBLJANA
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Ljubljana, 19 March 2021

II. Notes to financial statements for 2020

1. GENERAL INFORMATION

The Deželna banka Slovenije Group (hereafter Group) consists of Deželna banka Slovenije d. d. (the Bank) and four subsidiaries: DBS Leasing d. o. o. (hereafter DBS Leasing), real estate company DBS Nepremičnine d. o. o. (hereafter DBS Nepremičnine), and real estate company DBS Adria d. o. o. (hereafter DBS Adria).

Deželna banka Slovenije d. d. is a Slovenian private company limited by shares, with its business address Deželna banka Slovenije d. d., Kolodvorska 9, Ljubljana, Slovenia.

Deželna banka Slovenije d. d. is not a public company under Article 99 of the Markets in Financial Instruments Act, because it does not meet the conditions under the provisions of the Act. Its shares are not traded in any regulated market.

DBS Leasing is a universal leasing company engaged in financial leases of vehicles, equipment and real estate. DBS Nepremičnine is a company engaged in selling the Group's real estate, renting it out, and developing real estate projects. DBS Adria is a company engaged in real estate activities, based abroad.

At the beginning of 2014, Deželna banka Slovenije d. d. injected additional capital into Semenarna, gaining control over it and recognising it as a subsidiary. Semenarna is the largest seed-producer, seed-wholesaler and seed-retailer, and seed exports company in Slovenia and the region. After increasing the capital of Semenarna with cash contributions during its compulsory composition in 2013 and 2014, the Bank became Semenarna's 100% owner in July 2014. In June 2015, Semenarna transformed from a joint stock company to a limited liability company.

In 2019, the Bank initiated the sale of its subsidiary Semenarna Ljubljana d. o .o., which it completed in March 2020.

As at 31 December 2020, due to the sale of Semenarna having completed in March 2020, the Bank derecognised its equity investment under the balance sheet item Non-current assets held for sale and discontinued operations. As a result, in the consolidation process, it excluded the effects from the consolidation of Semenarna from individual items of the Group's financial statements for the period from 1 January to 31 March 2020. Effects of operations of Group companies for this period recorded under items of ordinary operations of the Group thus exclude Semenarna. The effects of the consolidation of Semenarna's profit or loss for this period were recorded under the balance sheet item Net profit or loss from discontinued operations.

The Group prepares disclosures subject to prudential consolidation (Chapter 5 and Section on Risk and Capital Management in this Annual Report), which include the controlling company DBS d. d., as well as subsidiaries DBS Leasing and DBS Nepremičnine under Directive 2013/36/EU (CRD IV) and Regulation EU No 575/2013 (CRR).

In 2020, the consumer price index growth rate was negative at –1.1% (2019: 1.8%). From 1 January 2007, Slovenia's national currency has been the euro, which has thus also become the functional and presentation currency of the Bank's financial statements. All amounts in the financial statements and related notes are given in euro thousands, unless specified otherwise.

2. CRITICAL ACCOUNTING POLICIES

2.1. Basis for presentation of financial statements

Financial statements have been prepared under International Financial Reporting Standards (IFRS) as adopted by the EU. Consolidated financial statements record the subsidiaries as fully consolidated.

The Group also prepared consolidated financial statements pursuant to the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), for the parent company and subsidiaries (Group).

In order to obtain a comprehensive view of the financial position of the Group as a whole, users of these financial statements should read individual statements together with consolidated financial statements.

The policies set out below have been consistently applied in the financial statements for all the years presented.

The preparation of financial statements under IFRS as adopted by the EU requires the use of certain critical accounting estimates, which influence the value of reported assets and liabilities, the disclosure of potential assets and liabilities on the reporting date, and the amount of income and expenditure in the reported period. It also requires the management to select accounting policies of the Group according to its own judgement.

Changes in accounting policies

In financial year 2020, the Group did not adopt or apply any new accounting policies different from those applied in previous periods, such as would have a material effect on the financial statements of the current year, except for accounting standards and other amendments that entered into force as at 1 January 2019 and have been adopted by the EU.

Application of new and revised IFRSs and IFRIC interpretations

Initial use of new amendments to standards, applicable in the current financial year

The following standards, amendments of the valid standards, and new interpretations, as issued by the International Accounting Standards Board (IASB) and adopted by the EU, apply to the financial year:
- **Amendments to IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors** – Definition of Material, adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to IFRS 3 - Business Combinations** – Definition of a Business, adopted by the EU on 21 April 2020 (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period);
- **Amendments to IFRS 9 – Financial Instruments, IAS 39 – Financial Instruments: Recognition and measurement and IFRS 7 – Financial Instruments: Disclosures** – The Interest Rate Benchmark Reform, adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020);
- **Amendment to IFRS 16 – Leases** – Covid-19-Related Rent Concessions, adopted by the EU on 12 October 2020 and effective for annual periods beginning on or after 1 June 2020, earlier application is permitted;
- **Amendments to references to the Conceptual Framework in IFRS**, adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

Our adoption of the amendments and interpretations of the valid standards has not caused major changes in the Group's financial statements.

Standards and amendments to valid standards issued by the IASB and adopted by the EU; not yet effective

By the date of approval of these financial statements, the IASB has issued the following amendments to valid standards, which have been adopted by the EU and are not yet effective:

- **IFRS 4 – Insurance Contracts – Extension of Temporary Exemption from Application of IFRS 9**, adopted by the European Union on 16 December 2020 but not yet effective (the date of expiry of the temporary exemption has been extended to annual periods beginning on or after 1 January 2023).

New standards and amendments to valid standards, issued by the IASB but not yet adopted by the EU

International Financial Reporting Standards as adopted by the EU do currently not differ in any major respect from the regulations adopted by the International Accounting Standards Board (IASB), apart from the following new standards and amendments to valid standards:

- **IFRS 14 – Regulatory Deferral Accounts** (effective for annual periods beginning on or after 1 January 2016) – the European Commission decided to not commence the endorsement procedure for this interim standard and rather wait for its final version;
- **IFRS 17 – Insurance Contracts**, including amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023);
- **Amendments to IAS 1 – Presentation of Financial Statements** – Classification of Liabilities as Current or Non-current (effective for annual periods beginning on or after 1 January 2023);
- **Amendments to IAS 16 – Property, Plant and Equipment** – Proceeds before intended use (effective for annual periods beginning on or after 1 January 2022);
- **Amendments to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets** – Onerous Contracts – Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022);
- **Amendments to IFRS 3 – Business Combinations –** Reference to the conceptual framework in Amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022);
- **Amendments to IFRS 10 – Consolidated Financial Statements and IAS 28 – Investments in Associates and Joint Ventures –** Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, and subsequent amendments (the effective date has been deferred for an indefinite period until the equity method research project is completed);
- **Amendments to IFRS 9 – Financial Instruments, IAS 39 – Financial Instruments: Recognition and Measurement, IFRS 7 – Financial Instruments: Disclosures, IFRS 4 – Insurance Contracts, and IFRS 16 – Leases –** Interest Rate Benchmark Reform – Phase 2 (effective for annual periods beginning on or after 1 January 2021);
- **Amendments to different standards to ensure improvements of IFRSs (2018–2020 cycle),** issued under the annual improvements to IFRSs (IFRS 1, IFRS 9, IFRS 16 and IAS 41), mainly to eliminate inconsistencies and interpret the text (amendments to IFRS 1, IFRS 9, and IAS 41 are effective for annual periods beginning on or after 1 January 2022; the amendment to IFRS 16 only regards an illustrative example, so no effective date is stated).

The Group assumes that the adoption of the new standards and amendments to existing ones will not have a major effect on its financial statements over the initial period of use.

2.2. Consolidation

Subsidiaries have been fully consolidated from the day the Bank gained control over them. The Groups' consolidated statements do not include intra-group transactions and unrealised gains and losses. In order to ensure compliance with the Bank's guidelines, the accounting policies of subsidiaries have been adjusted as appropriate.

2.3. Correction of an error in the consolidated financial statements

Upon incorporation of the subsidiary Semenarna Ljubljana, d. o. o., into the DBS Group, the assets and liabilities of the subsidiary were valued at fair value under IFRS 3, which affected the calculation of negative goodwill in the consolidated financial statements of the DBS Group in the financial year of acquiring a controlling interest in the subsidiary. A significant consolidation adjustment was made as a result of the estimated fair value of property, plant and equipment (buildings and land) owned by the subsidiary. In compiling the financial statements for the financial year 2017, the latter recorded part of these fixed assets (buildings and land at the Ljubljana Rudnik location) in the statement of financial position as a non-current asset held for sale under IFRS 5. The sales value of the properties sold in the 2018 financial year exceeded their book value in separate financial statements of

Semenarna Ljubljana, d. o. o. The book value of these properties in the consolidated financial statements exceeded the realised sales value in the 2018 financial year. In preparing the consolidated financial statements for the 2017 and 2018 financial years, the consolidation adjustment relating to disposed fixed assets owned by the subsidiary should be eliminated.

As the subsidiary disposed of only a part of the property at the Ljubljana Rudnik location that was previously treated as a whole, the part of the property that remained in the ownership of the subsidiary after the partial disposal should be impaired accordingly in the consolidated financial statements based on the valuation acquired in the 2018 financial year. Based on existing valuations, other property owned by the subsidiary should also be impaired in the consolidated financial statements.

In accordance with IAS 8, the effect of correcting an error should be reflected in the financial statements for the year in which the error occurred. As this is an error from the consolidated financial statements for 2017 and 2018, the opening balance as at 1 January 2019 in the comparative financial statements for the financial year 2020 has to be corrected by recalculating the items affected by the error. The cumulative error correction is reflected in the consolidated financial statements in:

- a decrease in fixed assets as at 1 January 2019 in the amount of EUR 4,597 thousand,
- a decrease in the retained earnings as at 1 January 2019 in the amount of EUR 3,916 thousand,
- a decrease in deferred tax liabilities as at 1 January 2019 in the amount of EUR 845 thousand,
- a decrease in deferred tax assets as at 1 January 2019 in the amount of EUR 164 thousand.

REVISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

							Group DBS
Code	Items	1. 1. 2019	Error correction	Correction 1. 1. 2019	31. 12. 2019	Error correction	Correction 31. 12. 2019
1	Cash, balances at central banks, and sight deposits at banks	77,289	0	77,289	98,951	0	98,951
2	Financial assets held for trading	0	0	0	110	0	110
3	Non-trading financial assets mandatorily measured at fair value through profit or loss	2,519	0	2,519	1,562	0	1,562
4	Financial assets measured at fair value through other comprehensive income	2,994	0	2,994	3,041	0	3,041
5	Financial assets measured at amortised cost	859,755	0	859,755	874,601	0	874,601
	- Debt securities	107,748	0	107,748	117,757	0	117,757
	- Loans and advances to banks	6,698	0	6,698	6,618	0	6,618
	- Loans and advances to customers	741,836	0	741,836	747,012	0	747,012
	- Other financial assets	3,473	0	3,473	3,214	0	3,214
6	Long-term equity participation in subsidiaries, associates and joint ventures	0	0	0	0	0	0
7	Tangible assets	52,789	(4,597)	48,192	28,715	0	28,715
	- Property, plant and equipment	28,282	(4,597)	23,685	11,475	0	11,475
	- Investment property	24,507	0	24,507	17,240	0	17,240
8	Intangible assets	765	0	765	591	0	591
9	Income tax assets	5,104	(164)	4,940	5,306	0	5,306
	- Current tax assets	0	0	0	528	0	528
	- Deferred tax assets	5,104	(164)	4,940	4,778	0	4,778
10	Other assets	13,296	0	13,296	3,444	0	3,444
11	Non-current assets held for sale, and discontinued operations	162	0	162	30,820	(4.761)	26,059
12	**TOTAL ASSETS** (from 1 to 11)	**1,014,673**	**(4,761)**	**1,009,912**	**1,047,141**	**(4,761)**	**1,042,380**
13	Financial liabilities held for trading	0	0	0	110	0	110
14	Financial liabilities measured at amortised cost	941,000	0	941,000	951,010	0	951,010
	- Deposits by banks and central banks	758	0	758	339	0	339
	- Deposits by customers	864,250	0	864,250	894,724	0	894,724
	- Borrowings from banks and central banks	64,660	0	64,660	51,498	0	51,498
	- Borrowings from customers	503	0	503	0	0	0
	- Subordinated liabilities	1,082	0	1,082	0	0	0
	- Other financial liabilities	9,747	0	9,747	4,449	0	4,449
15	Provisions	2,490	0	2,490	1,753	0	1,753
16	Income tax liabilities	1,750	(845)	905	76	0	76
	- Current tax liabilities	566	0	566	73	0	73
	- Deferred tax liabilities	1,184	(845)	339	3	0	3
17	Other liabilities	931	0	931	1,695	0	1,695
18	Liabilities relating to non-current assets held for sale and discontinued operations	0	0	0	23,777	(845)	22,932
19	**TOTAL LIABILITIES** (from 13 to 18)	**946,171**	**(845)**	**945,326**	**978,421**	**(845)**	**977,576**
20	Share capital	17,811	0	17,811	17,811	0	17,811
21	Share premium	31,257	0	31,257	31,257	0	31,257
22	Accumulated other comprehensive income	(573)	0	(573)	(752)	0	(752)
23	Revenue reserves	11,701	0	11,701	14,378	0	14,378
24	Treasury shares	(612)	0	(612)	(601)	0	(601)
25	Retained earnings (including profit/loss for the year)	8,918	(3,916)	5,002	6,627	(3,916)	2,711
26	**EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** (from 20 to 25)	**68,502**	**(3,916)**	**64,586**	**68,720**	**(3,916)**	**64,804**
27	TOTAL EQUITY (26)	68,502	(3,916)	64,586	68,720	(3,916)	64,804
28	**TOTAL EQUITY AND LIABILITIES** (19 + 27)	**1,014,673**	**(4,761)**	**1,009,912**	**1,047,141**	**(4,761)**	**1,042,380**

REVISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

Code		Share capital	Share premium	Other equity instruments issued	Accumulated other comprehensive income	Revenue reserves	Retained earnings (including profit/loss for the year)	Treasury shares (deduction)	Equity attributable to owners of the parent (from 3 to 9)	Equity attributable to minority (non-controlling) interest	Total equity (10 + 11)
1	2	3	4	5	6	7	8	9	10	11	12
1	**OPENING BALANCE FOR THE PERIOD (before adjustment)"**	**17,811**	**31,257**	**0**	**(573)**	**11,701**	**8,918**	**(612)**	**68,502**	**0**	**68,502**
2	Effects of error correction	0	0	0	0	0	(3,916)	0	(3,916)	0	**(3,916)**
3	Effects of transition to IFRS	0	0	0	0	0	0	0	0	0	**0**
4	**OPENING BALANCE FOR THE PERIOD** (1 + 2 + 3)	**17,811**	**31,257**	**0**	**(573)**	**11,701**	**5,002**	**(612)**	**64,586**	**0**	**64,586**
5	**Comprehensive income for the year (net of tax)**	**0**	**0**	**0**	**(179)**	**0**	**1,256**	**0**	**1,077**	**0**	**1,077**
6	Fresh capital subscribed (or paid)	0	0	0	0	0	0	0	0	0	**0**
7	Repayment of equity	0	0	0	0	0	0	0	0	0	**0**
8	Net purchase/sale of own shares	0	0	0	0	0	0	0	0	0	**0**
9	Dividends/share bonuses paid (accounted)	0	0	0	0	0	0	0	0	0	**0**
10	Dividends paid (accounted)	0	0	0	0	0	(892)	0	(892)	0	**(892)**
11	Allocation of net profit to revenue reserves	0	0	0	0	2,677	(2,677)	0	0	0	**0**
12	Settlement of loss brought forward	0	0	0	0	0	0	0	0	0	**0**
13	Other	0	0	0	0	0	22	11	33	0	**33**
14	**CLOSING BALANCE FOR THE PERIOD** (4 + 5 + 6 + 7 + 8 + 9 + 10 + 11 + 12 + 13)	**17,811**	**31,257**	**0**	**(752)**	**14,378**	**2,711**	**(601)**	**64,804**	**0**	**64,804**

2.4. Comparative figures

In accordance with the amendment to the Regulation on the Books of Account and Annual Reports of Banks and Savings Banks, an adjustment was made to the presentation of the income statement for the year ended 31 December 2019, as shown below.

	Group DBS			DBS d. d.		
	2019			2019		
	Previously reported	Adjusted	Adjustment	Previously reported	Adjusted	Adjustment
Net interest income	8,197	8,189	(8)	8,224	8,216	(8)
Other net operating gains/losses	(1,672)	840	2,512	(1,808)	696	2,504
Administrative expenses	(16,614)	(17,794)	(1,180)	(16,241)	(17,413)	(1,172)
Cash contributions to resolution funds and deposit guarantee schemes	-	(1,324)	(1,324)	-	(1,324)	(1,324)

Expenses from services of the stock exchange in the amount of EUR 8 thousand were transferred from the item Administrative expenses – Costs of services to the item Net fee and commission – Fee and commission expense (Note 3.3.).

Expenses related to payments to the Deposit Guarantee Scheme in the amount of EUR 1,299 thousand and contribution to the Bank Resolution Fund in the amount of EUR 10 thousand were transferred from the item Other net operating gains/losses (Note 3.9.) to the item Cash contributions to resolution funds and deposit guarantee schemes (Note 3.11.). The compensation under the tasks and powers of the Bank of Slovenia regarding resolution and compulsory termination in the amount of EUR 15 thousand was transferred from the item Administrative expenses to the item Cash contributions to resolution funds and deposit guarantee schemes.

The following items were transferred to the item Administrative expenses – Other operating expenses from the item Other net operating gains/losses: taxes in the amount of EUR 7 thousand, contributions in the amount of EUR 129 thousand, membership fees in the amount of EUR 91 thousand, financial services tax in the amount of EUR 966 thousand and default interest on taxes and contributions in the amount of EUR 3 thousand (Note 3.10.).

2.5. Critical accounting estimates

Certain assumptions and estimates are needed in preparing financial statements, which affect the amounts of assets and liabilities reported for the financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment losses on loans and receivables and potential off-balance sheet liabilities

The Group's credit risk management includes monthly assessments of whether there is any objective evidence of impairment for each individually significant loan. If so, a detailed impairment is calculated to determine whether an impairment loss should be recognised in the income statement.

The Group assesses expected credit losses based on the impairment model in accordance with IFRS 9. For the purpose of assessing credit losses, financial assets measured at amortised cost – loans, debt securities, other receivables, debt instruments measured at fair value through other comprehensive income, and off-balance sheet exposures from credit commitments and financial guarantee contracts, to which impairment requirements apply – are classified as at each reporting date into one of the three stages. The methodology and assumptions are reviewed regularly, in order to reduce any differences between loss estimates and actual loss experience.

For purposes of assessing credit losses, off-balance sheet exposures from assumed liabilities under financial guarantee contracts, regarding which the impairment requirements are to be used, are classified at each reporting day into one of the three transaction phases for purposes of calculating the expected credit losses for the period of validity of the financial guarantee.

Due to the changed treatment of interest on non-performing exposures (Group 3), which is based on changes in the executive acts of the Bank of Slovenia – Changes of Guidelines relating to the use of an expected credit loss model and the application of valuation rules for certain accounting items – and changes of Instructions on reporting to monetary financial institutions, in December 2020, the Bank reclassified interest income related to the impaired portion of non-performing exposures in the amount of EUR 598 thousand. Of this, the amount of EUR 572 thousand was recorded under income from reversed impairments and the amount of EUR 25 thousand on gains from fair value adjustments due to credit risk for loans measured at fair value through profit or loss. This had no effect on the results in the income statement. The Bank recognized all excluded income for non-performing exposures in the statement of financial position, which resulted in an increase in the gross carrying amount of receivables in the amount of EUR 3,572 thousand. Revaluation allowances for receivables increased by the same amount, whereas there was no effect on the net book value of receivables.

(b) Fair value of investment property

The fair value of investment property reflects market conditions as at the date of the statement of financial position. The estimated value of investment property is based on mean value calculated using the comparable sales method, and on the income valuation approach.

(c) Impairment charge on investments in subsidiaries

In assessing impairments against its investments, the Group considers objective evidence of impairment and indications that an investment may be impaired. If any such indication exists, the Bank/Group determines the impairment charge as the difference between the investments' carrying value and its recoverable amount. The recoverable amount is fair value less the cost of disposal, or value in use, whichever is higher, whereby value in use is the present value of the future cash flows expected to be derived from the respective investment, discounted at current market returns for similar financial assets. If future cash flows cannot be estimated, the impairment charge is calculated using the subsidiary net asset value method (asset accumulation method) or as the difference between the asset's carrying amount and the carrying amount of the subsidiary's equity, proportionate to participation in equity.

(d) Taxes

The Group is subject to income taxes only in Slovenia. To determine the amount of income tax payable, some estimates are required. The Group recognises income tax and deferred tax liabilities based on estimates of whether it will have to settle them. Should the final tax outcome be different from the amounts recognised by the Group, such differences will impact the income tax and deferred tax provisions in the respective period.

2.6. Segment reporting

As at 31 January 2020, the Group has no issued securities traded on a regulated capital market, therefore it does not prepare segment reporting.

2.7. Foreign currency translation

(a) Functional and presentation currency
Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank and its subsidiaries operate. The financial statements are presented in euros, which is the functional and presentation currency of the Bank and its subsidiaries.

(b) Transactions and balances
Foreign currency transactions are translated into functional currency using exchange rates effective at the date of the transaction. Foreign exchange differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign exchange differences in equities measured through other comprehensive income are recognised with valuation gains/losses as other comprehensive income or as fair value reserves.

Income and expenses in foreign currency are translated into euro-equivalent applying the exchange rates effective at the date of the transaction.

Gains and losses resulting from purchases and sales of foreign exchange are recognised in the income statement under foreign exchange translation.

2.8. Interest income and expense

Interest income and expense is recognised in the income statement for all instruments measured at amortised cost, using the effective rate method.

The effective rate method is a method of calculating financial assets' or liabilities' amortised cost and a method of allocating interest income and expense over a requisite period.

The effective interest rate is the interest rate used to precisely discount the estimated future cash flows for the entire period of the expected useful life of a financial instrument or for a shorter period when needed, up to the net current value of a financial asset or liability.

In calculating the effective interest rate, the Group must estimate cash flows taking into account all contractual conditions of the transaction in the relevant financial instrument, but cannot consider future credit losses. The calculation of the effective interest rate includes all paid amounts: instalments, fees, costs.

Once a financial asset or a group of similar financial assets has decreased as a result of impairment loss, interest income is recognised using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss and eliminated from interest income referring to the impaired financial asset. The Bank will halt the accrual of contractual interest and interest on arrears as well as costs of running non-performing loans and guarantees for non-performing assets if given the expected cash flow it no longer expects payment.

2.9. Fee and commission income and expense

Fee and commission is generally recognised when the service has been provided. Fee and commission for agency services in a transaction or for participation in the agency of a transaction for a third person is recognised when the transaction has been concluded. Fee and commission for portfolio management and other consultancy services is recognised on the basis of requisite service agreements when the services have been provided. Fee and commission for international and domestic payment transactions is recognised when the respective service has been provided.

Fee and commission included into the calculation of the effective interest rate is recognised under interest income or expense.

2.10. Financial assets

2.10.1. Accounting policies under IFRS 9

The Group classifies its financial assets into the following groups: financial assets measured at fair value through profit or loss, financial assets measured at amortised cost, and financial assets measured at fair value through other comprehensive income. The management determines the classification of investments upon initial recognition.

(a) Financial assets measured at fair value through profit or loss

This category has two sub-categories: financial instruments held for trading and financial instruments mandatorily measured at fair value through profit or loss.

To a lesser extent, the Group holds financial assets held for trading, whereas the other part is financial instruments mandatorily measured at fair value through profit or loss.

(b) Financial assets measured at amortised cost

A financial asset has to be measured at amortised cost if the following two conditions are met:

(a) a financial asset is held within a business model the aim of which is to hold financial instruments with the purpose of receiving contractual cash flows, and

(b) in compliance with contractual terms of the financial instrument, cash flows occur on certain dates that comprise repayments of principal and interest on the outstanding principal exclusively.

As well as loans fulfilling the conditions of the cash flow test, the Group classifies into this category all debt securities intended for the collection of contractual cash flows.

(c) Financial assets measured at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income are those the Group intends to hold for an indefinite period of time, and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or prices of financial instruments.

(d) Measurement and recognition

Purchases and sales of financial instruments at fair value through profit or loss, financial assets at amortised cost, and financial assets measured at fair value through other comprehensive income are recognised as at the date the transaction is concluded – the date on which the Group commits to carry out the purchase or sale of the respective instrument. Derivatives are recognised on the trade date.

Financial assets, apart from financial instruments at fair value through profit or loss, are initially measured at fair value plus transaction costs. Financial assets at fair value through profit and loss are initially recognised at fair value, while the transaction costs are expensed in the income statement. A financial asset is derecognised when the contractual rights to cash flows have expired, or if all risks and benefits of the ownership of a financial asset are transferred. A financial liability is derecognised solely when the contractual obligation has been met, revoked or has lapsed.

Financial assets measured at fair value through other comprehensive income and financial assets at fair value through profit or loss are measured at fair value. Loans and receivables are measured at amortised cost applying the effective interest rate. Gains and losses from changes in the fair value of the financial assets measured at fair value through profit or loss are included in the income statement in the period in which they arise. Gains and losses from changes in the fair value of the financial assets measured at fair value through other comprehensive income are recognised directly in equity until the financial asset is sold or impaired, at which time they are recognised in the income statement. With debt securities classified into this category, expected credit losses and differences resulting from foreign currency translation are recognised in the income statement, and the difference to fair value is recognised in other comprehensive income until derecognition. Upon derecognition of a debt financial instrument, the cumulative profit or loss recognised in other comprehensive income is reclassified into the income statement.

Upon derecognition of an equity instrument for which upon initial recognition the option for measured at fair value through other comprehensive income was chosen irrevocably, cumulative gains or losses are never recognised in the income statement.

Interest from the effective interest rate and exchange differences for financial assets measured through other comprehensive income are recognised in the income statement. Dividends from financial instruments are recognised in the income statement, upon the establishment of the holder's right to payment.

Fair values of financial instruments traded in an active market are based on market prices.

If a financial instrument is not traded in an active market, the Group determines its fair value by using valuation models.

2.11. Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there exists a legal right to offset the amounts and the intention to either settle on a net basis or to realise the asset and settle the liability simultaneously.

2.12. Impairment of financial assets

2.12.1. Impairment of financial assets under IFRS 9

(a) Financial assets measured at amortised cost

Measurement of impairment loss under IFRS 9 is based on the expected credit losses concept. Financial instruments measured at amortised cost in accordance with the SPPI test are impaired either on a collective basis (financial instruments in groups 1 and 2, and some exceptions in group 3) or on an individual basis (financial instruments in group 3).

Collective assessment of credit losses

Collective impairment is calculated as the sum of discounted monthly weighted expected credit losses, and an individual (monthly) unit is calculated as the product of probability of default (PD), loss given default (LGD), exposure at default (EAD) and, in the case of off-balance-sheet receivables, also conversion factor (CCF). In collective assessment of losses, the Group also considers forward-looking information, which is included in the calculation through forward-looking PD.

Individual assessment of credit losses

As a rule, the Group assesses group 3 financial instruments individually in accordance to how a default is considered to have happened pursuant to Article 178 of the CRR.

The expected exposure loss is calculated as the difference between the asset’s carrying amount and estimated future cash flows that are discounted at the original effective interest rate of the financial asset. Expected cash flows are evaluated against the type of scenario, i.e. according to whether the approach used is that of business as a going concern or a not going concern.

Calculation of credit losses under IFRS 9 is presented in more detail in section 5.1.3.

(b) Financial assets measured at fair value through other comprehensive income
As financial instruments at fair value through other comprehensive income are measured at fair value, gains and losses resulting from valuation are recognised directly in equity, and when a debt security is sold or impaired, they are recognised in the income statement.

2.13. Property, plant and equipment, and intangible assets

All property, plant and equipment as well as intangible assets are initially stated at cost. In accordance with IFRS 16, long-term lease assets are recognized under operating fixed assets as right-of-use assets. The cost of property, plant and equipment is composed of its purchasing price and all the costs that can be directly attributed to the asset.

Assessments are made each year whether there are indications that property, plant and equipment may be impaired. If any such indication exists, the Group estimates the recoverable amount. If value in use exceeds the carrying value, assets are not impaired. If the asset's carrying amount is higher than its estimated recoverable amount, the carrying amount is decreased to its recoverable amount. The recoverable amount is fair value less the cost of selling, or value in use, whichever is higher. After initial recognition, property, plant and equipment are measured at the cost model less depreciation. The right-of-use asset is recorded as an operating fixed asset and is amortized on a monthly basis using the straight-line method of depreciation over the remaining term of the lease. The Group defines the lease term as the non-cancellable period of the lease together with the periods allowing the option of extending the lease, if there is high certainty that the lessor will exercise this option, or the periods allowing the option of terminating the lease, if there is high certainty that the lessor will not exercise this option. For leases concluded for an indefinite period, the lease term is established as 5 years. Upon recognition, a lease liability is initially measured at the current value of the lease that will be paid during the lease period, discounted at the implicit interest rate if it can be determined immediately. Where the interest rate cannot be determined clearly, the assumed lease interest rate shall be used.

The following are the annual depreciation and amortization rates used:

	Group DBS		DBS d. d.	
	2020 %	2019 %	2020 %	2019 %
Buildings	2.0-4.0	2.0-4.0	2.0-4.0	2.0-4.0
Computer equipment	12.5-30.0	20.0-30.0	12.5-30.0	20.0-30.0
Software	10.0-20.0	10.0-20.0	10.0-20.0	10.0-20.0
Motor vehicles	12.5-20.0	12.5-20.0	12.5-20.0	12.5-20.0
Other equipment	6.0-50.0	4.0-50.0	10.0-50.0	4.0-50.0
Property lease right	11.2-85.71	11.2-57.1	11.2-85.71	11.2-57.1
Motor vehicle lease right	75.0	75.0	75.0	75.0

Intangible assets, which mainly include software, are stated in the statement of financial position at cost less depreciation and accumulated impairment losses.

Depreciation of intangible assets is provided on a straight-line basis. General software is amortised over five years, with dedicated software being amortised over ten.

Assets in the course of transfer or manufacture/implementation are not depreciated until they are available for use.

The Group assesses the remaining value of assets upon each reporting period as well as their useful lives, and adjusts their values as appropriate.

Gains and losses incurred upon disposal of property, plant and equipment are determined by reference to the difference between their carrying amount and net profit upon disposal, and are taken into account in determining operating profit. Maintenance and repairs are charged to the income statement during the financial period in which they are incurred. Should these assets increase the Group's future economic benefits, their carrying amount shall also recognise subsequent costs.

2.14. Investment property

Upon acquisition, the Group recognises investment property at cost, which includes the purchase price and all related costs.

After initial recognition, investment property is restated at fair value.

In determining the fair value of investment property, the income approach (capitalised cash flow method, discounted future gains method) or sales comparison approach was used.

Fair value is based on market prices as at the date of the statement of financial position.

Investment property is assets not used directly by the Group for its operations but held with the purpose of giving it into operating lease or selling at a later date. Any gain or loss arising from a change in fair value is recognised in the income statement. If there is a change in use due to the commencement of owner occupation, investment property is transferred to owner occupied property.

Assets received for repayment of claims are initially measured at fair value. After initial recognition, the Group measures assets received for repayment of claims at fair value, using the fair value method.

2.15. Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is deemed to be met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Non-current assets are classified as held for sale if the owner is committed to the sale and this commitment is stated in writing, whereupon the sale must be completed within one year from the date of classification. Non-current assets classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

2.16. Inventories

Inventories are classified under Other assets and consist of moveable and immovable property held for sale in the near term. They are recognised either at cost amounts or net realisable value, whichever is lower. An inventory unit is measured at cost, which comprises the purchase price, import duties and direct costs of purchase. The purchase price is reduced by trade discounts. The first-in, first-out method is used for inventories.

2.17. Leases

The accounting treatment of leases is determined by the new standard IFRS 16 Leases, effective from 1 January 2019. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(a) Where the Group is the lessee

In the Group, the application of IFRS 16 is designated for operating leases of business premises and cars.

Subject to exemptions permitted under IFRS 16, the Group will not apply IFRS 16 for short-term leases and leases where the leased asset is of low value (such as tablets and PCs, small office furniture, telephones, and ATM locations). Lease payments associated with these leases are recognized as expenses on a straight-line basis over the lease term.

The standard will not be used for software licenses and intangible assets – copyright (IAS 38). It will not apply to those leased printers that are replaced over the lease period; therefore, there is no identifiable asset.

The Group defines the lease term as the non-cancellable period of the lease together with the periods allowing the option of extending the lease, if there is high certainty that the lessor will exercise this option, or the periods allowing the option of terminating the lease, if there is high certainty that the lessor will not exercise this option. For leases concluded for an indefinite period, the lease term is established as 5 years.

In accordance with IFRS 16, long-term lease assets are recognized under operating fixed assets as right-of-use assets, and under equity as a lease liability under the lease contract. The right-of-use asset is recorded as an operating fixed asset and is amortized on a monthly basis using the straight-line method of depreciation over the remaining term of the lease. Upon recognition, a lease liability is initially measured at the current value of the lease that will be paid during the lease period, discounted at the implicit interest rate if it can be determined immediately. Where the interest rate cannot be determined clearly, the assumed lease interest rate shall be used. The lease liability is reduced during the lease term by lease payments and transferring interest into costs. Depreciation of lease rights and interest from lease liabilities are recorded in the income statement. In the long run, until the individual lease contract expires, cumulative depreciation and interest costs will be equal to the sum of all rents paid.

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
(a) Depreciation costs for right-of-use assets:	578	895	454	457
Business premises	576	891	452	453
Cars	2	4	2	4
(b) Interest expense on lease liability	58	129	34	43
(c) Expense relating to short-term leases accounted for under IFRS 16:6 (excluding the expense relating to leases with a lease term of one month or less)	10	13	1	4
(d) Expense relating to leases of low-value assets accounted for applying IFRS 16:6 (excluding the expense relating to short-term leases of low-value assets under Article 53(c))	14	56	14	15
(e) Income from subleasing right-of-use assets	1	0	1	0
(f) Total cash outflow for leases	590	959	0	406
(g) Carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset:	1,391	5,669	1,391	1,928
Business premises	1,391	5,668	1,391	1,927
Cars	0	1	0	1

(b) Where the Group is the lessor

The Group gives business premises and motor vehicles into operating lease. In case of assets given into operating lease, all payments made under operating leases constitute income generated from investment property, and shall be included into the income statement proportionate to the period of the lease agreement. The costs incurred in obtaining lease payments are recognised as costs. Initial direct costs incurred by the lessor in negotiating and agreeing an operating lease are added to the leased asset's book value and recognised as costs in the period of the lease on the same basis as lease income.

When assets are leased out under a finance lease, the present value of lease payments is recognised as a receivable from a finance lease. The difference between the gross receivable and the present value of the receivable is recognised as long-term deferred costs. Finance lease income is recognised systematically over the entire term of the lease and reflects a constant periodic rate of return. DBS Leasing d. o. o. is the only company in the Group that gives assets into finance lease.

2.18. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise: cash and balances at central bank, loans to banks with less than 90 days maturity from the date of acquisition, treasury bills and debt securities with less than 90 days maturity from the date of acquisition.

2.19. Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow will be required to settle it, and a reliable estimate of the amount of the obligation can be made. Risks arising out of contingent liabilities and commitments are assessed similarly to risks arising out of loans. All increases in liabilities arising out of estimated expenses required to settle the liabilities under contractual terms, are included into provisions.

2.20. Provisions for severance pays and long-service awards

Pursuant to the Slovenian legislation, employees retire upon meeting certain predetermined criteria, whereupon they are entitled to severance pay, which is paid out in a single amount. Employees are likewise entitled to long-service awards upon every 10 years of employment.

Provisions have been made for long-service awards, severance pays upon retirement and other long-term benefits.

Provisions are measured as the current value of future cash flows. Gains and losses are recognised in the income statement, apart from actuarial gains and losses, which are included in the accumulated other comprehensive income.

2.21. Income tax

Taxation has been provided for in the income statement pursuant to the Slovenian legislation in force. The tax item in the income statement comprises current tax and deferred tax. Current tax is calculated on the basis of taxable profit for the year, applying the tax rates enacted at the date of the statement of financial position.

Corporate income tax is levied on taxable profits at the rate of 19%.

Pursuant to the Slovenian Corporate Income Tax Act, current corporate income tax is charged at the rate of 19% off the established tax base (2019: 19%).

Deferred tax is provided on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred tax assets and deferred tax liabilities are measured at the tax rates that are reliably expected to be effective in the financial year in which deferred tax assets will be received and deferred tax liabilities settled, and are based on tax rates (and tax regulations) enacted at the date of the statement of financial position.

The most important temporary differences arise from tax loss, impairment of investments in subsidiaries, valuation of financial assets measured at fair value through other comprehensive income, and provisions. An estimation of the amount of taxable profit for the future period is made at least once a year.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary deductible differences can be utilised. An estimation of the amount of taxable profit for the future period is made at least once a year.

Deferred tax related to the revaluation of financial assets measured at fair value through other comprehensive income to fair value is recognised directly in equity and subsequently transferred to the income statement together with the deferred revaluation profit or loss, except for equity investments that upon initial recognition were determined irrevocably as measured through other comprehensive income.

Deferred tax liabilities are recognised under revaluation of financial assets measured at fair value through other comprehensive income.

The competent Tax Office may conduct a tax inspection of the current accounting period any time within the following five years after the reported tax year, and impose additional taxation and penalties. The Bank management knows of no circumstances that could give rise to additional liabilities in this regard.

2.22. Borrowings

Borrowings are initially recognised in the statement of financial position at the value of their issue proceeds net of transaction cost incurred. They are subsequently stated at amortised cost.

2.23. Capital

(a) Share issue costs

Additional costs that the Group can directly attribute to the issue of new shares or options or a concluded transaction are shown in equity in their net amount as a direct deduction from equity (without the related amount of income tax).

(b) Dividends on ordinary shares

Dividends on ordinary shares are charged to equity in the period in which they are approved by the Bank's owners.

Dividends for the year past are declared at a general meeting after the date of the statement of financial position.

(c) Treasury shares

If the Group purchases treasury shares, the consideration paid is deducted from total shareholders' equity. Where such shares are subsequently sold, any consideration received is included in shareholders' equity.

2.24. Financial guarantee contracts

Financial guarantee contracts are contracts that require the contract issuer to make agreed payments to reimburse the contract holder for a loss it incurs due to a borrower's defaulting. The Group issues such financial guarantees to other banks, financial institutions and other customers to secure loans, limits and other banking facilities.

Financial guarantee contracts are initially recognised at fair value plus the fee received. Fee income is recognised in the income statement on a straight-line basis, over the entire term of the financial guarantee contract. The Group subsequently recognises financial guarantee contracts at the higher of the initial measurements less fee income received, on a straight-line basis over the entire term of the financial guarantee contract, and less the best estimate of the expenditure required to settle the obligation under the financial guarantee as at the reporting date. For purposes of assessing credit losses, off-balance sheet exposures from assumed liabilities under financial guarantee contracts, regarding which the impairment requirements are to be used, are classified at each reporting day into one of the three transaction phases for purposes of calculating the expected credit losses for the period of validity of the financial guarantee.

2.25. Fiduciary activities

As of 1 February 1 2019, the Bank ceased to provide investment services and activities to clients while still providing lending under authorisation. Details are explained in Note 4.33. a. These assets are not included into the statement of financial position of the Bank and the Group.

3. NOTES TO THE INCOME STATEMENT

3.1. Interest income and expense

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Interest income				
Financial assets measured at fair value through other comprehensive income	95	91	95	91
Debt securities measured at amortised cost	1,083	1,063	1,083	1,063
Loans to banks	19	42	19	42
Loans to customers	15,764	17,026	15,927	17,271
Financial leasing	513	489	0	0
Other financial assets	4	7	4	7
Interest in relation to financial liabilities with a negative interest rate	47	203	47	203
TOTAL	**17,525**	**18,921**	**17,175**	**18,677**
Interest expense				
Deposits by banks and borrowings from banks	0	29	0	29
Deposits by customers	378	397	378	652
Certificates of deposit	0	79	0	79
Subordinated deposits and loans	456	591	456	591
Other financial liabilities	34	0	34	0
Other liabilities	0	43	0	43
Interest in relation to financial assets with a negative interest rate	105	283	105	283
TOTAL	**973**	**1,647**	**973**	**1,648**
NET INTEREST INCOME	**16,552**	**17,274**	**16,202**	**17,029**

In 2020, the Group recognized EUR 34 thousand of interest expenses from the right of use (2019: EUR 43 thousand) and the Bank EUR 34 thousand (2019: EUR 43 thousand).

3.2. Dividends

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Dividends on financial assets measured at fair value through other comprehensive income	26	29	26	29
TOTAL	**26**	**29**	**26**	**29**

3.3. Fee and commission income and expense

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Fee and commission income				
Payment transactions	4,842	5,193	4,843	5,199
Agency services	112	138	110	135
Administrative services	4,452	4,220	4,372	4,161
Guarantees issued	215	259	209	259
Securities trading	1	12	1	12
Credit operations	357	329	357	330
Services to subsidiaries	0	0	105	75
Foreign exchange transactions	17	2	17	2
TOTAL	**9,996**	**10,153**	**10,014**	**10,173**
Fee and commission expense				
Banking services	777	835	777	835
Securities trading	51	94	51	94
Payment transactions	1,073	1,020	1,073	1,020
Other services	16	15	9	8
TOTAL	**1,917**	**1,964**	**1,910**	**1,957**
NET FEE AND COMMISSION INCOME	**8,079**	**8,189**	**8,104**	**8,216**

* The explanation was prepared according to the new methodology in effect from 1 June 2020. The item Stock exchange services for 2019 was transferred to the item Fee and commission expense – Securities trading from the item Costs of services in the amount of EUR 8 thousand.

3.4. Net gains/losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Realised gains/losses from financial assets measured at amortised cost	**247**	**923**	**250**	**923**
Gains from financial assets measured at amortised cost	262	1,078	265	1,078
Losses from financial assets measured at amortised cost	15	155	15	155
Realised net gains/losses from financial liabilities measured at cost	**(26)**	**(28)**	**(26)**	**(28)**
Gains from financial liabilities measured at amortised cost	2	4	2	4
Losses from financial liabilities measured at amortised cost	28	32	28	32
REALISED GAINS/LOSSES	**221**	**895**	**224**	**895**

In 2020, the realised net gains amounted to EUR 221 thousand (2019: EUR 895 thousand). Net gains from the derecognition of assets and liabilities not measured at fair value through profit or loss included EUR 247 of realised net gains (2019: EUR 923 thousand, of which EUR 884 thousand net gains from the sale of non-performing loans).

3.5. Net gains/losses on financial assets and liabilities held for trading

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Net gains/losses from trading in equity instruments	5	0	5	0
Net gains/losses from foreign exchange trading	133	164	133	165
TOTAL	**138**	**164**	**138**	**165**

3.6. Net gains/losses on non-trading financial assets mandatorily at fair value through profit or loss

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Gains on non-trading financial assets mandatorily at fair value through profit or loss – loans and advances	25	0	25	0
TOTAL	**25**	**0**	**25**	**0**

3.7. Foreign exchange translation

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Positive translation differences	1,200	1,033	1,201	1,031
Negative translation differences	1,202	1,030	1,201	1,029
TOTAL	**(2)**	**3**	**0**	**2**

3.8. Net gains/losses on derecognition of non-financial assets

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Gains				
- Derecognition of property, plant and equipment	14	3	2	0
- Derecognition of investment property	160	447	160	447
- Derecognition of other assets	320	428	319	428
TOTAL	**494**	**878**	**481**	**875**
Losses				
- Derecognition of property, plant and equipment	26	3	25	2
- Derecognition of investment property	21	202	21	201
TOTAL	**47**	**205**	**46**	**203**
TOTAL NET GAINS/LOSSES	**447**	**673**	**435**	**672**

3.9. Other net operating gains/losses

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Gains				
Income from non-banking services	33	29	33	31
Leases and rents (Note 4.11.)	590	271	487	348
Other	416	552	393	327
TOTAL	**1,039**	**852**	**913**	**706**
Losses				
Expenses from investment property provided to a lessee under an operating lease	6	0	6	0
Other operating expenses*	6	12	5	10
TOTAL	**12**	**12**	**11**	**10**
OTHER NET OPERATING GAINS/LOSSES	**1,027**	**840**	**902**	**696**

* The explanation was prepared according to the new methodology in effect from 1 June 2020. The item Other operating expenses decreased in 2019 due to the following items having been transferred to the item Overhead and administrative expenses – Other operating costs: taxes in the amount of EUR 7 thousand, contributions in the amount of EUR 129 thousand, membership fees in the amount of EUR 91 thousand, other operating expenses for the financial services tax in the amount of EUR 966 thousand and default interest on taxes and contributions in the amount of EUR 3 thousand. In addition, expenses for the Deposit Guarantee Fund in the amount of EUR 1,299 thousand and the contribution to the Bank Resolution Fund in the amount of EUR 10 thousand were transferred from this item to the new item Cash contributions to resolution funds and deposit guarantee schemes.

Pursuant to the acts determining the intervention measures to contain the COVID-19 epidemic, the Group's other operating revenues for 2020 included a reimbursement of crisis allowance and other salary compensations in the amount of EUR 56 thousand, while the Bank's other operating revenues for 2020 included a reimbursement of the crisis allowance and other salary compensations in the amount of EUR 39 thousand (Note 3.10.).

3.10. Administrative expenses

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Employee benefits cost				
Gross wages	8,847	8,486	8,677	8,283
Social security contributions	635	608	622	593
Pension insurance contributions	782	748	766	730
Other contributions depending on gross wages	16	11	16	11
Severance pays and compensations	118	16	118	16
Other labour costs	1,646	1,598	1,604	1,570
TOTAL	**12,044**	**11,467**	**11,803**	**11,203**
Overhead and administrative expenses				
Costs of material	468	528	457	518
Costs of services*	4,150	4,595	4,043	4,496
Other operating costs*	1,139	1,204	1,129	1,196
TOTAL	**5,757**	**6,327**	**5,629**	**6,210**
TOTAL	**17,801**	**17,794**	**17,432**	**17,413**

* The explanation was prepared according to the new methodology in effect from 1 June 2020. The item Other operating costs increased in 2019 due to the following items having been transferred from the item Other net operating gains/losses: taxes in the amount of EUR 7 thousand, contributions in the amount of EUR 129 thousand, membership fees in the amount of EUR 91 thousand, financial services tax in the amount of EUR 966 thousand and default interest on taxes and contributions in the amount of EUR 3 thousand. Under Costs of services, the item Services of others – Stock-exchange services was reduced by EUR 8 thousand due to the transfer to the item Fee and commission expenses and the item Consulting, auditing, accounting and other services due to the transfer of compensation for BS resolution tasks in the amount of EUR 15 thousand to the new item Cash contributions to resolution funds and deposit guarantee schemes.

As part of labour costs, the costs of crisis allowance and other salary compensations paid on the basis of intervention laws to contain the COVID-19 epidemic were also recognised. For 2020, these amounted to EUR 56 thousand for the Group and EUR 39 thousand for the Bank. Pursuant to the anti-coronavirus legislation, the costs were reimbursed and were recognised under other operating revenues in the item Other net operating gains/losses (Note 3.9.).

The costs of severance pays and compensations in 2020 comprised EUR 115 thousand of severance pays (2019: EUR 11 thousand), of which EUR 111 thousand were severance pays for business reasons.

The Group's costs of services for 2020 include costs of the audit of the annual report amounting to EUR 58 thousand, of which EUR 50 thousand for the audited statements of the Bank, and EUR 8 thousand for the audited consolidated statements (2019: EUR 75 thousand). This includes a 2021 payment by the Group to the auditor for the recalculated extra hours of auditing the annual report in the amount of EUR 2 thousand. The Bank's costs of services for 2020 include costs of the audit of the annual report amounting to EUR 58 thousand, of which EUR 50 thousand for the audited statements of the Bank, and EUR 8 thousand for the audited consolidated statements (2019: EUR 61 thousand). This includes a 2021 payment by the Bank to the auditor for the recalculated extra hours of auditing the annual report in the amount of EUR 2 thousand.

For the additional agreed assurance processes, the Bank paid EUR 5 thousand and the Group EUR 5 thousand.

The Bank paid EUR 3 thousand for non-audit services provided under the contract for 2020.

3.11. Cash contributions to resolution funds and deposit guarantee schemes

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Compensation for BS resolution tasks	16	15	16	15
Other operating expenses	1,271	1,309	1,271	1,309
- Deposit guarantee scheme	1,250	1,299	1,250	1,299
- Contribution to the bank resolution fund	21	10	21	10
TOTAL	**1,287**	**1,324**	**1,287**	**1,324**

* A new note prepared according to the new methodology in effect from 1 June 2020. For 2019, the items Deposit Guarantee Scheme in the amount of EUR 1,299 thousand and the Contribution to the Bank Resolution Fund in the amount of EUR 10 thousand were transferred from the item Other net operating gains/losses to the item Other operating expenses. In addition, Compensation for BS resolution tasks in the amount of EUR 15 thousand was transferred from the item Costs of services – Consulting, auditing, accounting and other services.

3.12. Depreciation and amortisation

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Property, plant and equipment (Note 4.10.)	780	851	698	721
Right-of-use - property (Note 4.10.)	452	453	454	457
Intangible assets (Note 4.12.)	143	162	135	156
TOTAL	**1,375**	**1,466**	**1,287**	**1,334**

In 2020, the Group recognized EUR 452 thousand (2019: EUR 453 thousand) of depreciation and amortization expenses from the right of use and the Bank EUR 454 thousand (2019: EUR 457 thousand).

3.13. Provisions

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Net provisions for off-balance sheet liabilities (Note 4.22. a and d)	**(275)**	**23**	**(404)**	**1**
Expenses for created provisions	383	192	1,851	679
Income from released provisions	658	169	2,255	678
Net other provisions	**567**	**37**	**566**	**35**
Net provisions for pensions and other employee benefits (Note 4.22. c)	**67**	**89**	**66**	**87**
Expenses for created provisions	67	89	66	87
Net provisions for other provisions (Note 4.22. f)	**500**	**(52)**	**500**	**(52)**
Expenses for created provisions	500	0	500	0
Income from released provisions	0	52	0	52
NET PROVISIONS	**292**	**60**	**162**	**36**

Other provisions include formed provisions in the amount of EUR 500 thousand for the performance of audits due to the probable realisation of resolutions adopted at the 36th regular General Meeting of the Bank of 31 May 2019: (9) Appointment of a special auditor to verify the management of individual company transactions – transactions with the Bank's related parties or conducted under their influence, (10) Appointment of a special auditor to verify the management of individual company transactions – transactions discussed in the PwC report prepared as part of the Ljubljanica project, and (11) Appointment of a special auditor to verify the management of individual company transactions. Pursuant to the court's decision, the Bank pledged an advance of EUR 500 thousand, which it paid to the court, in view of the scope of tasks assigned to the special audit by the above-mentioned resolutions of the General Meeting.

3.14. Impairment charge

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Net impairments of financial assets not measured at fair value through profit or loss	**(80)**	**2,526**	**(329)**	**2,818**
Net impairments of debt securities	**2**	**(9)**	**2**	**(9)**
Impairments of debt securities	3	5	3	5
Reversal of impairments on debt securities	1	14	1	14
Net impairments of loans	**(82)**	**2,535**	**(331)**	**2,827**
Impairments of loans	10,072	6,804	12,399	7,862
Reversal of loan impairments	10,154	4,269	12,730	5,035
Net impairments of equity investments in subsidiaries (Note 4.9.)	**0**	**0**	**(23)**	**3,265**
Impairment of equity investments in subsidiaries	0	0	0	3,295
Reversal of impairment of equity investments in subsidiaries	0	0	23	30
Net impairments of other assets	**41**	**595**	**50**	**595**
Net impairments (revaluations) of investment property (Note 4.11. b)	**41**	**595**	**50**	**595**
Impairment (revaluation) of investment property	608	670	608	670
Reversal of investment property impairments (revaluations)	567	75	558	75
NET IMPAIRMENTS	**(39)**	**3,121**	**(302)**	**6,678**

3.15. Net gains/losses from non-current assets held for sale and related liabilities

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Gains on non-current assets held for sale	(2,063)	12	0	0
TOTAL	**(2,063)**	**12**	**0**	**0**

3.16. Tax

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Income tax	61	350	59	350
Deferred tax (Note 4.23. d)	1,079	(153)	1,079	(157)
TOTAL	**1,140**	**197**	**1,138**	**193**
Profit/loss before tax	6,210	867	6,190	919
Tax under the 19% tax rate	1,180	165	1,176	175
Non-taxable income	(33)	(27)	(16)	(14)
Non-deductible expense	95	590	78	560
Tax reliefs	(102)	(531)	(100)	(528)
TOTAL	**1,140**	**197**	**1,138**	**193**
Effective tax rate (in %)	18	23	18	21

* The last tax inspection was in 2005 for financial year 2004.

The competent Tax Office may conduct a tax inspection of the current accounting period any time within the following five years after the reported tax year, and impose additional taxation and penalties. The Group's management knows of no circumstances that could give rise to additional liabilities in this regard.

3.17. Profit/loss from discontinued operations, net of tax

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Profit/loss from discontinued operations before tax	726	(2,855)	0	0
Tax expense or gain on discontinuance	(2)	(6)	0	0
TOTAL	**724**	**(2,861)**	**0**	**0**

For the Group, the item Profit/loss from discontinued operations, net of tax represents the gain or loss of the subsidiary for sale in the amount of EUR 724 thousand net profit for 2020 (2019: EUR 2,861 thousand net loss), and includes all consolidated items of the Semenarna Ljubljana, d. o. o. income statement.

3.18. Earnings per share (EPS)

Basic EPS is calculated by dividing net profit by the weighted average number of issued ordinary shares of the Bank.

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Net profit (in EUR thousand)	3,318	1,256	5,052	726
Comprehensive income after tax (in EUR thousand)	3,413	1,077	5,062	603
Weighted average number of ordinary shares	4,231,524	4,230,997	4,231,682	4,231,682
Basic earnings per share (in EUR per share)	0.78	0.30	1.19	0.17
Comprehensive income per share after tax (in EUR per share)	0.81	0.25	1.20	0.14

Basic EPS of the Group in 2020 amounts to EUR 0.78 (2019: EUR 0.30). The after-tax comprehensive income per share is EUR 0.81 (2019: EUR 0.25). The weighted average number of issued ordinary shares recorded in the central registry of the KDD Central Securities Clearing Corporation for 2020, with treasury shares deducted, was 4,231,524 (2019: 4,230,997).

Basic EPS of the Bank in 2020 amounts to EUR 1.19 (2019: EUR 0.17). The after-tax comprehensive income per share is EUR 1.20 (2019: EUR 0.14). The weighted average number of issued ordinary shares recorded in the KDD central securities register for 2020, with treasury shares deducted, was 4,231,682 (2019: 4,231,682).

The Group's share book value as at 31 December 2020 was EUR 16.046302 (31 December 2019: EUR 14.865025). It is calculated as follows: share capital less treasury shares, divided by the number of shares recorded in the central registry of the KDD Central Securities Clearing Corporation less treasury shares.

The Bank's share book value as at 31 December 2020 was EUR 16.046302 (31 December 2019: EUR 14.862618). It is calculated as follows: share capital less treasury shares, divided by the number of shares recorded in the central registry of the KDD Central Securities Clearing Corporation less treasury shares.

The Group and the Bank have not issued any financial instruments convertible into shares.

4. NOTES TO THE STATEMENT OF FINANCIAL POSITION

4.1. Cash, balances at central banks, and sight deposits at banks

a) Breakdown

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Cash				
Cash	6,447	11,711	6,447	11,711
Bank balances at central bank	72,889	85,625	72,883	85,618
Sight deposits at banks	8,043	1,616	8,043	1,616
Revaluation allowance	(98)	(1)	(98)	(1)
TOTAL (Note 4.1. b)	**87,281**	**98,951**	**87,275**	**98,944**

The Group has met its obligation regarding the minimum reserve on the settlement account at the central bank. The amount of minimum reserves is adjusted to the system of the European Central Bank (ECB). Its amount is calculated pursuant to regulations – 0% for: time deposits with agreed maturity of over 2 years, sight deposits with maturity of over 2 years, repurchase agreements and debt securities with agreed maturity of over 2 years; and 1% for: overnight deposits, deposits with agreed maturity of up to 2 years, sight deposits with maturity of up to 2 years and debt securities with agreed maturity of up to 2 years.

The Bank must ensure that the settlement account is credited on a daily basis with a specific amount calculated for each period. Minimum reserves for compliance period from 1 January to 31 December 2020 amounted to EUR 8,699 thousand on average for the period, with excess reserves totalling EUR 61,397 thousand on average for the period.

The annual interest rate for assets deposited on the minimum reserves account was 0.00% from 1 January to 31 December 2020. As at 30 October 2019, however, the Governing Council introduced a two-tier system for excess reserve remuneration. Part of excess reserves up to a six times of the institutions' reserve requirements is remunerated at the annual rate of 0%, and any remaining excess reserves at -0.50% (deposit facility rate, if negative).

Movements in revaluation allowance for balances at central bank and sight deposits at banks are disclosed in section 5.1.5. (Note b).

b) Movements

Group DBS

	As at 1 January 2020	Foreign exchange differences	Net increase/ (decrease)	As at 31 December 2020
Cash and balances at central banks, and sight deposits at banks (Note 4.1. a)	98,951	(65)	(11,507)	87,379
Loans and advances to banks (Note 4.6. b)	6,413	(217)	(6,196)	0
TOTAL	**105,364**	**(282)**	**(17,703)**	**87,379**

DBS d. d.

	As at 1 January 2020	Foreign exchange differences	Net increase/ (decrease)	As at 31 December 2020
Cash and balances at central banks, and sight deposits at banks (Note 4.1. a)	98,944	(65)	(11,606)	87,273
Loans and advances to banks (Note 4.6. b)	6,413	(217)	(6,196)	0
TOTAL	**105,357**	**(282)**	**(17,802)**	**87,273**

4.2. Financial assets held for trading

a) Breakdown

		Group DBS		DBS d. d.
	2020	2019	2020	2019
Equities	64	0	64	0
Loans held for trading	24	110	24	110
TOTAL	**88**	**110**	**88**	**110**

b) Movements

		Group DBS		DBS d. d.
	2020	2019	2020	2019
Equities				
As at 1 January	0	0	0	0
- Acquisition	59	0	59	0
- Revaluation	5	0	5	0
As at 31 December	**64**	**0**	**64**	**0**
Loans*				
As at 1 January	110	0	110	0
- Increase	23,377	29,457	23,377	29,457
- Sale	(23,463)	(29,347)	(23,463)	(29,347)
As at 31 December	**24**	**110**	**24**	**110**
TOTAL	**88**	**110**	**88**	**110**

* Loans include receivables from the purchase and sale of foreign exchange.

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

a) Breakdown

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Loans and other financial assets	1,258	1,562	1,258	1,562
TOTAL	**1,258**	**1,562**	**1,258**	**1,562**

Fair value is disclosed in section 5.4.2.

b) Movements

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
As at 1 January	1,562	2,519	1,562	2,519
Repayments	(304)	(957)	(304)	(957)
As at 31 December	**1,258**	**1,562**	**1,258**	**1,562**

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

a) Breakdown

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Equities				
Equity investments	3,047	3,041	3,047	3,041
- Bank resolution fund	2,721	2,709	2,721	2,709
- Other equity investments	326	332	326	332
TOTAL	**3,047**	**3,041**	**3,047**	**3,041**

In 2020, the Bank reduced its position of investments into securities measured at fair value through other comprehensive income by EUR 6 thousand, which was due to revaluation. The Bank Resolution Fund balance was up EUR 12 thousand to EUR 2,721 thousand in 2020 (2019: EUR 2,709 thousand).

b) Movements

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
As at 1 January	3,041	2,994	3,041	2,993
Purchase/Additional purchase	12	0	12	0
Sale	0	(11)	0	(11)
Revaluation	(6)	66	(6)	66
Margin	0	(7)	0	(7)
As at 31 December	**3,047**	**3,041**	**3,047**	**3,041**

A list of equity investments classified as measured at fair value through other comprehensive income, and a statement of fair values of investments at the end of the reporting period are given in the table below.

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Equity instruments				
Equity investments				
- Bank resolution fund	2,721	2,709	2,721	2,709
- Total other equity investments	326	332	326	332
Bankart d. o. o.	33	21	33	21
Las MDD z. b. o.	1	1	1	1
Marles d. d., Limbuš	10	13	10	13
Primorska hranilnica Vipava d. d.	149	164	149	164
Regia Group d. d.	45	45	45	45
Elektro Ljubljana d. d.	88	88	88	88
TOTAL	**3,047**	**3,041**	**3,047**	**3,041**

As these investments are not strategic in nature, meaning that they cannot be controlled by the Group, they were classified irrevocably as measured at fair value through other comprehensive income after the introduction of IFRS 9. Changes in fair value of such equity investments shall never be recognised through profit or loss, which also applies to the effects in case of sale. In 2020, the Group received EUR 26 thousand in dividends, of which dividends from investments held by the Group at the year-end of 2020: EUR 24 thousand, from Bankart d. o. o., and EUR 2 thousand from Elektro Ljubljana d. d.

In accordance with its business policy and a business opportunity, the Group sold its equity investments that were not strategic investments. The cumulative loss from other comprehensive income was transferred to retained earnings for the current year due to the cumulative effects of derecognition upon sale of equity investments.

Fair value of investments as at derecognition date and cumulative gains or losses upon disposal are given in the table below.

2020	Group DBS		DBS d. d.	
Company	Fair value of investments as at derecognition date	Cumulative gains upon disposal	Fair value of investments as at derecognition date	Cumulative gains upon disposal
TOTAL	**0**	**0**	**0**	**0**

In 2020, the Group had no sales of securities measured at fair value through other comprehensive income.

2019	Group DBS		DBS d. d.	
Company	Fair value of investments as at derecognition date	Cumulative gains upon disposal	Fair value of investments as at derecognition date	Cumulative gains upon disposal
Gorenjska banka d. d.	10	(7)	10	(7)
Vorpo d. o. o. - share	0	0	0	0
TOTAL	**10**	**(7)**	**10**	**(7)**

4.5. Debt securities measured at amortised cost

a) Breakdown

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Long-term bank debt securities	3,691	3,690	3,691	3,690
Long-term government debt securities	144,133	112,479	144,133	112,479
Long-term debt securities issued by non-financial institutions	1,303	1,602	1,303	1,602
Revaluation allowance	(15)	(14)	(15)	(14)
TOTAL	**149,112**	**117,757**	**149,112**	**117,757**

Movements in revaluation allowance for debt securities measured at amortised cost are disclosed in section 5.1.5. (Note c).

b) Movements

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
As at 1 January	117,757	107,748	117,757	107,748
Purchases	40,740	30,943	40,740	30,943
Sale	(1,177)	0	(1,177)	0
Maturities	(8,207)	(20,943)	(8,207)	(20,943)
Revaluation allowance	(1)	9	(1)	9
As at 31 December	**149,112**	**117,757**	**149,112**	**117,757**

4.6. Loans and advances to banks and central bank at amortised cost

a) Breakdown according to type

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Loans to the central bank	0	1,166	0	1,166
Loans to domestic banks	206	2,694	206	2,694
Loans to foreign banks	0	2,758	0	2,758
TOTAL	**206**	**6,618**	**206**	**6,618**

b) Breakdown according to maturity

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Short-term loans	0	6,413	0	6,413
Long-term loans	206	205	206	205
TOTAL	**206**	**6,618**	**206**	**6,618**

Loans and advances to banks with the original maturity of up to three months, in the amount of EUR 0 thousand (2019: EUR 6,413 thousand) are recognised in the cash flow statement as cash equivalents (Note 4.1. b).

4.7. Loans and advances to customers measured at amortised cost

a) Breakdown according to type

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Loans and advances	746,602	728,053	756,133	738,283
Financial lease	13,853	13,504	0	0
Working capital loans	20,211	20,989	20,957	21,372
Revaluation allowance	(17,905)	(15,534)	(16,859)	(14,068)
TOTAL	**762,761**	**747,012**	**760,231**	**745,587**

Movements in revaluation allowance for loans and advances to customers measured at amortised cost are disclosed in section 5.1.5. (Note d).

b) Loans and advances to customers include financial lease receivables

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Gross financial lease receivables				
Past due up to 1 year	2,511	2,600	-	-
Past due from 1 to 5 years	7,487	7,042	-	-
Past due over 5 years	3,855	3,862	-	-
TOTAL	**13,853**	**13,504**	**-**	**-**
Revaluation allowances	(952)	(1,164)	-	-
Net financial lease receivables	**12,901**	**12,340**	**-**	**-**

4.8. Other financial assets

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Trade receivables	1,978	3,144	1,517	2,662
Interest receivable	55	51	51	52
Fee and commission due	137	138	137	138
Other receivables	530	427	527	426
Other prepayments and deferred income	5	9	0	0
Revaluation allowance	(584)	(555)	(200)	(141)
TOTAL	**2,121**	**3,214**	**2,032**	**3,137**

Movements in revaluation allowance for other assets are disclosed in section 5.1.5. (Note d).

4.9. Equity investments in subsidiaries, joint ventures, and associates

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Long-term equity investments in other domestic financial institutions				
As at 1 January	0	0	2,681	2,757
Impairments	0	0	0	(76)
Reversal of impairment	0	0	18	0
As at 31 December	**0**	**0**	**2,699**	**2,681**
Long-term equity investments in domestic non-financial institutions				
As at 1 January	0	0	1,534	5,530
Impairments	0	0	0	(3,220)
Reversal of impairment	0	0	5	30
Reclassification as Non-current assets held for sale and discontinued operations (Note 4.15.)	0	0	0	(806)
As at 31 December	**0**	**0**	**1,539**	**1,534**
Long-term equity investments in foreign non-financial institutions				
As at 1 January	0	0	0	0
As at 31 December	**0**	**0**	**0**	**0**
TOTAL	**0**	**0**	**4,238**	**4,215**

Equity investments in subsidiaries totalled EUR 4,238 thousand in 2020, down EUR 783 thousand from the beginning of the year. Due to the sale of the capital investment Semenarna Ljubljana, d. o. o., the balance of investments decreased by EUR 806 thousand and increased by EUR 18 thousand from the reversal of impairments of the capital investment in DBS Leasing d. o. o. and by EUR 5 thousand from the reversal of impairments of the capital investment in DBS Nepremičnine d. o. o. At the end of 2020, the investment in the subsidiary DBS Leasing amounted to EUR 2,699 thousand and in the subsidiary DBS Nepremičnine EUR 1,539 thousand, while there were no changes in the capital investment in DBS Adria in 2020, and it amounts to EUR 0 thousand.

4.10. Property, plant and equipment

Group DBS

2020	Land and buildings	Computers	Furniture and other equipment	Motor vehicles	PPE under construction	Total
Operating fixed assets - without lease rights						
Cost						
As at 31 December 2019	12,605	3,320	10,815	695	237	27,672
Increases	0	1	0	0	581	582
Transfer from PPE under construction	16	227	317	8	(568)	0
Decreases	(28)	(4)	(1,526)	(307)	0	(1,865)
As at 31 December	12,593	3,544	9,606	396	250	26,389
Revaluation allowance						
As at 1 January	4,891	2,994	9,956	283	0	18,124
Decreases	(8)	(4)	(1,501)	(174)	0	(1,687)
Depreciation and amortisation	334	161	201	84	0	780
As at 31 December	5,217	3,151	8,656	193	0	17,217
Net carrying value						
As at 1 January	7,714	326	859	412	237	9,548
As at 31 December	7,376	393	950	203	250	9,172
Lease rights						
Cost						
As at 31 December 2019	2,370	0	0	0	0	2,370
Increases	30	0	0	0	0	30
Decreases	(165)	0	0	0	0	(165)
As at 31 December	2,235	0	0	0	0	2,235
Revaluation allowance						
As at 1 January	443	0	0	0	0	443
Decreases	(50)	0	0	0	0	(50)
Depreciation from lease rights	453	0	0	0	0	453
Depreciation of COVID-19-Related rent concessions	(1)	0	0	0	0	(1)
As at 31 December	845	0	0	0	0	845
Net carrying value						
As at 1 January	1,927	0	0	0	0	1,927
As at 31 December	1,390	0	0	0	0	1,390
Net carrying value total						
As at 1 January	9,641	326	859	412	237	11,475
As at 31 December	8,766	393	950	203	250	10,562

The Group has no property held as collateral for the loans received.

Group DBS

2019	Land and buildings	Computers	Furniture and other equipment	Motor vehicles	PPE under construction	Total
Operating fixed assets - without lease rights						
Cost						
As at 31 December 2018	34,857	3,826	16,066	1,129	0	55,878
Increases	0	0	0	0	585	585
Transfer from PPE under construction	0	185	163	0	(348)	0
Decreases	0	(74)	(223)	(271)	0	(568)
Transfer to non-current assets held for sale	(22,252)	(617)	(5,191)	(163)	0	(28,223)
As at 31 December	12,605	3,320	10,815	695	237	27,672
Revaluation allowance						
As at 1 January	9,114	3,474	14,649	359	0	27,596
Decreases	0	(74)	(223)	(140)	0	(437)
Transfer to non-current assets held for sale	(4,558)	(533)	(4,722)	(73)	0	(9,886)
Depreciation and amortisation	335	127	252	137		851
As at 31 December	4,891	2,994	9,956	283	0	18,124
Net carrying value						
As at 1 January	25,743	352	1,417	770	0	28,282
As at 31 December	7,714	326	859	412	237	9,548
Lease rights						
Cost						
As at 1 January 2019 from the recognition of lease rights	5,684	0	0	3	0	5,687
Transfer to non-current assets held for sale	(3,319)	0	0	(3)	0	(3,322)
Increases	133	0	0	0	0	133
Decreases	(128)	0	0	0	0	(128)
As at 31 December	2,370	0	0	0	0	2,370
Revaluation allowance						
As at 1 January	0	0	0	0	0	0
Decreases	(10)	0	0	0	0	(10)
Depreciation from lease rights	453	0	0	0	0	453
As at 31 December	443	0	0	0	0	443
Net carrying value						
As at 1 January	5,684	0	0	3	0	5,687
As at 31 December	1,927	0	0	0	0	1,927
Net carrying value total						
As at 1 January	31,427	352	1,417	773	0	33,969
As at 31 December	9,641	326	859	412	237	11,475

The net carrying value of the Group's property held as collateral for loans is EUR 6,768 thousand.

DBS d. d.

2020	Land and buildings	Computers	Furniture and other equipment	Motor vehicles	PPE under construction	Total
Operating fixed assets - without lease rights						
Cost						
As at 31 December 2019	12,605	3,302	10,604	52	237	26,800
Increases	0	0	0	0	581	581
Transfer from PPE under construction	16	227	317	8	(568)	0
Decreases	(28)	(4)	(1,526)	0	0	(1,558)
As at 31 December	12,593	3,525	9,395	60	250	25,823
Revaluation allowance						
As at 1 January	4,891	2,977	9,863	28	0	17,759
Decreases	(8)	(4)	(1,501)	0	0	(1,513)
Depreciation and amortisation	334	161	196	7	0	698
As at 31 December	5,217	3,134	8,558	35	0	16,944
Net carrying value						
As at 1 January	7,714	325	741	24	237	9,041
As at 31 December	7,376	391	837	25	250	8,879
Lease rights						
Cost						
As at 31 December 2019	2,370	0	0	6	0	2,376
Increases	30	0	0	0	0	30
Decreases	(165)	0	0	(6)	0	(171)
As at 31 December	2,235	0	0	0	0	2,235
Revaluation allowance						
As at 1 January	443	0	0	5	0	448
Decreases	(51)	0	0	(6)	0	(57)
Depreciation and amortisation	454	0	0	1	0	455
Depreciation of COVID-19-Related rent concessions	(1)	0	0	0	0	(1)
As at 31 December	845	0	0	0	0	845
Net carrying value						
As at 1 January	1,927	0	0	1	0	1,928
As at 31 December	1,390	0	0	0	0	1,390
Net carrying value total						
As at 1 January	9,641	325	741	25	237	10,969
As at 31 December	8,766	391	837	25	250	10,269

The Bank holds no property, plant or equipment received as guarantee for liabilities or such with limited ownership rights.

DBS d. d.

2019	Land and buildings	Computers	Furniture and other equipment	Motor vehicles	PPE under construction	Total
Operating fixed assets - without lease rights						
Cost						
As at 31 December 2018	12,605	3,191	10,664	97	0	26,557
Increases	0	0	0	0	585	585
Transfer from PPE under construction	0	185	163	0	(348)	0
Decreases	0	(74)	(223)	(45)	0	(342)
As at 31 December	12,605	3,302	10,604	52	237	26,800
Revaluation allowance						
As at 1 January	4,556	2,924	9,840	31	0	17,351
Decreases	0	(74)	(223)	(16)	0	(313)
Depreciation and amortisation	335	127	246	13	0	721
As at 31 December	4,891	2,977	9,863	28	0	17,759
Net carrying value						
As at 1 January	8,049	267	824	66	0	9,206
As at 31 December	7,714	325	741	24	237	9,041
Lease rights						
Cost						
As at 1 January 2019 from the recognition of lease rights	2,365	0	0	6	0	2,371
Increases	133	0	0	0	0	133
Decreases	(128)	0	0	0	0	(128)
As at 31 December	2,370	0	0	6	0	2,376
Revaluation allowance						
As at 1 January	0	0	0	0	0	0
Decreases	(9)	0	0	0	0	(9)
Depreciation from lease rights	452	0	0	5	0	457
As at 31 December	443	0	0	5	0	448
Net carrying value						
As at 1 January	2,365	0	0	6	0	2,371
As at 31 December	1,927	0	0	1	0	1,928
Net carrying value total						
As at 1 January	10,414	267	824	72	0	11,577
As at 31 December	9,641	325	741	25	237	10,969

4.11. INVESTMENT PROPERTY

a) Breakdown

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Long-term investments into investment property				
- Land	9,459	9,076	8,161	9,076
- Buildings	13,598	8,164	13,598	8,164
TOTAL	**23,057**	**17,240**	**21,759**	**17,240**

b) Movements

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
As at 1 January	17,240	24,507	17,240	24,507
Increase	5,909	279	5,909	279
Transferred from inventories	1,591	467	302	467
Decrease	(1,781)	(7,664)	(1,781)	(7,664)
Reversal of impairment (revaluations) (Note 3.14.)	567	75	558	75
Impairments (revaluations) (Note 3.14.)	(608)	(670)	(608)	(670)
Losses upon derecognition	(21)	(201)	(21)	(201)
Income upon derecognition	160	447	160	447
As at 31 December	**23,057**	**17,240**	**21,759**	**17,240**

Lease contracts may be terminated during the lease period. A transfer of EUR 302 thousand was made from inventories to investment property in respect of the Bank's property not sold within one year. The Bank recorded EUR 608 thousand worth of impairment charges against investment property in 2020 (2019: EUR 670 thousand) (Note 3.14.).

Investment property is categorised into Level 3 of the fair value hierarchy. In determining fair value, the comparable sales method is used. Fair value is determined on the basis of market prices data.

4.12. Intangible assets

Group DBS

	2020			2019		
	Intangible assets	Intangible assets under construction	Total	Intangible assets	Intangible assets under construction	Total
Cost						
As at 1 January	3,348	0	3,348	4,526	0	4,526
Increases	25	111	136	27	239	266
Decreases	0	(108)	(108)	(364)	(239)	(603)
Transfer to Discontinued operations	0	0	0	(1,080)	0	(1,080)
Transfer from intangible assets under construction	108	0	108	239	0	239
As at 31 December	3,481	3	3,484	3,348	0	3,348
Revaluation allowance						
As at 1 January	2,757	0	2,757	3,761	0	3,761
Depreciation and amortisation	143	0	143	163	0	163
Decreases	0	0	0	(365)	0	(365)
Transfer to Discontinued operations	0	0	0	(802)	0	(802)
As at 31 December	2,900	0	2,900	2,757	0	2,757
As at 1 January	**591**	**0**	**591**	**765**	**0**	**765**
As at 31 December	**581**	**3**	**584**	**591**	**0**	**591**

The Group holds no intangible assets received as guarantee for liabilities, and holds no assets with limited ownership rights. The Bank's intangible assets do not include licences under lease.

DBS d. d.

	2020			2019		
	Intangible assets	Intangible assets under construction	Total	Intangible assets	Intangible assets under construction	Total
Cost						
As at 1 January	3,100	0	3,100	3,225	0	3,225
Increases	0	111	111	0	239	239
Decreases	0	(108)	(108)	(364)	(239)	(603)
Transfer from PPE under construction	108	0	108	239	0	239
As at 31 December	3,208	3	3,211	3,100	0	3,100
Revaluation allowance						
As at 1 January	2,571	0	2,571	2,780	0	2,780
Depreciation and amortisation	135	0	135	156	0	156
Decreases	0	0	0	(365)	0	(365)
As at 31 December	2,706	0	2,706	2,571	0	2,571
As at 1 January	**529**	**0**	**529**	**445**	**0**	**445**
As at 31 December	**502**	**3**	**505**	**529**	**0**	**529**

The Bank holds no intangible assets received as guarantee for liabilities, and holds no assets with limited ownership rights. The Group's intangible assets do not include licences under lease.

4.13. Corporate income tax assets

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Tax assets	233	528	233	528
Deferred tax assets (Note 4.23. b)	3,705	4,778	3,705	4,778
TOTAL	**3,938**	**5,306**	**3,938**	**5,306**

As at 31 December 2020, the Group discloses a tax asset in the amount of EUR 233 thousand, arising from the surplus of advances payments over the established corporate tax base for 2020. In 2020, the Bank made monthly advance payments for corporate income tax of EUR 29 thousand due to the positive tax base for 2019.

4.14. Other assets

a) Breakdown

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Accrued and short-term deferred costs	350	210	341	203
Long-term deferred operating costs	25	25	25	25
Property inventory (Note 4.14. b)	20	1,620	0	311
Stock of coins held for sale	158	157	158	157
Advances receivable - construction works	0	221	0	221
Advances to suppliers for operating current assets	20	11	14	1
Other advances	500	25	500	25
Input VAT receivable	1	1	0	0
Other tax refund receivables	2	1	0	1
Advance suretyship, security receivables	94	89	94	89
Consideration receivable	42	1,086	42	1,086
Revaluation allowances	0	(2)	0	(2)
TOTAL	**1,212**	**3,444**	**1,174**	**2,117**

Movements in revaluation allowance for other assets are disclosed in section 5.1.5. (Note f).

b) Movements in inventories of property

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
As at 1 January	1,620	4,160	311	2,865
Increase	1,320	239	1,320	217
Transferred to investment property	(1,591)	(467)	(302)	(467)
Decrease	(1,329)	(2,312)	(1,329)	(2,304)
As at 31 December (Note 4.14. a)	**20**	**1,620**	**0**	**311**

The Bank recorded no impairment charges against property inventories in 2020 (2019: EUR 0 thousand) (Note 3.14.).

4.15. Non-current assets held for sale, and discontinued operations

	Group DBS		DBS d. d.	
	2020	2019*	2020	2019
Property, plant and equipment held for sale	153	173	0	0
Equity investment - transfer from Equity investments in subsidiaries, joint ventures, and associates (Note 4.9.)	0	0	0	806
Assets of subsidiaries held for sale	0	25,886	0	0
TOTAL	**153**	**26,059**	**0**	**806**

* Consolidated financial statements taking into account the error correction as at 1 Jan 2019.

The item Property, plant and equipment of the Group includes property held for sale by the subsidiary DBS Adria.

4.16. Financial liabilities held for trading

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Other trading liabilities	24	110	24	110
TOTAL	**24**	**110**	**24**	**110**

The item Other financial liabilities includes foreign currency trading liabilities, with which the Group regulated net open positions in foreign currencies.

4.17. Deposits by banks and central banks

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Sight deposits by banks	426	339	426	339
TOTAL	**426**	**339**	**426**	**339**

4.18. Deposits by customers

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Sight deposits	799,314	696,346	799,553	696,572
Short-term deposits	63,183	69,560	63,183	69,562
Long-term deposits	104,233	128,818	104,233	128,853
TOTAL	**966,730**	**894,724**	**966,969**	**894,987**

Long-term deposits also include deposits with characteristics of the Bank's subordinated liabilities (Note 4.21.).

4.19. Borrowings from banks and central banks

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Long-term borrowings from banks	2,057	2,058	2,057	2,058
Long-term borrowings from central bank	0	49,440	0	49,440
TOTAL	**2,057**	**51,498**	**2,057**	**51,498**

Long-term loans also include loans with characteristics of the Bank's subordinated liabilities (Note 4.21.).

4.20. Other financial liabilities

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Wages and salaries	535	571	524	557
Taxes and contributions	262	300	256	293
Suppliers	609	682	600	684
Lease liabilities	1,314	1,784	1,314	1,785
Other liabilities	487	463	486	463
Charges being collected	41	19	41	19
Accrued costs	402	308	396	302
Accrued expenses	236	215	236	215
Other long-term liabilities	5	5	5	5
Other	624	102	623	102
TOTAL	**4,515**	**4,449**	**4,481**	**4,425**

Other financial liabilities include lease liabilities for business premises in accordance with IFRS 16.

4.21. Subordinated liabilities

a) Breakdown by statement of financial position item

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Deposits by customers - long-term deposits (Note 4.18.)	3,655	6,421	3,655	6,421
Borrowings from banks and central banks - long-term borrowings from banks (Note 4.19.)	2,057	2,057	2,057	2,057
TOTAL	**5,712**	**8,478**	**5,712**	**8,478**

b) Breakdown by sector

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Subordinated liabilities				
- To banks	2,057	2,057	2,057	2,057
- To non-financial institutions	105	1,628	105	1,628
- To other financial institutions	3,020	4,263	3,020	4,263
- To households	530	530	530	530
TOTAL	**5,712**	**8,478**	**5,712**	**8,478**

	Date subscribed	Amount	Currency	Interest rate (%)	Maturity date
Subordinated liabilities					
	29. 5. 2015	2,057	EUR	6m Euribor + 6.00	31. 5. 2022
	29. 9. 2015	105	EUR	4.70	30. 9. 2021
	29. 9. 2015	52	EUR	4.70	30. 9. 2021
	29. 9. 2015	742	EUR	6.00	30. 9. 2022
	29. 9. 2015	106	EUR	6.00	30. 9. 2022
	30. 9. 2015	530	EUR	6.00	30. 9. 2022
	9. 10. 2015	159	EUR	6.00	10. 10. 2025
	9. 10. 2015	530	EUR	6.00	10. 10. 2025
	9. 10. 2015	848	EUR	6.00	10. 10. 2025
	9. 10. 2015	583	EUR	6.00	10. 10. 2025
TOTAL		**5,712**			

Subordinated liabilities include the Bank's subordinated deposits, loans and certificates of deposit eligible for inclusion into Tier II capital consistent with the CRR (Note in Chapter 5 and in Section Risk and Capital Management). Subordinated debt was issued over the years in order to maintain the required capital adequacy.

4.22. Provisions

a) Breakdown

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Provisions for pensions and similar payables to employees (Note 4.22. b and c)	1,676	1,604	1,653	1,587
Provisions for off-balance sheet liabilities (Note 4.22. d)	207	149	207	611
Group 1	125	77	154	78
Group 2	38	19	19	19
Group 3	44	53	34	514
Other provisions (Note 4.22. e)	500	0	500	0
TOTAL	**2,383**	**1,753**	**2,360**	**2,198**

b) Provisions for pensions and similar payables to employees

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Provisions for severance pays	1,501	1,419	1,482	1,405
Provisions for long-service awards	175	185	171	182
TOTAL (Note 4.22. a)	**1,676**	**1,604**	**1,653**	**1,587**

The actuarial calculation of provisions for severance pays and long-service awards to employees included the following assumptions: average earnings growth in the Republic of Slovenia is expected to total an annual 2.5% in 2021 and in subsequent years; the calculation of liabilities for severance pays takes into account an employee's period of employment; the selected discount factor is 0.46% annually. Assumptions on employment fluctuations and the company's related payables: it is assumed that employment fluctuation depends primarily on the employees age; the mortality rates used are from the Slovenian reference population mortality table for 2007; it is assumed that employees will exercise their right to retire upon reaching their full retirement age, and therefore the employer will not incur liabilities for long-service awards projected to fall due at a later date.

c) Movements in provisions for pensions and similar payables to employees

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
As at 1 January	1,604	1,823	1,587	1,354
Provisions made during the year	83	85	77	81
Provisions released	31	203	31	203
Provisions utilised during the year	(42)	(51)	(42)	(51)
Transfer to Discontinued operations	0	(456)	0	0
As at 31 December (Note 4.22. b)	**1,676**	**1,604**	**1,653**	**1,587**

The Group's recalculated payables to employees total EUR 1,676 thousand, for which, as at 31 December 2020, we had to form additional provisions of EUR 114 thousand. The increase in liabilities in the amount of EUR 110 thousand related to the cost for the period is formed through profit or loss. The actuarial deficit for severance pays was formed in other comprehensive income in the amount of EUR 46 thousand and eliminated in the amount of EUR 53 thousand (Note 4.28.).

The Bank's recalculated payables to employees total EUR 1,653 thousand, for which, as at 31 December 2020, we had to form additional provisions of EUR 108 thousand. The increase in liabilities in the amount of EUR 66 thousand related to the cost for the period is formed through profit or loss. The actuarial deficit for severance pays was formed in other comprehensive income in the amount of EUR 42 thousand and eliminated in the amount of EUR 53 thousand (Note 4.28.).

d) Movements in provisions for commitments and guarantees given

Group DBS	2020				2019			
	Group 1	Group 2	Group 3	Total	Group 1	Group 2	Group 3	Total
As at 1 January	77	19	53	149	72	4	50	126
Transferred to Group 1	32	(32)	0	0	1	(1)	0	0
Transferred to Group 2	(4)	15	(11)	0	(1)	6	(5)	0
Transferred to Group 3	0	(2)	2	0	(1)	(1)	2	0
Enhancements through issuing and acquisition	4	0	23	27	3	0	1	4
Decreases through derecognition	(3)	0	(39)	(42)	(3)	0	(5)	(8)
Changes due to change in credit risk (net)	19	38	16	73	6	11	10	27
As at 31 December	**125**	**38**	**44**	**207**	**77**	**19**	**53**	**149**

DBS d. d.	2020				2019			
	Group 1	Group 2	Group 3	Total	Group 1	Group 2	Group 3	Total
As at 1 January	78	19	514	611	72	4	534	610
Transferred to Group 1	32	(32)	0	0	1	(1)	0	0
Transferred to Group 2	(4)	15	(11)	0	(1)	6	(5)	0
Transferred to Group 3	0	(2)	2	0	(1)	(1)	2	0
Enhancements through issuing and acquisition	4	0	0	4	3	0	1	4
Decreases through derecognition	(3)	0	(39)	(42)	(3)	0	(396)	(399)
Changes due to change in credit risk (net)	47	19	(432)	(366)	7	11	378	396
As at 31 December	**154**	**19**	**34**	**207**	**78**	**19**	**514**	**611**

e) Movements in other provisions

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
As at 1 January	0	541	0	541
Provisions created during the year	500	0	500	0
Provisions released during the year	0	(52)	0	(52)
Provisions utilised during the year	0	(489)	0	(489)
As at 31 December	**500**	**0**	**500**	**0**

4.23. Tax liabilities

a) Breakdown

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Current tax liabilities	30	73	29	73
Deferred tax liabilities	5	3	5	3
TOTAL	**35**	**76**	**34**	**76**

Pursuant to the Corporate Income Tax Act (ZDDPO-2), the corporate income tax payable for 2020, applying the 19% tax rate, amounts to EUR 35 thousand for the Group, and EUR 34 thousand for the Bank.

b) Deferred tax liabilities and assets by statement of financial position item

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
1. Deferred tax liabilities				
Financial assets measured at fair value through other comprehensive income	5	3	5	3
TOTAL	**5**	**3**	**5**	**3**
2. Deferred tax assets				
Provisions for severance pays and long-service awards	155	152	155	152
Impairment of securities	228	224	228	224
Impairment of equity participation	2,712	3,780	2,712	3,780
Tax loss	610	622	610	622
TOTAL (Note 4.13.)	**3,705**	**4,778**	**3,705**	**4,778**
Net deferred tax (2 - 1)	**3,700**	**4,775**	**3,700**	**4,775**

The outstanding tax loss of the Group totals EUR 25,714 thousand. For the Group, deferred tax assets arising from the impaired equity investment, loans, financial leasing, unspent allowances, non-deductible depreciation, provisions for employees and tax losses, were formed in the amount of EUR 8,842 thousand, impairments of deferred tax assets totalling EUR 4,137 thousand.

The Bank's outstanding tax loss amounts to a total of EUR 13,026 thousand. Deferred tax assets were formed in the amount of EUR 6,048 thousand, impairments of deferred tax assets totalling EUR 2,343 thousand. Long-term deferred tax liabilities in the amount of EUR 5 thousand were formed under the enhancement of available-for-sale equity securities.

c) Movements in deferred taxes

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
As at 1 January	4,775	3,920	4,775	4,611
Transfer to Non-current assets held for sale	0	695	0	0
Financial assets measured at fair value through other comprehensive income	2	(12)	2	(12)
Impairment of securities	0	(2)	0	(2)
Impairment of equity participation	(1,068)	598	(1,068)	598
Provisions for severance pays and long-service awards	3	19	3	19
Tax loss	(12)	(443)	(12)	(439)
As at 31 December	**3,700**	**4,775**	**3,700**	**4,775**

d) Deferred taxes in the income statement contain the following temporary differences

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Tax loss	(12)	(443)	(12)	(439)
Impairment of equity participation	(1,067)	598	(1,067)	598
Impairment of securities	0	(2)	0	(2)
TOTAL (Note 3.16.)	**(1,079)**	**153**	**(1,079)**	**157**

Deferred tax assets and liabilities for 2020 were calculated using the tax rate of 19%, which is expected to apply in the period a particular receivable is collected.

4.24. Other liabilities

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Payments received in advance	681	1,295	640	1,136
Taxes payable	251	266	209	239
Accruals	112	134	29	36
TOTAL	**1,044**	**1,695**	**878**	**1,411**

4.25. Liabilities from non-current assets held for sale and discontinued operations

	Group DBS		DBS d. d.	
	2020	2019*	2020	2019
Liabilities relating to assets of subsidiaries held for sale (Note 4.15.)	0	22,932	0	0
TOTAL	**0**	**22,932**	**0**	**0**

* Consolidated financial statements taking into account the error correction as at 1 Jan 2019.

4.26. Share capital

a) Breakdown

	Group DBS		DBS d. d.	
Shareholder	No. of ordinary shares	Subscribed value	No. of ordinary shares	Subscribed value
As at 31 December 2019/1 January 2020	4,268,248	17,811	4,268,248	17,811
As at 31 December 2020	**4,268,248**	**17,811**	**4,268,248**	**17,811**

The Bank's share capital is divided into 4,268,248 ordinary no par value shares of class A, of which 4,257,483 are recorded in the central registry of dematerialised securities held by the Slovenian Central Securities Clearing Corporation – KDD. At the year-end of 2020, the Bank's share capital totals EUR 17,811,083.54.

b) Shareholders with over 5% of share capital

				2020
	Group DBS		DBS d. d.	
Shareholder	No. of shares	Stake in shareholders' equity in KDD	No. of shares	Stake in shareholders' equity in KDD
KD Group d. d., Ljubljana	1,006,254	23.635	1,006,254	23.635
Kapitalska zadruga, z. b. o., Ljubljana	894,158	21.002	894,158	21.002
Prva osebna zavarovalnica, d. d.*	644,506	15.138	644,506	15.138
Skupina Prva d. d.	422,557	9.925	422,557	9.925
Banca Popolare di Cividale S.C.p.A., Cividale del Friuli	228,289	5.362	228,289	5.362

* The insurer Prva osebna zavarovalnica d. d. holds shares in its own name and for the account of pension guarantee funds it manages (note in Business Report, Section VI.6).

At year-end 2020, 275 holders of the shares of Deželna banka Slovenije d. d. were recorded in the KDD registry (2019: 287), of which 103 were domestic companies, 168 were domestic individuals, and four were foreign entities (three legal and one natural persons). The number of the Bank's shareholders decreased by 12 in 2020.

4.27. Share premium

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
As at 1 January	31,257	31,257	31,257	31,257
As at 31 December	**31,257**	**31,257**	**31,257**	**31,257**

Amounting to EUR 31,257 thousand as at 31 December 2020 and 31 December 2019, the share premium comprises payments in excess of the par value of paid-in shares (paid-in surplus).

4.28. Accumulated other comprehensive income

a) Breakdown

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
As at 1 January	**(752)**	**(573)**	**(670)**	**(547)**
Items not to be reclassified to profit or loss	**95**	**(179)**	**10**	**(123)**
Actuarial gains/losses on defined benefit pension plans	96	(251)	11	(195)
Changes in the fair value of investments into equity instruments measured at fair value through other comprehensive income (Note 4.4. b)	(6)	66	(6)	66
Income tax relating to components of items not be reclassified to profit or loss	5	6	5	6
As at 31 December	**(657)**	**(752)**	**(660)**	**(670)**

Items not reclassified in the income statement refer to the actuarial surplus for severance pays (Note 4.22. b) and the deficit from the change in the fair value of investments in equity instruments.

b) Movements

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
As at 1 January	(752)	(573)	(670)	(547)
Increase in actuarial deficit for severance pays	57	0	57	0
Decrease in actuarial deficit for severance pays	43	(233)	(42)	(177)
Changes in the fair value of securities measured at fair value through other comprehensive income	(5)	54	(5)	54
As at 31 December	**(657)**	**(752)**	**(660)**	**(670)**

4.29. Revenue reserves

a) Breakdown

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Reserves for treasury shares	601	601	601	601
Reserves under Statutes	1,924	1,924	1,924	1,924
Other revenue reserves	12,572	11,853	12,572	11,853
TOTAL	**15,097**	**14,378**	**15,097**	**14,378**

Statutory and other revenue reserves can only be formed from profits for the year and retained earnings.

Share premium and statutory reserves can only be used up under the following conditions:
1. If the total amount of these reserves is less than 10% of share capital, they can only be used to:
   - cover net loss for the financial year if it cannot be covered from retained earnings or other revenue reserves;
   - cover retained loss if it cannot be covered from net profit for the financial year or other revenue reserves;
2. If the total amount of these reserves is at least 10% of share capital, the surplus amounts of these reserves can be used to:
   - increase share capital;
   - cover net loss for the financial year if it cannot be covered from retained earnings and if at the same time revenue reserves are not used for dividend payments to shareholders;
   - cover retained loss if it cannot be covered from net profit for the financial year and if at the same time revenue reserves are not used for dividend payments to shareholders.

Other revenue reserves cannot be used for dividend payments to shareholders or other entities.

b) Reserves for treasury shares

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
As at 1 January	601	601	601	601
As at 31 December	**601**	**601**	**601**	**601**

c) Reserves under Statutes

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
As at 1 January	1,924	1,924	1,924	1,924
As at 31 December	**1,924**	**1,924**	**1,924**	**1,924**

d) Other revenue reserves

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
As at 1 January	11,853	9,176	11,853	9,176
Appropriation based on the decision of the General Meeting	719	2,677	719	2,677
As at 31 December	**12,572**	**11,853**	**12,572**	**11,853**

4.30. Treasury shares

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Repurchase of treasury shares - ordinary	(601)	(601)	(601)	(601)
TOTAL	**(601)**	**(601)**	**(601)**	**(601)**

Treasury shares were bought back due to: employee share remuneration, protection from hostile takeovers, and reasons from indents 1 and 2 of Article 247 (1) of the Companies Act.

4.31. Retained earnings (including net profit/loss for financial year)

a) Breakdown

	Group DBS		DBS d. d.	
	2020	2019*	2020	2019
Net profit for the year	3,291	1,256	5,052	726
Retained earnings	1,968	1,455	(53)	(7)
TOTAL	**5,259**	**2,711**	**4,999**	**719**

* Consolidated financial statements taking into account the error correction as at 1 Jan 2019.

b) Distributable profit

	DBS d. d.	
	2020	2019
Net profit for the year	5,052	726
Retained earnings	(53)	(7)
TOTAL	**4,999**	**719**

The Bank's distributable profit as at 31 December 2020 amounts to EUR 4,999 thousand and consists of net profit of EUR 5,052 thousand and actuarial losses in the amount of EUR 53 thousand, reported in retained earnings. The appropriation of distributable profit will be decided by the General Meeting. The Management Board and Supervisory Board recommend that 15% or EUR 750 thousand of distributable profit be used for dividend payments to shareholders for 2020, and the residual profit of EUR 4,249 thousand be appropriated to other revenue reserves.

4.32. Off-balance sheet liabilities

a) Breakdown by type of contingent liabilities and commitments

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Guarantees	13,927	19,715	13,927	20,080
Commitments to extend credit	55,166	44,570	55,420	46,117
TOTAL	**69,093**	**64,285**	**69,347**	**66,197**
Provisions (Note 4.22. a and d)	(207)	(149)	(207)	(611)

4.33. Fiduciary activities

The Group manages assets in the total amount of EUR 672 thousand (2019: EUR 895 thousand) on behalf of and for the accounts of third parties. Assets under management are accounted for separately from the Group's assets. Income and expenses from operations on behalf of third parties and for the accounts of third parties are credited or charged to the originator; therefore no liabilities arise for the Group from these operations. The Group charges the related service fees to the originator. In 2020, fees and commissions from intermediation in concluding credit transactions amounted to EUR 2 thousand (2019: EUR 13 thousand). As at 1 February 2019, the Bank ceased to provide investment services to customers. For acting as agent in the sale of numismatic coins, the Group charged fees in the amount of EUR 14 thousand in 2020 (2019: EUR 13 thousand).

a) Investment and ancillary investment services for customers

		Group DBS		DBS d. d.
	2020	2019	2020	2019
Fee (commission) income associated with investment and ancillary investment services and transactions for clients	**0**	**11**	**0**	**11**
Reception, transmission and execution of orders	0	11	0	11
Fee (commission) expense associated with investment and ancillary investment services and transactions for clients	**0**	**48**	**0**	**48**
Fees associated with KDD and similar organisations	0	47	0	47
Fees associated with the stock exchange and similar organisations	0	1	0	1

Other agency services

The Group's item Other agency services includes EUR 672 thousand from intermediation in concluding credit transactions for the customers' account (2019: EUR 895 thousand).

4.34. Related party transactions

The ordinary course of business includes numerous banking transactions with related parties. These transactions are carried out on commercial terms and conditions, and at market rates.

a) Volume of banking transactions among related parties

Group DBS

	Management Board/ CEO		Senior management		Close family members of Management Board/CEO Members of Supervisory Board		Companies related to members of Management Board/ CEO/Members of Supervisory Board and close family members		Bank's shareholders*, holders of qualifying stake in the Bank		Supervisory Board members		Members of management or supervisory body, or holder of procuration of a legal person who is a shareholder in the Bank – holding a qualified stake	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Loans and deposits														
As at 1 January	59	73	215	316	16	19	1,880	2,168	0	5	32	56	71	0
Increase	6	12	109	74	0	1	6,862	4,714	0	2	1	1	7	153
Decrease	(55)	(26)	(108)	(175)	(5)	(4)	(6,965)	(5,002)	0	(7)	(28)	(25)	(70)	(82)
As at 31 December	10	59	216	215	11	16	1,777	1,880	0	0	5	32	8	71
Interest income	0	1	2	3	1	1	49	56	0	0	0	1	1	2
Revaluation allowance	0	0	0	0	0	0	39	8	0	0	0	0	0	0
Deposits and borrowings														
As at 1 January	148	91	407	211	14	8	1,786	1,695	3,363	4,593	150	82	42	0
Increase	3,101	1,820	2,118	1,630	69	103	12,614	14,443	513	9,817	497	456	239	294
Decrease	(3,096)	(1,763)	(1,928)	(1,434)	(64)	(97)	(13,724)	(14,352)	(1,618)	(11,047)	(490)	(388)	(236)	(252)
As at 31 December	153	148	597	407	19	14	676	1,786	2,258	3,363	157	150	45	42
Interest expense	0	0	0	0	0	0	18	78	167	272	0	0	0	0
Fee and commission received	0	0	2	2	0	0	70	52	32	1	0	1	1	1
Fee and commission expense	0	0	0	0	0	0	272	0	0	0	0	0	0	0
Full operational lease granted														
As at 1 January	0	0	0	0	0	0	1	3	0	0	0	0	0	0
Increase	0	0	0	0	0	0	1	39	0	0	0	0	0	0
Decrease	0	0	0	0	0	0	(2)	(41)	0	0	0	0	0	0
As at 31 December	0	0	0	0	0	0	0	1	0	0	0	0	0	0
Lease income	0	0	0	0	0	0	0	21	0	0	0	0	0	0
Full operational lease received														
As at 1 January	0	0	0	0	0	0	1	1	0	0	0	0	0	0
Increase	0	0	0	0	0	0	18	40	0	0	0	0	0	0
Decrease	0	0	0	0	0	0	(18)	(40)	0	0	0	0	0	0
As at 31 December	0	0	0	0	0	0	1	1	0	0	0	0	0	0
Lease expense	0	0	0	0	0	0	18	40	0	0	0	0	0	0
Other receivables	0	0	0	0	0	0	0	9	0	0	0	0	0	0
Other income	0	0	4	9	0	0	0	90	0	77	0	0	0	0
Other liabilities	0	0	0	0	0	0	22	80	0	0	0	0	0	0
Other expenses	0	0	4	0	0	0	288	304	1	2	0	0	0	0

* Only the Bank's qualified shareholders are included.

DBS d. d.

	Management Board		Senior management		Close family members of the Management Board, Supervisory Board		Companies associated with members of the Management Board, Supervisory Board, and their close family members		Bank's shareholders*, holders of qualifying stake		Supervisory Board members		Members of management or supervisory body, or holder of procuration of a legal person who is a shareholder in the Bank – holding a qualified stake	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Loans and deposits placed														
As at 1 January	17	26	118	209	1	1	1,880	2,168	0	5	32	56	71	0
Increase	6	10	109	74	1	1	6,862	4,714	0	2	1	1	7	153
Decrease	(13)	(19)	(94)	(165)	(1)	(1)	(6,965)	(5,002)	0	(7)	(28)	(25)	(70)	(82)
As at 31 December	10	17	133	118	1	1	1,777	1,880	0	0	5	32	8	71
Interest income	0	0	2	3	0	0	49	56	0	0	0	1	1	2
Revaluation allowance	0	0	0	0	0	0	39	8	0	0	0	0	0	0
Deposits and borrowings														
As at 1 January	95	36	407	211	14	8	1,786	1,695	3,363	4,593	150	82	42	0
Increase	3,089	1,775	2,118	1,630	69	103	12,614	14,443	513	9,817	497	456	239	294
Decrease	(3,031)	(1,716)	(1,928)	(1,434)	(64)	(97)	(13,724)	(14,352)	(1,618)	(11,047)	(490)	(388)	(236)	(252)
As at 31 December	153	95	597	407	19	14	676	1,786	2,258	3,363	157	150	45	42
Interest expense	0	0	0	0	0	0	18	78	167	272	0	0	0	0
Fee and commission received	0	0	2	2	0	0	70	52	32	1	0	1	1	1
Fee and commission expense	0	0	0	0	0	0	272	0	0	0	0	0	0	0
Full operational lease received														
As at 1 January	0	0	0	0	0	0	1	1	0	0	0	0	0	0
Increase	0	0	0	0	0	0	18	40	0	0	0	0	0	0
Decrease	0	0	0	0	0	0	(18)	(40)	0	0	0	0	0	0
As at 31 December	0	0	0	0	0	0	1	1	0	0	0	0	0	0
Lease expense	0	0	0	0	0	0	18	40	0	0	0	0	0	0
Other income	0	0	0	0	0	0	0	4	0	77	0	0	0	0
Other liabilities	0	0	0	0	0	0	22	76	0	0	0	0	0	0
Other expenses	0	0	0	0	0	0	286	278	0	0	0	0	0	0

* Only the Bank's qualified shareholders are included.

Disclosures of transactions among related parties include all changes taking place during the year. Each individual related party is considered as of the date of being entered in the related party list up to the date of exit or until the end of the year of reference.

b) Subsidiaries DBS Leasing, DBS Nepremičnine, Semenarna and DBS Adria

	Subsidiaries - DBS Leasing, DBS Nepremičnine, Semenarna, DBS Adria		Subsidiaries - related parties - Management Board/CEO/ Holder of Procuration		Subsidiaries - related parties - Companies related to members of the Management or Supervisory Board/CEO/Holder of Procuration, or their close family members	
	2020	2019	2020	2019	2020	2019
Loans and deposits placed						
As at 1 January	13,946	11,355	42	46	0	0
Increase	20,733	16,214	0	1	0	0
Decrease	(23,319)	(13,623)	(42)	(5)	0	0
As at 31 December	11,360	13,946	0	42	0	0
Interest income	118	146	0	1	0	0
Revaluation allowance	338	993	0	0	0	0
Deposits and borrowings						
As at 1 January	263	403	54	54	0	0
Increase	9,686	4,755	12	46	0	0
Decrease	(9,710)	(4,895)	(66)	(46)	0	0
As at 31 December	239	263	0	54	0	0
Interest expense	2	2	0	0	0	0
Guarantees issued	0	364	0	0	0	0
Fee and commission received	148	192	0	0	0	0
Full operational lease granted						
As at 1 January	0	0	0	0	0	0
Increase	28	77	0	0	0	0
Decrease	(28)	(77)	0	0	0	0
As at 31 December	0	0	0	0	0	0
Lease income	28	77	0	0	0	0
Full operational lease received						
As at 1 January	0	0	0	0	0	0
Increase	2	5	0	0	0	0
Decrease	(2)	(5)	0	0	0	0
As at 31 December	0	0	0	0	0	0
Lease expense	2	5	0	0	0	0
	1	1	0	0	0	0
Other income	8	16	0	0	0	0
Other liabilities	0	9	0	0	0	0
Other expenses	0	12	0	0	0	0

c) Remuneration of Senior Management

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Wages and other short-term benefits	1,379	1,324	1,305	1,185
Variable remuneration	14	12	14	10
Variable remuneration - severance pays	13	0	0	0
TOTAL	**1,406**	**1,336**	**1,319**	**1,195**

The remuneration of the Management Board and others on management contracts includes gross wages, pay for annual leave, fringe benefits (statutory severance pays, long-service awards, compensations), cost reimbursement and supplementary pension insurance. The variable component of remuneration includes the variable component of performance, fringe benefits and severance pays under contract. The variable remuneration amounting to EUR 14 thousand is composed of monetary remuneration and other fringe benefits (use of a car, accident insurance and liability insurance). The senior management category comprises the Management Board and employees subordinated to it directly.

The Management Board and others on management contracts held 1,759 shares (0.041% of share capital) as at 31 December 2020, identical to the previous year.

d) Remuneration of Supervisory Board members and members of its Committees

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Wages and other short-term benefits	85	126	85	126
TOTAL	**85**	**126**	**85**	**126**

The amount includes the earnings of Supervisory Board members and those of the members of the Supervisory Board Nomination, Audit and Risk Committee.

e) Remuneration of members of management and supervisory bodies in 2020

	Group DBS							DBS d. d.						
	Fixed remuneration				Variable remuneration			Fixed remuneration				Variable remuneration		
Position/ Remuneration type	Fixed remuneration	Cost reimbursement	Supplement pension insurance	Total	Variable remuneration	Other payments	Total	Fixed remuneration	Cost reimbursement	Supplement pension insurance	Total	Variable remuneration	Other payments	Total
Management Board of the Bank	**335**	**3**	**5**	**343**	**1**	**5**	**6**	**335**	**3**	**5**	**343**	**1**	**5**	**6**
- Marko Rozman, President	183	2	3	**188**	0	0	**0**	183	2	3	**188**	0	0	**0**
- Barbara Cerovšek Zupančič MSc, member	152	1	2	**155**	1	5	**6**	152	1	2	**155**	1	5	**6**
Supervisory Board of the Bank	**82**	**3**	**0**	**85**	**0**	**0**	**0**	**82**	**3**	**0**	**85**	**0**	**0**	**0**
- Peter Vrisk, Chair (until 27 January 2020)	1	0	0	**1**	0	0	**0**	1	0	0	**1**	0	0	**0**
- Ivan Lenart, Vice-Chair (until 27 January 2020)	1	0	0	**1**	0	0	**0**	1	0	0	**1**	0	0	**0**
- Ivan Lenart, Chair (since 27 January 2020)	19	1	0	**20**	0	0	**0**	19	1	0	**20**	0	0	**0**
- Jure Kvaternik, Vice-Chair (since 27 January 2020 until 28 July 2020)	6	0	0	**6**	0	0	**0**	6	0	0	**6**	0	0	**0**
- Boštjan Škufca Zaveršek MSc, Vice-Chair (since 28 July 2020)	7	0	0	**7**	0	0	**0**	7	0	0	**7**	0	0	**0**
- Jure Kvaternik, member (until 27 January 2020 and since 28 July 2020)	7	0	0	**7**	0	0	**0**	7	0	0	**7**	0	0	**0**
- Nikolaj Maver, member	14	1	0	**15**	0	0	**0**	14	1	0	**15**	0	0	**0**
- Iris Dežman, member	14	0	0	**14**	0	0	**0**	14	0	0	**14**	0	0	**0**
- Tomaž Petrovič, member (until 30 June 2020)	6	1	0	**7**	0	0	**0**	6	1	0	**7**	0	0	**0**
- Gregor Sluga MSc (since 1 July 2020)	7	0	0	**7**	0	0	**0**	7	0	0	**7**	0	0	**0**
Senior management in subsidiaries	**71**	**2**	**1**	**74**	**13**	**0**	**13**	-	-	-	-	-	-	-
- Gregor Kopriva, CEO, Semenarna Ljubljana, d. o. o. (until 31 March 2020)	22	0	0	**22**	0	0	**0**	-	-	-	-	-	-	-
- Jožef Berdnik, Holder of Procuration, Semenarna Ljubljana, d .o. o. (until 12 March 2020)	5	0	0	**5**	0	0	**0**	-	-	-	-	-	-	-
- Srečko Korber, CEO, DBS Leasing d. o. o. (until 13 March 2020)	9	0	0	**9**	13	0	**13**	-	-	-	-	-	-	-
- Jan Juvan, CEO, DBS Leasing d. o. o. (since 13 March 2020)	32	2	1	**34**	0	0	**0**	-	-	-	-	-	-	-
- Tomo Sokolić, Senior Executive, DBS Nepremičnine d. o. o.	3	0	0	**3**	0	0	**0**	-	-	-	-	-	-	-
- Jožef Berdnik, CEO, DBS Adria d. o. o.	0	0	0	**0**	0	0	**0**	-	-	-	-	-	-	-
TOTAL	**488**	**8**	**6**	**502**	**14**	**5**	**19**	**417**	**6**	**5**	**428**	**1**	**5**	**6**

The table shows the earnings of Management Board members of the Bank, and of Supervisory Board members and CEOs of subsidiaries, pursuant to the requirement of Article 294 of the Slovenian Companies Act. Management and supervisory bodies are defined in the Business Report, chapter VI.4. Composition and operations of the management and supervisory bodies and their committees.

f) Remuneration of Identified Staff in 2020

Group DBS

Position/Remuneration type	Number of beneficiaries	Fixed earnings	Variable remuneration	Cost reimbursement	Insurance premiums	Total
TOTAL REMUNERATION	**24**	**1,327**	**24**	**49**	**20**	**1,420**

DBS d. d.

Position/Remuneration type	Number of beneficiaries	Fixed earnings	Variable remuneration	Cost reimbursement	Insurance premiums	Total
TOTAL REMUNERATION	**21**	**1,283**	**12**	**46**	**19**	**1,360**

The category of Identified Staff comprises the Management Board, directors of Sections and Departments and of Branch units.

4.35. Remuneration system and important business contacts

Remuneration system

The system of remuneration in the Group is based on the Remuneration Policy for employees (hereinafter: Remuneration Policy), which lays down the system of remuneration and performance bonuses for employees in the Bank and the banking Group. The necessary preconditions for variable pay are the Bank's reporting a profit for the assessment period and its reaching all basic objectives. In 2020, a total of EUR 31 thousand was allocated to the variable component of remuneration for Identified Staff.

Important business contacts

A significant indirect business contact exists if a member of the Management Board or Supervisory Board, or their close family member, is a business partner, holder of a qualifying stake in Group companies, CEO or member of the senior management in a company or organisation that is in a business relationship with the Group. In this respect, the Group promotes the culture of avoiding significant direct and indirect business contacts.

Disclosures in accordance with Article 88 of the Banking Act and Section 8 of Regulation (EU) No 575/2013 are included in the Annual Report of the Deželna banka Slovenije Group for 2020 in Chapter VI.4, which is published on the Bank’s website www.dbs.si.

4.36. Events after the statement of financial position date

The new coronavirus disease (COVID-19) epidemic, which began in early March 2020 and reappeared in autumn 2020, continues in January 2021. In this regard, the Group rapidly introduced all the preventive measures recommended by the National Institute of Public Health and those it deems necessary and will continue to implement them for the duration of the pandemic in 2021. It duly called upon employees to implement increased hygiene and protective measures, made recommendations to customers regarding banking operations, prepared a DBS Emergency Plan during the epidemic, envisaged additional measures to ensure smooth operations, convened a Crisis Team and further adopted appropriate decisions and related measures also based on the current decisions of the Government of the Republic of Slovenia, depending on the spread of the new virus.

At the beginning of January 2021, the Government of the Republic of Slovenia approved the eighth act to remedy the consequences of the epidemic, its key measures being the payment of the crisis allowance for December 2020, subsidising the increase in the minimum wage and extending the lay-off subsidy.

In January 2021, the Bank sold a major property it had owned for a long time.

No other relevant events occurred between the end of the reporting period and the date of the financial statements, such as would have an impact on the operations of the DBS Bank and Group.

Impacts of COVID-19 on the Group's operations in 2021

While the epidemic did not have a major impact on the Bank's operations in 2020, we estimate that it could potentially increase in 2021, as most of the approved legal moratoriums expire this year, and the future course and duration of the epidemic are still unclear. If the epidemic does not end before the moratorium expires and if measures are still in place to close part of economic activities in Slovenia, customers may be unable to pay their obligations, resulting in an increase in non-performing loans and the need for additional impairments. We also expect a negative effect when new borrowers' financial statements for 2020 are submitted, as we estimate that their credit ratings will be lowered, which will be the basis for reclassifying customers into Group 2 in accordance with IFRS 9 and creating lifelong impairments, thereby increasing the scope of group impairments.

It is not possible to predict precisely what this effect will be, as we have observed that some customers performed even better in 2020 than in previous years, while others successfully responded to the situation with active cost reduction, and with the assistance of the state with its legal interventions and subsidies, which, despite the closure of certain activities, stabilised the business operations of the companies and helped maintain employment. We also note that the Bank's exposure to companies in the industries most affected by the epidemic is relatively limited. As at 31 December 2020, the Bank had deferred liabilities approved in the amount of EUR 6.342 million, of which most in trade in the amount of EUR 1.742 million and EUR 1.256 million in manufacturing, and only EUR 421 thousand in catering, which is one of the most affected activities. The amount of deferred liabilities to natural persons amounts to EUR 922 thousand. The share of deferred liabilities in all receivables to be classified in the Bank is 0.61%.

Notwithstanding the above, in preparing the plan for 2021, the Bank took into account the probability of the formation of higher impairments due to the epidemic, especially in 2021, namely in the amount of EUR 3.1 million, and in 2022 in the amount of EUR 4.3 million, after which the situation is expected to normalise. From a revenue point of view, we additionally estimate that the ECB's monetary policy, which is even more expansive due to the epidemic, will have a greater impact on the Bank's interest income, which in turn affects the strongly negative Euribor values as well as negative earnings on the debt securities market, where the Bank places its liquid assets. The effect of this is projected as a decline in interest income of EUR 1 million in 2021. Due to restrictions on the operation of branches, the continuation of the epidemic will also have an impact on non-interest income, but this cannot be estimated because of the uncertain duration of the epidemic. At the cost level, additional or higher costs than in 2020 resulting from the epidemic are no longer expected.

The Bank has an adequate amount of formed capital ratios, including the so-called capital buffer, which is intended primarily for crisis situations. The final impact of COVID-19 on the Bank's operations in 2021 will depend mainly on the duration of the epidemic; if it ends sooner, its impact on the Bank's operations is expected to be correspondingly lower.

5. RISK CONTROL

The Group devotes particular attention to the risks it is or could be exposed to in its line of business. For this purpose, it has set up an independent control function of risk management, whose independence, autonomy, and effectiveness are guaranteed by a transparent organisation structure and delimitation of competences. Risk is monitored by the Risk Management Section, which is in charge of, among other things, designing and updating individual strategies and policies of risk-taking and risk management, overseeing their implementation, continually improving the system of monitoring and controlling all major types of risk, and preparing in-house reports and reports for regulators. The Group has also set up an Asset and Liability Committee and a Risk Committee, which – together with the Supervisory Board and senior management – promptly monitor the Group's exposure to risk, its risk profile and its risk appetite.

The common objective of risk-taking and risk-management strategies and policies is to prevent and limit losses due to individual risks. The risk-management strategy includes objectives and general guidelines for risk-taking and risk management for individual risks, and the responsibilities of the Supervisory Board, Management Board and senior management in the area of risk management. To measure exposure to different types of risk, the Group uses internal methodologies and approaches in addition to regulatory ones, which facilitates a close monitoring of risks and their management. The Group pursues a moderate risk-taking policy.

The risks that the Group is exposed to are identified at the level of prudential consolidation, and the manner and intensity of their management depend on the risk profile and risk of the environment. The risk profile involves assessments of credit risk, market risk, interest rate risk, liquidity risk, operational risk, strategic risk, reputation risk, capital risk, profitability risk and elements of the control environment. For those risk and control environment elements that receive lower ratings, senior management has to propose actions to be taken with a view to improving the risk profile, and implement them. The risk profile is reviewed and updated once a year at a minimum, being discussed by the Management Board, the Risk Committee, and the Supervisory Board.

In 2020, the banking system faced the uncertainty brought about by the outbreak of the COVID-19 pandemic. This had a significant impact on the Bank's operations and risk management in 2020, and the year 2021 brings an additional challenge in the field of risk monitoring and management. According to the Bank's estimates, the pandemic will have the greatest impact on credit risk, while also significantly affecting profitability risk and, consequently, capital risk. The Bank regularly monitors and analyses the situation related to the coronavirus, and takes the necessary risk management measures. Due to poor economic prospects according to IMAD, in 2020, the Bank formed additional group impairments in line with the Methodology for Assessing Credit Risk Losses. The Bank regularly monitors the financial position of borrowers, implements measures of intervention legislation, and when approving new investments, acts prudently and within its current or future ability of taking risk. The Bank will continue to monitor forecasts of economic trends, calculate parameters for assessing credit risk losses and, accordingly, perform simulations to calculate the effect on the formation of impairments. In risk management, it will continue to be conservative in accepting new risks, striving to implement the set risk-taking and risk management strategy, and ensuring capital ratios as prescribed by the Bank of Slovenia.

In 2020, the Group complied with all requirements of the capital accord and other requirements of the regulatory framework at the level of prudential consolidation. It has further upgraded risk management; regarding interest rate risk, it began to monitor and assess option or behavioural risk and credit spread risk resulting from non-trading book activities (CSRBB), performed external validation of the IFRS 9 model to demonstrate its adequacy, and a series of retrospective tests to verify and demonstrate the correct operation of internal risk measurement models. The Supervisory Board was acquainted with the risk profile and risk-taking capacity as part of the internal capital and liquidity assessment processes (ICAAP and ILAAP), and regularly monitored the risk exposure. All critical risk management internal acts were revised in 2020, and updated if necessary.

Under Directive 2013/36/EU (CRD IV) and Regulation (EU) No 575/2013 (CRR), the controlling company DBS d. d. and the two subsidiaries DBS Leasing d. o. o. and DBS Nepremičnine d. o. o. are included in prudential consolidation. Both subsidiaries had also been included in prudential consolidation under the previous legislation in force. Consistent with the provisions of Article 4(1) and 4(18) of the Regulation, DBS Nepremičnine d. o. o. is considered an ancillary services undertaking and therefore one of the financial sector entities under Article 4(1) and 4(27c) of the Regulation.

Risk control has been presented within prudential consolidation, and not for the whole Group. In addition to DBS d. d. and the two subsidiaries, DBS Leasing d. o. o. and DBS Nepremičnine d. o. o., consolidation for accounting purposes also includes the subsidiary DBS Adria d. o. o., which is excluded from prudential consolidation per Article 19 of the Regulation. Notwithstanding its exclusion, the company is estimated not to have significant risks, and the impact of its share of interest, liquidity and foreign exchange risk on the Group is estimated as negligible or, in any event, not greater than any similar exposure.

The entire Chapter 5 of this Annual Report has been prepared using prudential consolidation data.

Group statement of financial position – comparison of regulatory and prudential consolidation as at 31 December 2020

Code	Items	Accounting consolidation	Prudential consolidation	Difference between accounting and prudential consolidation
		2020		
1	Cash, balances at central banks, and sight deposits at banks	87,281	87,275	6
2	Financial assets held for trading	88	88	0
3	Non-trading financial assets mandatorily measured at fair value through profit or loss	1,258	1,258	0
4	Financial assets measured at fair value through other comprehensive income	3,047	3,047	0
5	Financial assets measured at amortised cost	914,200	914,379	(179)
	- Debt securities	149,112	149,112	0
	- Loans to banks	206	206	0
	- Loans to customers	762,761	762,940	(179)
	- Other financial assets	2,121	2,121	0
6	Tangible assets	33,619	33,619	0
	- Property, plant and equipment	10,562	10,562	0
	- Investment property	23,057	23,057	0
7	Intangible assets	584	584	0
8	Income tax assets	3,938	3,938	0
	- Current tax assets	233	233	0
	- Deferred tax assets	3,705	3,705	0
9	Other assets	1,212	1,212	0
10	Non-current assets held for sale, and discontinued operations	153	0	153
11	**TOTAL ASSETS** (from 1 to 10)	**1,045,380**	**1,045,400**	**(20)**
12	Financial liabilities held for trading	24	24	0
13	Financial liabilities measured at amortised cost	973,728	973,728	0
	- Deposits by banks and central banks	426	426	0
	- Deposits by customers	966,730	966,730	0
	- Borrowings from banks and central banks	2,057	2,057	0
	- Other financial liabilities	4,515	4,515	0
14	Provisions	2,383	2,383	0
15	Income tax liabilities	35	35	0
	- Current tax liabilities	30	30	0
	- Deferred tax liabilities	5	5	0
16	Other liabilities	1,044	1,044	0
17	**TOTAL LIABILITIES** (from 12 to 16)	**977,214**	**977,214**	**0**
18	Share capital	17,811	17,811	0
19	Share premium	31,257	31,257	0
20	Accumulated other comprehensive income	(657)	(657)	0
21	Revenue reserves	15,097	15,097	0
22	Treasury shares	(601)	(601)	0
23	Retained earnings (including profit/loss for the year)	5,259	5,279	(20)
24	**EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** (from 18 to 23)	**68,166**	**68,186**	**(20)**
25	TOTAL EQUITY (24)	68,166	68,186	(20)
26	**TOTAL EQUITY AND LIABILITIES** (17 + 25)	**1,045,380**	**1,045,400**	**(20)**

The Group is most exposed to credit risk in its operations, and additionally to interest, liquidity, operational and capital risk.

Credit risk

Credit risk is the risk that a borrower will cause a financial loss to the Group by failing to fully discharge an obligation when due without calling on collateral, for whatever reason, whether this obligation be of a financial nature or another contractual obligation. In line with its portfolio and its risk-taking and risk-management strategy, the Group takes into account that credit risk can potentially arise out of increased concentration of exposure. Credit risk management involves the timely and adequate detection, measurement, assessment, control, monitoring and reporting of credit risk. The Group aims to ensure an adequate mechanism of taking on and managing credit risk. Such a mechanism has to reflect the Group's readiness and capacity to take on credit risk in compliance with regulatory demands, the regulatory framework for banks and regulatory capital requirements. The objectives and general guidelines of taking on and managing credit risk are laid down in the Risk-taking and Risk Management Strategy and in the Concise Risk Statement Approved by the Management Body. The process of credit risk management involves looking at all risky balance sheet and off-balance sheet assets.

In order to manage credit risk, the Group has been increasing the diversification of the credit portfolio and exposure to the retail sector, farmers and SMEs, and at the same time improving the quality of collateral and its adequacy, while regularly monitoring debtors' operations with the help of the early warning system for increased credit risk (EWS).

Market risk

Market risk is the risk of decreased asset value or profitability due to adverse changes in market variables (prices, interest rates, foreign exchange rates). Market risk appears when the Group acts as market maker, if it trades or takes positions in bonds, shares, foreign currencies, commodities and derivatives. The Group has in place a proprietary methodology and policy for determining, measuring and managing market risk, and for determining the level of exposure. The Group's risk management policy for market risk is based on the current and expected market conditions, realised and planned financial data, valid regulations and existing risk management systems. With its methodology for measuring and mitigating market risk for trading positions in equities, the Group operates its system of limits, the calculation of opportunity loss for a particular trading position as a basis for position stop-loss limits, and the calculation of value at risk (VaR) as a basis of the capital requirement for market risk. The Group has in place a system of limits to limit market risk, and the relevant committees, board and organisational units participate in discharging the function of market risk management as laid down in the Rules of Organisation.

Foreign exchange risk

Foreign exchange risk is present when the Group is directly or indirectly exposed to changes in currency exchange rates in global markets. Adverse global FX changes may result in losses in domestic currency. Exposure to foreign exchange risk arises out of a mismatch between assets and liabilities in different currencies. It involves mainly the risk of an instrument's potential decreased value due to changes in currency exchange rates. The Group pursues a closed currency positions policy. Accordingly, individual currency positions are monitored daily and potential overruns are reported to decision makers in line with instructions.

Interest rate risk

Interest rate risk is the risk of loss (i.e. lower interest income, higher interest expenses, decreased value of investments, opportunity loss) on interest-sensitive on-balance sheet and off-balance sheet positions due to a change in the level of market interest rates. Interest rates changes have a significant effect on the revenues and expenses as well as the value of individual items and thus the economic value of core equity capital. Interest rate risk is measured, managed, overseen and monitored in line with its Risk-taking and Risk Management Policy for Interest Rate Risk and its Methodology for Assessing Interest Rate Risk. For measuring the risk of interest rates changes, a gap analysis is used to calculate the potential impacts of interest rate stress scenarios on net interest income and the sensitivity of the economic value of equity capital. Interest rate risk is measured monthly for the entire banking book, separately for different currencies and applied reference interest rates. For internal needs and to calculate the risk-based capital requirement, six interest rate stress scenarios for current interest rate risk management are being implemented, summarized by the Group in accordance with the guidelines of the European Banking Authority (EBA). The result of the scenario with the worst impact on the sum of the economic value of equity (EVE) is used as the basis for formulating the capital requirement for interest rate risk, calculated as the 6-month average of the largest losses in the economic value of equity.

The analysis also considers the distribution of sight deposits consistent with the internal model, which we use to establish their stability. Based on the scenarios, the maximum negative change in the economic value of the equity may not exceed the internal limit of 10% of the economic value of the Bank's core equity capital. Due to the precautionary principle, this is set lower than required by the EBA, which prescribes it at 15%.

Liquidity risk

Liquidity risk is the risk of providing sources of liquidity in cases of potential loss when the Group is unable to discharge all its matured liabilities or when, due to its inability to provide sufficient funds to settle its matured liabilities, the Group is forced to obtain liquidity at significantly higher costs. The management of liquidity is a critical component of safe and prudent operations. Careful management of liquidity includes prudent management and matching of assets and liabilities, both with respect to financing and cash flows, and with respect to their concentration. The Risk-taking and Risk Management Policy for Liquidity Risk has been adopted for this purpose, which defines the methods and procedures for determining, measuring, controlling and monitoring liquidity risk, the objective of which is being able to settle due obligations in time. The policy is tailored to the Group's size, the nature, scope and complexity of its business, and the extent of acceptable risk levels.

Adequate cash inflows must be ensured to account for the expected (and potential) cash outflows. To this end, the adequacy of its disaster plan is tested and four liquidity stress scenarios are regularly implemented every three months. The scenarios are detailed in the Methodology for Liquidity Stress Scenarios and Calculation of Liquidity Ratios. The maximum liquidity shortage for up to one month is calculated based on the stress scenarios, which serves to determine the minimum level of unencumbered liquid assets, which the Group needs to have at its disposal at all times. With a view to determining its structural liquidity position, certain liquidity ratios are calculated and trends in selected structural liquidity position ratios are monitored.

In 2020, the Group fully complied with the regulations on the minimum requirements for ensuring an adequate liquidity position, which stipulate as mandatory the achievement of the regulatory liquidity coverage ratio (LCR).

For information purposes, the Group also calculates and meets the NSFR ratio, although not yet in force. The NSFR enters into force with the implementation of the Regulation (EU) 2019/876 (CRR2) as at 28 June 2021.

Operational risk

Operational risk is the risk of loss due to an inappropriate or unsuccessful implementation of internal processes, the human factor, system operations or external factors. It also includes information technology risk, cyber risk, outsourcing risk and legal risk. The Group manages operational risk by recording and closely monitoring (loss) events associated with operational risk, by decreasing the frequency and impact of such loss events, by keeping the total amount of evaluated loss events at a minimum, and by regularly checking and updating its disaster recovery and business continuity plan. For this purpose, the Group has in place a Risk-taking and Risk Management Policy for Operational Risk, which defines, among other things, the methods and procedures for determining, measuring, managing, monitoring, reporting and mitigating exposure to operational risk. The policy is tailored to the Group's size, the nature, scope and complexity of its business, and the method for the calculation of capital requirements. Integrated into the reporting system for events associated with operational risk are measures to resolve such events and prevent repeat events. Reports of events associated with operational risk and of measures to resolve them are promptly submitted to the Management Board and Internal Audit, and quarterly also to the Operational Risk Committee. Operational risk control is also subject to an annual review by the Internal Audit Department.

Capital risk

The Bank's capital risk equals its capital adequacy risk as it must always have at its disposal sufficient and adequate capital in terms of the services it provides and in terms of the risks it is, or could be, exposed to. Capital risk is associated with insufficient capital, with inadequate capital structure in relation to the volume and type of operations, or with difficulties in obtaining fresh capital. Capital risk is monitored on a monthly basis, when the amount of capital, capital requirements and capital requirement ratios are calculated. These calculations are communicated monthly to members of the Asset and Liability Committee, and the Bank's Management Board and quarterly to the Supervisory Board and the Risk Committee in the context of a comprehensive risk analysis. One of their tasks is to monitor the implementation of measures for ensuring that the capital requirement ratios imposed by the legislation and the Bank of Slovenia are met. Several internal acts are used in the process of controlling and mitigating capital risk, including the Risk-taking and Risk Management Strategy, and the Risk-taking and Risk Management Policy for Capital Risk.

5.1. Credit risk

The Group estimates its largest exposure to be associated with credit risk. Credit risk is determined and measured by analysing data on the exposures causing credit risk. Factors taken into account are the classification of balance sheet and off-balance sheet assets, migrations among credit rating grades, operations and the financial standing of customers to which the Group has major exposure, late payments and non-performing exposures, the proportion of hedged receivables, diversification or concentration of the credit portfolio, concentration of received collateral and other important facts associated with credit risk. Risk reporting is based on regular and extraordinary reports as laid down in the Risk Management Plan. Processes are in place to foster the production of a structured report on credit risk for relevant management levels. Results of these analyses are taken into account when forming the Risk-taking and Risk Management Strategy and Policy for Credit Risk.

To protect itself from expected losses, the Group forms provisions and impairments. However, significant changes in the economy or in the health of a particular industry segment that represents a concentration in the credit portfolio can result in losses that are different from those determined on date of the statement of financial position. The management therefore pursue a prudent credit risk management strategy.

The Group manages the level of credit risk it is willing to undertake by capping the amount of risk it is willing to take in relation to one borrower or a related group of borrowers, and by capping the amount of risk it is willing to take in relation to individual geographical and industry segments. These risks are regularly monitored and reviewed.

The portfolio exposed to credit risk includes on-balance sheet receivables (loans, debt securities, equity investment, interest, fee and commission, etc.) and off-balance sheet liabilities (guarantees, letters of credits, working capital loans, etc.) with companies, banks, financial institutions, the public sector, individuals and other customers.

Depending on the risk category of a borrower, as expressed by their credit rating, and the risk of a particular business, which is also influenced by the guarantees provided, the Group forms appropriate impairments and provisions. In order to reduce capital requirements for credit risk, the Group only accepted first-class and appropriate guarantees in 2020, consistent with provisions of the Regulation EU 575/2013.

5.1.1. Measuring credit risk

(a) Loans and receivables
In 2020, the Group determined credit risk pursuant to the valid regulations. To this end it drew up its credit portfolio quality analyses, into which it included data on:
- migration of customers among credit rating classes,
- movements of impairments,
- provisioning of impairments for individual types of credit exposure, and
- past due defaulting receivables and non-performing exposures.

More on forming provisions and impairments in Chapter 5.1.3.

(b) Debt securities
In assuming exposure to credit risk when buying debt securities in 2020, the Group used the classification into credit rating classes according to issuing states and other issuers, the kind used by i.e. Standard & Poor's or credit rating agencies of their level, whereby it specified the minimum acceptable credit rating limit for the respective securities. To determine the risk weights for the calculation of the capital requirement for credit risk for the category of exposures to central governments and central banks, it appointed the credit rating agency Standard & Poor's.

5.1.2. Control over limiting credit risk, and guidelines on mitigating credit risk

The Group manages, limits and controls credit risk concentration wherever it is detected, especially in relation to individual customers and groups of customers, economy sectors, businesses and geographical regions.

Exposure to credit risk is managed with a system of limits, which stipulates the maximum acceptable credit risk limit. This risk is regularly monitored and examined. Limits of exposure are set for individual debtors, sectors, businesses and regions. The maximum possible total exposure of the Group towards a corporate customer is defined by the Risk Management Section. When the threshold of large exposure is greatly exceeded and in case of Bank's related parties, the proposed level of permissible exposure must also be approved by the Bank's Supervisory Board. Limits of exposure are determined by considering the basic principles of banking, especially safety.

(a) Collateral
The Group employs a variety of ways to mitigate credit risk, pursuant to its internal rules on collateral, which stipulate the acceptability of different types of collateral.

Internal rules on collateral define:
- types and extent of collateral accepted,
- minimum eligibility criteria that collateral must normally meet,
- methodology for determining the type and amount of, and the order of calling on collateral,
- methodology for verifying and monitoring collateral, and
- detecting and preventing risks associated with accepted collateral.

As a rule, the Group will never fail to investigate a debtor's creditworthiness, even if exposure is collateralised. In agreeing on the type of collateral for an exposure, both the principles on credit risk reduction techniques and the principles on capital requirements should be adhered to, to the greatest extent possible.

The main types of collateral used by the Group are property as collateral and insurance covers, guarantees, bank deposits and assignments of claims. Personal collateral issuers are assessed for eligibility on the basis of their credit ratings, obtained using an internal methodology.

As a rule, the Group collateralises all loans. Most collateral is property evaluated according to appraisals by certified appraisers in compliance with the International Valuation Standards (IVS) and complying with other requirements in line with the Regulation (EU) No 575/2013.

(b) Off-balance sheet commitments

Guarantees and letters of credit as well as unused loans granted represent the same credit risk for the Group as loans. The Group regularly monitors maturity dates of loan commitments, since especially long-term commitments represent a higher credit risk than short-term commitments.

5.1.3. Guidelines on forming impairments and provisions

Pursuant to the regulatory framework for banks, and the provisions of the International Financial Reporting Standards (IFRS 9, effective from 1 January 2018), the Group classifies financial assets and off-balance sheet commitments (hereinafter: exposures) into groups according to their risk profile, and assesses the amount of expected losses associated with these exposures. The IFRS 9 standard introduces the expected credit loss model, while also taking into account forward-looking information. The Group has set up its own model for calculating impairments and implemented the necessary adjustments to applications. The model was validated by an external auditor who confirmed its correct functioning.

The credit rating system

The Group has in place a system of credit rating grades for categorising exposure. Eleven credit rating grades are used for measuring the credit exposure of business entities, and five grades are used for natural persons. To categorise an entity into a credit rating grade, four groups of criteria are used with business entities, i.e. selected financial ratios (based on balance sheet and income statement data), soft or subjective factors (additional information on entity's performance in the business environment), other risk factors (delays, compulsory composition, bankruptcy, restructuring, blockage, outstanding tax liabilities, etc.) and an assessment acquired through an in-depth analysis of its operations. With natural persons, the decision to classify them into a credit rating grade mainly depends on the length of material default, but also on other criteria (personal bankruptcy, renegotiating claims, etc.).

For establishing an increase in credit risk, the Group has harmonised the credit rating grades for business entities and natural persons in the context of forming impairments based on the model, and thus uses five individual grades as shown in the table below.

Credit rating grades

Group DBS

Harmonised credit rating grades	Business entities	Natural persons and farmers	Risk	Estimated annual conditional PD (from – to)
A	A1, A2, A3	A	Low credit risk	0.22–3.44%
B	B1, B2, B3	B	Medium credit risk	3.07–7.04%
C	C1, C2, C3	C	High credit risk	14.07–38.91%
D	D	D	Defaulted obligor	100%
E	E	E	Defaulted obligor	100%

DBS d. d.

Harmonised credit rating grades	Business entities	Natural persons and farmers	Risk	Estimated annual conditional PD (from – to)
A	A1, A2, A3	A	Low credit risk	0.22–3.44%
B	B1, B2, B3	B	Medium credit risk	3.07–7.04%
C	C1, C2, C3	C	High credit risk	14.07–38.91%
D	D	D	Defaulted obligor	100%
E	E	E	Defaulted obligor	100%

Classification of financial assets

At each reporting date, the Group classifies the exposures for which impairment requirements are used into groups 1, 2 and 3, depending on whether credit risk has increased significantly since initial recognition.

The Group classifies as group 1 all exposures whose credit risk has not increased significantly since initial recognition or which are considered low-credit risk transactions (this includes sovereign exposure, exposure to institutions, the public sector, as well as local and regional authorities). For such exposures, the Group measures 12-month expected credit losses.

If the Group establishes that the credit risk of an exposure has increased significantly since initial recognition, the instrument is classified as group 2, and expected credit losses are measured as full lifetime expected credit losses.

Exposures for which there is objective evidence of impairment (i.e. transactions by customers with the status of defaulted obligors) are classified as group 3. Their credit losses are measured based on estimated future cash flows reflecting the current value of estimated cash flows or based on the assessment of the repayable amount of collateral based on the not-going concern principle. For exposures approved after 26 April 2019, which are defined as NPEs, Regulation (EU) No 2019/630 of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards the minimum loss coverage for non-performing exposures (hereinafter: Regulation 2019/630) shall be strictly taken into account when calculating individual impairments.

At each reporting date, the Group estimates whether the credit risk of a financial instrument has increased significantly since initial recognition, taking into account appropriate and demonstrable information that can be acquired without entailing excessive costs or efforts. Credit insurance is not taken into account in classifying exposures as group 1, 2 or 3. The tables below show the classification of balance sheet exposures by receivables credit rating and groups as at 31 December 2020 and as at 31 December 2019.

Classification of balance sheet exposures by receivables credit rating and groups as at 31 December 2020 and 31 December 2019 for the Group and the Bank

Group DBS					2020					2019
	Group 1	Group 2	Group 3	POCI	Total	Group 1	Group 2	Group 3	POCI	Total
Receivable's credit rating A	866,838	3,360	0	0	870,198	830,887	1,935	0	0	832,822
Receivable's credit rating B	90,854	1,931	0	0	92,785	89,260	1,213	0	0	90,473
Receivable's credit rating C	7,845	7,347	0	0	15,192	1,425	9,229	0	0	10,653
Receivable's credit rating D	0	0	168	0	168	0	0	1,140	0	1,140
Receivable's credit rating E	0	0	330	0	330	0	0	181	0	181
Receivable's credit rating P	0	0	35,795	0	35,795	0	0	44,789	694	45,484
Gross carrying amount of classified balance sheet exposures	965,537	12,638	36,293	0	1,014,468	921,571	12,377	46,110	694	980,753
Revaluation allowance for classified balance sheet exposures	(2,788)	(1,202)	(14,616)	0	(18,606)	(1,063)	(700)	(14,702)	(1)	(16,466)
Net carrying amount of classified balance sheet exposures	962,749	11,436	21,677	0	995,862	920,508	11,677	31,408	693	964,287

DBS d. d.	2020					2019				
	Group 1	Group 2	Group 3	POCI	Total	Group 1	Group 2	Group 3	POCI	Total
Receivable's credit rating A	858,787	3,139	0	0	861,926	823,671	1,839	0	0	825,511
Receivable's credit rating B	98,635	1,786	0	0	100,421	96,290	940	0	0	97,231
Receivable's credit rating C	7,845	6,935	0	0	14,779	1,420	8,818	0	0	10,238
Receivable's credit rating D	0	0	159	0	159	0	0	1,131	0	1,131
Receivable's credit rating E	0	0	288	0	288	0	0	130	0	130
Receivable's credit rating P	0	0	32,656	0	32,656	0	0	41,044	694	41,738
Gross carrying amount of classified balance sheet exposures	965,267	11,860	33,103	0	1,010,230	921,382	11,598	42,305	694	975,979
Revaluation allowance for classified balance sheet exposures	(2,968)	(1,118)	(13,086)	0	(17,172)	(1,155)	(614)	(12,456)	(1)	(14,226)
Net carrying amount of classified balance sheet exposures	962,299	10,741	20,018	0	993,058	920,227	10,984	29,849	693	961,753

Significant increase of credit risk

For all financial assets subject to impairment requirements, the Group estimates whether a significant increase of credit risk has occurred since initial recognition, i.e. whether to apply full lifetime expected credit losses instead of 12-month expected credit losses. The Group considers for a significant increase of credit risk to have occurred when at least one of the following criteria is fulfilled:

a) at the time of approving the transaction, the customer's credit rating is A or B, and as at the reporting date, their credit rating is C;
b) material default in the transaction exceeds 30 days;
c) in the trial period, the customer was restructured profitably (group 2), or restructured unprofitably (group 3);
d) the customer is included on the last watch list due to enforcement or non-permitted negative balances.

The Group has decided not to use the rebuttable presumption of material default in the transaction that is more than 30 days past due, and rather classify all transactions with the material default of more than 30 days as group 2 and recognise for them full lifetime expected credit losses.

If the customer's credit rating is D or E (exposure will be recognised as a non-performing exposure when it is considered there to have been a default in accordance with article 178 of CRR, or when it has been found to have been impaired in accordance with an effective accounting standard), the transaction will be considered credit impaired and therefore classified as group 3 regardless of the credit rating grade upon initial recognition.

COLLECTIVE ASSESSMENT OF CREDIT LOSSES

Use of forward-looking information

In measuring the expected credit losses (ECL), the Group uses forward-looking information, which is available without undue cost or effort. External information includes economic data and forecasts published by state institutions The Group then forms the most likely outcome for future behaviour of economic variables, and also the best-case and the worst-case scenario. Each scenario is ascribed a weight that represents a percentage of its probability to materialise. The use of forward-looking information and determination of scenarios is described further below.

Measurement of expected credit losses (ECL)

Exposures classified as group 1 or 2 are, as a rule, impaired on a collective basis, and exposures classified as group 3 on an individual basis, with certain exceptions, such as limits that are subject to an action, service and payment guarantees, and non-credit transactions, for which, even if classified as group 3, impairment is recognised on a collective basis.

Collective impairment is calculated as the sum of discounted monthly weighted expected credit losses, and an individual (monthly) unit is calculated as the product of probability of default (PD), loss given default (LGD), exposure at default (EAD) and, in the case of off-balance-sheet receivables, also conversion factor (CCF).

Calculation of limit probability of default (PD)

In accordance with IFRS 9, the calculation of expected credit losses is based on the monthly limit PD that comprises expectations for the future and takes into consideration the probability of viability up to a certain month and the default event in this certain month. Forward-looking PD is calculated for the most likely outcome as well as the best-case and worst-case scenarios, and is based on the forecast for the chosen macroeconomic variable.

Calculation of forward-looking PS is based on the Z-shift method that enables forecasts for migration matrices in the coming periods using the forecast for macroeconomic variables. Using the forecast migration matrices, we can discern the probability of transfer to grades D and E, which stands for the probability of default (PD). In PD calculations, expectations for the future are comprised in the Z variable that is related to the chosen macroeconomic variable.

PD calculations use annual migration matrices, whereas macroeconomic variables also refer to the annual level. Migration matrices for farmers and natural persons are combined, and estimated PD values are thus acquired using two models: (I) the business entity model, and (II) the natural persons and farmers model. The source of past data and forecasts for macroeconomic variables is the Forecast of Economic Trends of the Institute of Macroeconomic Analysis and Development of the Republic of Slovenia (hereinafter: IMAD).

Forecasts for Z values are acquired with the regression model based on the ordinary least squares method (OLS). Z values are then translated back into migration matrices. For the years for which forecasts for the macroeconomic variable are no longer available, the last available Z value is used and decreased gradually to 0 (which results in an average matrix).

The annual conditional PD is then translated to the monthly level and in turn used to calculate the monthly limit PD. For each type of customer (corporate customers, natural persons, farmers) and each grade (A, B, and C), a time series of monthly PD is calculated taking into account the most likely outcome, the best-case and the worst-case scenario for the movement of the macroeconomic variable. Scenario weights are calculated based on the share of past errors in IMAD's forecasts for the chosen macroeconomic variable.

Calculations of PD for sovereign exposure and exposure to institutions and public sector entities are based on the Pluto-Tasche method, which is used to calculate PD for low- or zero-rate default portfolio. The PD values calculated for the purpose of measuring the expected credit losses are also translated to the monthly level.

Calculation of loss given default (LGD)

Loss given default (LGD) is the share the Group loses on average within seven years of the occurrence of default with respect to the exposure at default.

As of 31 October 2019, the calculation of LGD is based on forward-looking recovery rates. The past annual recovery rates are linked to chosen macroeconomic variables and, based on their forecast, predictions for future recovery rates are formed.

The recovery rate used in the calculation is the share acquired by the Group after the occurrence of default either from calling on collateral or repayments. Calculations of the recovery rate take into account the actual cash flows received, and not the expected repayments from outstanding transactions.

In the ECL calculation, the annual prediction LGD is taken into account and can differ by year (depending on the forecast of macroeconomic variables that were used in forming the prediction).

The LGD parameter is calculated for (i) collateralised exposures, and (ii) exposures for receivables without collateral, which also includes receivables with types of collateral that are not taken into account in the calculation of LGD for the collateralised portion of the receivable. The LGD parameter is calculated separately for corporate customers and jointly for natural persons, farmers and private individuals without a registration number.

Calculations of expected credit losses for sovereign exposure are based on LGD values laid down in Article 161(1) of Regulation (EU) No 575/2013 (CRR).

Calculation of exposure at default (EAD)

As at the reporting day, the actual exposure (EAD) is taken into account for each financial Instrument. If in the future, the exposure of a financial instrument changes in accordance with the contractually agreed repayment of interest and the principal, all future expected exposures of a financial instrument until its maturity are recalculated on the reporting day. If a delay in the payment of individual financial instruments should occur as at the reporting day, it is assumed that any delay will be repaid within the month following the reporting day. In the event of overpayment of instalment loans, the expected future exposure does not decrease until overpayments are equivalent to the expected exposure under the amortisation schedule. In the event of overpayment of annuity loans, the expected future exposure is regularly decreased by the amount of annuity, which results in advance repayment of loan.

If in the future, the exposure of a financial instrument is not liable to change in accordance with the contractually agreed repayment of interest and the principal, i.e. if the movement of exposure of a financial instrument is not known in advance (in case of a revolving loan, overdraft loan, limit, etc.), the actual exposure of a financial instrument as at the reporting day is taken into account in all months until the instrument's maturity.

Calculation of credit conversion factor (CCF)

Used as a conversion factor is the regulatory defined CCF as laid down in Article 111(1) of the CRR, which corresponds to the off-balance sheet item based on being classified into a risk category pursuant to the Annex 1 to the CRR.

Calculation of discount factor

Monthly weighted expected credit losses are discounted using a discount factor calculated from the effective interest rate, or the contractual interest rate if the Group has no information on the effective interest rate.

The Group regularly examines the Methodology for assessing credit risk losses, and the assumptions used in assessing losses.

INDIVIDUAL ASSESSMENT OF CREDIT LOSSES

In accordance with the definition of a non-performing exposure, the Group assesses expected credit losses individually. Non-performing exposures are all exposures regarding which a default is considered to have happened pursuant to Article 178 of the CRR, and exposures that have been found impaired pursuant to the valid accounting standard.

The expected loss is calculated as the difference between the asset's carrying amount and estimated future cash flows that are discounted at the original effective interest rate of the financial asset. Expected cash flows are evaluated against the type of scenario, i.e. whether the approach used is that of business as a going concern or not a going concern.

For exposures approved after 26 April 2019, which are defined as NPEs, Regulation (EU) No 2019/630 of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards the minimum loss coverage for non-performing exposures (hereinafter: Regulation 2019/630) shall be strictly taken into account when calculating individual impairments.

Changes to assessment techniques and material assumptions

Since December 2019, deductions from market value of property are also taken into account when calculating individual expected credit losses. These are calculated separately for residential, commercial and other property. Also in December 2019, the method of calculating LGD was changed, in which forward-looking information is included in accordance with the new methodology.

Impact of the value of collateral on the calculation of expected credit losses

For collateral, the Group only accepts property that conforms to its internal rules on collateral and complies with the conditions for mitigating credit risk as stipulated in Section 4 of CRR. In granting new transactions, the Group consistently follows its internal rules determining the loan-to-value ratio (LTV). When exposures are protected with residential property, the required LTV is 66%, and when protected with commercial property, the required LTV is normally 50%. With respect to housing loans intended for the construction of residential property, the Group also takes into account the growing mortgage value principle, with the future value of the completed property being assessed and the required LTV having to be reached by the completion of construction.

The value of collateralised assets affects the calculation of expected credit losses using the LGD parameter. The LGD parameter is assessed using a defaulted obligors sample and used in the collective assessment of credit losses (for non-defaulted obligors, i.e. groups 1 and 2). In the calculation of expected credit loss, LGD is used with respect to the type of customer and type of collateral. If an exposure has several types of collateral, the calculation of expected credit loss is based on weighted LGD.

The table below shows the shares of the Group's receivables for classification according to credit rating grades, and the shares of those for which impairments and provisions have been formed under IFRS.

	Group DBS				DBS d. d.			
	2020		2019		2020		2019	
Credit rating grade	Total receivables for classification (%)	Receivables impairments and provisions for classification under IFRS (%)	Total receivables for classification (%)	Receivables impairments and provisions for classification under IFRS (%)	Total receivables for classification (%)	Receivables impairments and provisions for classification under IFRS (%)	Total receivables for classification (%)	Receivables impairments and provisions for classification under IFRS (%)
1. A	84.6	0.1	84.0	0.0	84.1	0.1	83.6	0.0
2. B	10.6	1.9	10.2	0.7	11.4	1.9	11.0	0.7
3. C	1.5	7.8	1.1	6.1	1.4	7.6	1.1	5.7
4. D	0.0	48.3	0.1	5.9	0.0	49.1	0.1	5.6
5. E	0.0	99.2	0.0	83.0	0.0	94.6	0.0	78.4
6. P	3.3	39.9	4.5	31.9	3.1	39.2	4.1	29.6
	100.0	1.7	100.0	1.6	100.0	1.6	100.0	1.4

In 2020, compared to 2019, the total amount of receivables for classification at the Group level increased by 3.6%, and the total amount of formed provisions and impairments by 10.2%, which is mainly a result of poor macroeconomic forecasts due to the epidemic. At the year-end of 2020, the majority, i.e. 84.6%, of the Group's receivables for classification were given an A credit rating, followed by receivables for classification given a B credit rating, which represented 10.6% of all receivables for classification, and receivables for classification in the credit rating grade of individually impaired customers (P), which represented 3.3% of all receivables for classification. Impairments and provisions were formed for the latter under IFRS on the basis of the amounts of collateral and expected future cash flows.

At the Bank level, the total amount of receivables for classification increased by 3.6%, and the total amount of formed impairments and provisions by 17.1%. At the year-end of 2020, the majority, i.e. 84.1%, of the Bank's receivables for classification were given an A credit rating, followed by receivables for classification given a B credit rating, which represented 11.4% of all receivables for classification, and receivables for classification in the credit rating grade of individually impaired customers (P), which represented 3.1% of all receivables for classification. Impairments and provisions were formed for the latter under IFRS 9 on the basis of the amounts of collateral and expected future cash flows.

5.1.4. Loans and receivables

Consistent with its strategy, in 2020, the Group again focused on banking for the retail segment, farmers and SMEs. Those clients were prioritised which, in addition to exhibiting creditworthiness, provided adequate collateral, so as to minimise the possible increase in the exposure to credit risk.

(a) Loans and receivables non past due and not impaired, and loans and receivables collectively assessed as impaired

	Group DBS				DBS d. d.			
	2020		2019		2020		2019	
	Loans to customers	Loans to banks	Loans to customers	Loans to banks	Loans to customers	Loans to banks	Loans to customers	Loans to banks
Non past due and not impaired	730	206	529	6,618	730	206	529	6,618
Impaired	780,118	0	747,512	0	776,360	0	759,133	0
Non-trading loans mandatorily measured at fair value through profit or loss	2,261	0	2,565	0	2,261	0	2,565	0
Gross amounts	783,109	206	766,493	6,618	779,351	206	762,220	6,618
Revaluation allowance for impairments of loans	(17,908)	0	(15,893)	0	(16,859)	0	(14,068)	0
Accumulated changes in fair value due to credit risk	(1,003)	0	(1,003)	0	(1,003)	0	(1,003)	0
Net amounts	**764,198**	**206**	**749,597**	**6,618**	**761,489**	**206**	**747,149**	**6,618**

The table above shows the amounts of drawn loans to customers and to banks, with loans that are neither due nor impaired including all transactions which will mature in periods after 31 December 2020 and whose impairment percentage equals 0. Loans whose impairment charge is higher than 0 are recorded under impaired loans. Value adjustment is also shown only for the balance sheet portion of exposure.

The total value of the Group's loans and receivables in financial year 2020 was up 1.32% from 2019, with loans to customers increasing and loans to banks decreasing. The reported impairments of loans and receivables totalled EUR 18,911 thousand (2019: EUR 16,896 thousand). Pursuant to IFRS 9, the Group also measures impairments for receivables from banks, however, the related credit risk having been assessed as low, the total impairment charge for such exposures is negligible.

The total value of the Bank's loans and receivables in financial year 2020 was up 1.39% from 2019, with loans to customers increasing and loans to banks decreasing. The reported impairments of loans and receivables totalled EUR 17,862 thousand (2019: EUR 15,071 thousand). Pursuant to IFRS 9, the Bank also measures impairments for receivables from banks, however, the related credit risk having been assessed as low, the total impairment charge for such exposures is negligible.

(b) Loans and receivables individually assessed as impaired

Loans and advances to customers (loans and receivables)

Individually impaired loans to customers and receivables from customers, without individually impaired loans to banks (upon transition to IFRS 9, receivables from banks are no longer classified as individually impaired, resulting from which individually impaired loans to banks equal 0) and before considering cash flows from collateral held by the Group, amount to EUR 36,094 thousand (2019: EUR 46,942 thousand).

As opposed to 2019, exposure to micro, small and medium-sized enterprises decreased the most in relative terms, by 35.1% (by EUR 12,956 thousand). Exposure to large corporate clients increased by 29.4% and exposure to individuals whose receivables were individually impaired increased by 10.7%.

The total amount of individually impaired loans and receivables according to categories, together with the fair value of their collateral that the Group and the Bank hold as a guarantee, breaks down into:

Group DBS

	Retail	Corporate		Banks	Total
2020	Loans and receivables	Large	SME*		
Individually impaired loans	4,965	7,155	23,974	0	36,094
- Past due up to 15 days	923	5,901	3,086	0	9,910
- Past due 16 to 30 days	0	0	0	0	0
- Past due 31 to 90 days	79	0	657	0	736
- Past due over 90 days	3,963	1,254	20,231	0	25,448
Impairment charge	1,709	3,641	9,077	0	14,427
Fair value of collateral	7,177	2,400	25,933	0	35,510

* Micro, small and medium enterprises.

	Retail	Corporate		Banks	Total
2019	Loans and receivables	Large	SME*		
Individually impaired loans	4,484	5,528	36,930	0	46,942
Impairment charge	1,417	2,763	10,796	0	14,976
Fair value of collateral	6,591	832	42,682	0	50,105

* Micro, small and medium enterprises.

DBS d. d.

	Retail	Corporate		Banks	Total
2020	**Loans and receivables**	**Large**	**SME***		
Individually impaired loans	3,825	7,155	21,965	0	32,945
- Past due up to 15 days	923	5,901	3,055	0	9,879
- Past due 31 to 90 days	64	0	604	0	668
- Past due over 90 days	2,838	1,254	18,306	0	22,398
Impairment charge	1,221	3,641	8,050	0	12,912
Fair value of collateral	6,051	2,400	24,705	0	33,156

* Micro, small and medium enterprises.

	Retail	Corporate		Banks	Total
2019	**Loans and receivables**	**Large**	**SME***		
Individually impaired loans	3,313	5,528	34,357	0	43,198
Impairment charge	898	2,763	9,125	0	12,786
Fair value of collateral	5,589	832	41,439	0	47,860

* Micro, small and medium enterprises.

Loans and advances to banks (loans and receivables)

With respect to exposure to the banking sector, the Group formed no impairments on individual basis in 2020. Pursuant to IFRS 9, revaluation allowance is formed also for less credit risk-prone exposures, which includes banks; however, in the event of a default event, they are impaired collectively and are therefore not shown in the table.

(c) Restructured loans and receivables

Consistent with the Regulation on the Management of Credit Risk Losses of Banks and Savings Banks, the Group treats restructured financial assets as financial assets received – due to the debtor's inability to pay their debt under the initially agreed terms of the original loan agreement – under amended terms (by means of an additional agreement) or under a new loan agreement that stipulates a partial or full repayment of the original debt. Agreements with a restructuring clause also fall into this category. The criteria for identifying performing and non-performing exposures, and restructured and non-restructured exposures, the treatment and management of restructured exposures, restructuring measures for debtors and the reporting system in the Group are all governed by the internal Rules on Managing Non-performing and Restructured Exposures to Debtors.

Performing and non-performing exposures as at 31 December 2020 and 31 December 2019 are shown in the tables below for the Group and the Bank.

Group DBS

	Gross book value of performing and non-performing exposures							Accumulated impairments, provisions, and accumulated negative changes in fair value due to credit risk				
	Total	**Performing exposures**		**Non-performing exposures**				**Total**	**for performing exposures**		**for non-performing exposures**	
2020		Performing total	of which restructured performing	Non-performing total	of which outstanding	of which impaired	of which restructured		Total for performing	of which restructured	Total for non-performing	of which restructured
Cash, balances at central banks, and sight deposits at banks	**80,926**	80,926	0	0	0	0	0	**(98)**	(98)	0	0	0
Debt securities	**149,127**	149,127	0	0	0	0	0	**(15)**	(15)	0	0	0
Loans and other financial assets	**786,020**	747,190	2,312	38,830	38,643	38,417	25,725	**(19,495)**	(3,835)	(376)	(15,660)	(11,244)
Off-balance sheet exposures	**69,093**	68,991	0	102	98	97	0	**207**	172	0	35	0

* According to the methodology in force for 2019, the item Balances at central banks, and sight deposits at banks is included in the item Loans and other financial assets.

Group DBS

2019	Gross book value of performing and non-performing exposures							Accumulated impairments, provisions, and accumulated negative changes in fair value due to credit risk				
	Total	**Performing exposures**		**Non-performing exposures**				**Total**	**for performing exposures**		**for non-performing exposures**	
		Per-forming total	of which restruc-tured perform-ing	Non-per-forming total	of which outstand-ing	of which impaired	of which restruc-tured		Total for perfor-ming	of which restruc-tured	Total for non-per-forming	of which restruc-tured
Debt securities	**117,770**	117,770	0	0	0	0	0	**(14)**	(14)	0	0	0
Loans and other financial assets	**864,114**	815,668	3,861	48,446	48,446	48,339	35,375	**(17,452)**	(1,730)	(259)	(15,722)	(11,179)
Off-balance sheet exposures	**65,579**	64,076	40	1,503	1,503	-	0	**611**	97	0	514	0

DBS d. d.

2020	Gross book value of performing and non-performing exposures							Accumulated impairments, provisions, and accumulated negative changes in fair value due to credit risk				
	Total	**Performing exposures**		**Non-performing exposures**				**Total**	**for performing exposures**		**for non-performing exposures**	
		Per-forming total	of which restruc-tured perform-ing	Non-per-forming total	of which out-standing	of which impaired	of which restruc-tured		Total for perfor-ming	of which restruc-tured	Total for non-per-forming	of which restruc-tured
Cash, balances at central banks, and sight deposits at banks	**80,926**	80,926	0	0	0	0	0	**(98)**	(98)	0	0	0
Debt securities	**149,127**	149,127	0	0	0	0	0	**(15)**	(15)	0	0	0
Loans and other financial assets	**781,788**	746,240	2,312	35,548	35,361	35,231	25,725	**(18,061)**	(3,950)	(376)	(14,111)	(11,244)
Off-balance sheet exposures	**69,347**	69,245	0	102	98	98	0	**207**	172	0	35	0

* According to the methodology in force for 2019, the item Balances at central banks, and sight deposits at banks is included in the item Loans and other financial assets.

DBS d. d.

2019	Gross book value of performing and non-performing exposures							Accumulated impairments, provisions, and accumulated negative changes in fair value due to credit risk				
	Total	**Performing exposures**		**Non-performing exposures**				**Total**	**for performing exposures**		**for non-performing exposures**	
		Per-forming total	of which restruc-tured perform-ing	Non-per-forming total	of which out-standing	of which impaired	of which restruc-tured		Total for perfor-ming	of which restruc-tured	Total for non-per-forming	of which restruc-tured
Debt securities	**117,770**	117,770	0	0	0	0	0	**(14)**	(14)	0	0	0
Loans and other financial assets	**859,349**	814,779	3,861	44,570	44,570	44,535	35,375	**(15,212)**	(1,751)	(259)	(13,461)	(11,179)
Off-balance sheet exposures	**66,197**	64,694	40	1,503	1,503	-	0	**611**	97	0	514	0

5.1.5. Movements in revaluation allowance and gross value of financial assets and provisions for off-balance sheet liabilities

Movements in revaluation allowance and provisions for off-balance sheet liabilities

a) Movements in revaluation allowance for financial assets measured at amortised cost – loans and other financial assets, debt securities, other assets and sight deposits at banks

Group DBS					2020					2019
	Group 1	Group 2	Group 3	POCI	Total	Group 1	Group 2	Group 3	POCI	Total
As at 1 January	1,063	701	14,701	1	16,466	719	548	18,701	0	19,968
Transferred to Group 1	187	(187)	0	0	0	84	(78)	(6)	0	0
Transferred to Group 2	(108)	214	(106)	0	0	(26)	82	(56)	0	0
Transferred to Group 3	(12)	(182)	194	0	0	(3)	(61)	64	0	0
Enhancements through issuing and acquisition	858	19	1,675	0	2,552	59	5	75	0	139
Decreases through derecognition	(70)	(55)	(4,035)	0	(4,160)	(42)	(60)	(4,905)	0	(5,007)
Changes due to change in credit risk (net)	870	692	3,269	0	4,831	272	265	4,076	1	4,614
Write-downs*	0	0	(1,082)	(1)	(1,083)	0	0	(3,248)	0	(3,248)
As at 31 December	**2,788**	**1,202**	**14,616**	**0**	**18,606**	**1,063**	**701**	**14,701**	**1**	**16,466**
Repayments of previous write-downs recorded directly in the income statement	(2)	0	0	0	(2)	(1)	0	0	0	(1)
Write-downs recorded directly in the income statement	0	0	(15)	0	(15)	(1)	0	(153)	0	(154)

* Write-downs include write-offs and transfers (write-downs) of receivables to off-balance sheet in accordance with Article 32 of the Decision on Credit Risk Management for Banks and Savings Banks.

In 2020, there were no loans and advances regarding which modification or change effects should be recognised.

DBS d. d.					2020					2019
	Group 1	Group 2	Group 3	POCI	Total	Group 1	Group 2	Group 3	POCI	Total
As at 1 January	1,155	614	12,456	1	14,226	810	505	14,005	0	15,320
Transferred to Group 1	161	(161)	0	0	0	72	(66)	(6)	0	0
Transferred to Group 2	(93)	197	(104)	0	0	(21)	58	(37)	0	0
Transferred to Group 3	(11)	(119)	130	0	0	(3)	(34)	37	0	0
Enhancements through issuing and acquisition	902	19	1,675	0	2,596	29	1	64	0	94
Decreases through derecognition	(65)	(54)	(3,322)	0	(3,441)	(38)	(58)	(2,429)	0	(2,525)
Changes due to change in credit risk (net)	919	622	3,333	0	4,874	306	208	4,070	1	4,585
Write-downs*	0	0	(1,082)	(1)	(1,083)	0	0	(3,248)	0	(3,248)
As at 31 December	**2,968**	**1,118**	**13,086**	**0**	**17,172**	**1,155**	**614**	**12,456**	**1**	**14,226**
Repayments of previous write-downs recorded directly in the income statement	(2)	0	0	0	(2)	(1)	0	0	0	(1)
Write-downs recorded directly in the income statement	0	0	(15)	0	(15)	(1)	0	(153)	0	(154)

* Write-downs include write-offs and transfers (write-downs) of receivables to off-balance sheet in accordance with Article 32 of the Decision on Credit Risk Management for Banks and Savings Banks.

In 2020, there were no loans and advances regarding which modification or change effects should be recognised.

b) Movements in revaluation allowance for balances at central bank and sight deposits at banks

Group DBS	2020				2019			
	Group 1	Group 2	Group 3	Total	Group 1	Group 2	Group 3	Total
As at 1 January	1	0	0	1	1	0	0	1
Changes due to change in credit risk (net)	97	0	0	97	0	0	0	0
As at 31 December	**98**	**0**	**0**	**98**	**1**	**0**	**0**	**1**

DBS d. d.	2020				2019			
	Group 1	Group 2	Group 3	Total	Group 1	Group 2	Group 3	Total
As at 1 January	1	0	0	1	1	0	0	1
Changes due to change in credit risk (net)	97	0	0	97	0	0	0	0
As at 31 December	**98**	**0**	**0**	**98**	**1**	**0**	**0**	**1**

c) Movements in revaluation allowance for debt securities measured at amortised cost

Group DBS	2020				2019			
	Group 1	Group 2	Group 3	Total	Group 1	Group 2	Group 3	Total
As at 1 January	14	0	0	14	23	0	0	23
Enhancements through issuing and acquisition	2	0	0	2	4	0	0	4
Decreases through derecognition	0	0	0	0	(1)	0	0	(1)
Changes due to change in credit risk (net)	(1)	0	0	(1)	(12)	0	0	(12)
As at 31 December	**15**	**0**	**0**	**15**	**14**	**0**	**0**	**14**

DBS d. d.	2020				2019			
	Group 1	Group 2	Group 3	Total	Group 1	Group 2	Group 3	Total
As at 1 January	14	0	0	14	23	0	0	23
Enhancements through issuing and acquisition	2	0	0	2	4	0	0	4
Decreases through derecognition	0	0	0	0	(1)	0	0	(1)
Changes due to change in credit risk (net)	(1)	0	0	(1)	(12)	0	0	(12)
As at 31 December	**15**	**0**	**0**	**15**	**14**	**0**	**0**	**14**

d) Movements in revaluation allowance for loans and other financial assets measured at amortised cost

Group DBS	2020					2019				
	Group 1	Group 2	Group 3	POCI	Total	Group 1	Group 2	Group 3	POCI	Total
As at 1 January	1,046	701	14,701	1	16,449	695	548	18,701	0	19,944
Transferred to Group 1	187	(187)	0	0	0	84	(78)	(6)	0	0
Transferred to Group 2	(108)	214	(106)	0	0	(26)	82	(56)	0	0
Transferred to Group 3	(12)	(182)	194	0	0	(3)	(61)	64	0	0
Enhancements through issuing and acquisition	855	19	1,675	0	2,549	53	5	75	0	133
Decreases through derecognition	(68)	(55)	(4,035)	0	(4,158)	(41)	(60)	(4,905)	0	(5,006)
Changes due to change in credit risk (net)	775	692	3,268	0	4,735	284	265	4,077	1	4,627
Write-downs*	0	0	(1,082)	(1)	(1,083)	0	0	(3,248)	0	(3,248)
As at 31 December	**2,675**	**1,202**	**14,615**	**0**	**18,492**	**1,046**	**701**	**14,702**	**0**	**16,449**
Repayments of previous write-downs recorded directly in the income statement	(2)	0	0	0	(2)	(1)	0	0	0	(1)
Write-downs recorded directly in the income statement	0	0	(15)	0	(15)	(1)	0	(153)	0	(154)

* Write-downs include write-offs and transfers (write-downs) of receivables to off-balance sheet in accordance with Article 32 of the Decision on Credit Risk Management for Banks and Savings Banks.

DBS d. d.	2020					2019				
	Group 1	Group 2	Group 3	POCI	Total	Group 1	Group 2	Group 3	POCI	Total
As at 1 January	1,138	614	12,456	1	14,209	786	505	14,005	0	15,296
Transferred to Group 1	161	(161)	0	0	0	72	(66)	(6)	0	0
Transferred to Group 2	(93)	197	(104)	0	0	(21)	58	(37)	0	0
Transferred to Group 3	(11)	(119)	130	0	0	(3)	(34)	37	0	0
Enhancements through issuing and acquisition	899	19	1,675	0	2,593	23	1	64	0	88
Decreases through derecognition	(63)	(54)	(3,322)	0	(3,439)	(37)	(58)	(2,429)	0	(2,524)
Changes due to change in credit risk (net)	824	622	3,333	0	4,779	318	208	4,070	1	4,597
Write-downs*	0	0	(1,082)	(1)	(1,083)	0	0	(3,248)	0	(3,248)
Other adjustments	0	0	0	0	0	0	0	0	0	0
As at 31 December	**2,855**	**1,118**	**13,086**	**0**	**17,059**	**1,138**	**614**	**12,456**	**1**	**14,209**
Repayments of previous write-downs recorded directly in the income statement	(2)	0	0	0	(2)	(1)	0	0	0	(1)
Write-downs recorded directly in the income statement	0	0	(15)	0	(15)	(1)	0	(153)	0	(154)

* Write-downs include write-offs and transfers (write-downs) of receivables to off-balance sheet in accordance with Article 32 of the Decision on Credit Risk Management for Banks and Savings Banks.

e) Movements in revaluation allowance for other assets

Group DBS	2020				2019			
	Group 1	Group 2	Group 3	Total	Group 1	Group 2	Group 3	Total
As at 1 January	2	0	0	2	0	0	0	0
Enhancements through issuing and acquisition	1	0	0	1	2	0	0	2
Decreases through derecognition	(2)	0	0	(2)	0	0	0	0
Changes due to change in credit risk (net)	(1)	0	0	(1)	0	0	0	0
As at 31 December	**0**	**0**	**0**	**0**	**2**	**0**	**0**	**2**

DBS d. d.	2020				2019			
	Group 1	Group 2	Group 3	Total	Group 1	Group 2	Group 3	Total
As at 1 January	2	0	0	2	0	0	0	0
Enhancements through issuing and acquisition	1	0	0	1	2	0	0	2
Decreases through derecognition	(2)	0	0	(2)	0	0	0	0
Changes due to change in credit risk (net)	(1)	0	0	(1)	0	0	0	0
As at 31 December	**0**	**0**	**0**	**0**	**2**	**0**	**0**	**2**

f) Movements in provisions for off-balance sheet commitments and contingent off-balance sheet liabilities

Group DBS	2020				2019			
	Group 1	Group 2	Group 3	Total	Group 1	Group 2	Group 3	Total
As at 1 January	77	19	515	611	72	4	534	610
Transferred to Group 1	32	(32)	0	0	1	(1)	0	0
Transferred to Group 2	(4)	15	(11)	0	(1)	6	(5)	0
Transferred to Group 3	0	(2)	2	0	(1)	(1)	2	0
Enhancements through issuing and acquisition	4	0	1	5	3	0	1	4
Decreases through derecognition	(3)	0	(39)	(42)	(3)	0	(396)	(399)
Changes due to change in credit risk (net)	47	19	(433)	(367)	6	11	379	396
As at 31 December	**153**	**19**	**35**	**207**	**77**	**19**	**515**	**611**

DBS d. d.	2020				2019			
	Group 1	Group 2	Group 3	Total	Group 1	Group 2	Group 3	Total
As at 1 January	78	19	514	611	72	4	534	610
Transferred to Group 1	32	(32)	0	0	1	(1)	0	0
Transferred to Group 2	(4)	15	(11)	0	(1)	6	(5)	0
Transferred to Group 3	0	(2)	2	0	(1)	(1)	2	0
Enhancements through issuing and acquisition	4	0	0	4	3	0	1	4
Decreases through derecognition	(3)	0	(39)	(42)	(3)	0	(396)	(399)
Changes due to change in credit risk (net)	47	19	(432)	(366)	7	11	378	396
As at 31 December	**154**	**19**	**34**	**207**	**78**	**19**	**514**	**611**

Movements in gross value of financial assets and off-balance sheet liabilities

a) Movements in gross value of financial assets measured at amortised cost – loans and other financial assets, debt securities, other assets and sight deposits at banks

Group DBS	2020					2019				
	Group 1	Group 2	Group 3	POCI	Total	Group 1	Group 2	Group 3	POCI	Total
As at 1 January	921,571	12,377	46,111	694	980,753	873,540	12,919	58,167	761	945,387
Transferred to Group 1	8,121	(8,120)	(1)	0	0	6,657	(6,644)	(13)	0	0
Transferred to Group 2	(13,696)	15,126	(1,431)	0	0	(12,340)	12,922	(582)	0	0
Transferred to Group 3	(1,181)	(1,958)	3,139	0	0	(969)	(2,699)	3,668	0	0
Enhancements through issuing and acquisition	209,525	893	2,908	0	213,326	209,741	402	1,336	0	211,479
Decreases through derecognition	(432,354)	(11,073)	(15,218)	0	(458,645)	(75,271)	(2,569)	(7,542)	0	(85,382)
Write-downs*	0	0	(1,083)	(566)	(1,649)	0	0	(3,392)	0	(3,392)
Other changes	273,550	5,393	1,868	(128)	280,683	(79,787)	(1,954)	(5,531)	(67)	(87,339)
As at 31 December	**965,537**	**12,638**	**36,293**	**0**	**1,014,468**	**921,571**	**12,377**	**46,111**	**694**	**980,753**

* Write-downs include write-offs and transfers (write-downs) of receivables to off-balance sheet in accordance with Article 32 of the Decision on Credit Risk Management for Banks and Savings Banks.

DBS d. d.	2020					2019				
	Group 1	Group 2	Group 3	POCI	Total	Group 1	Group 2	Group 3	POCI	Total
As at 1 January	921,381	11,599	42,305	694	975,979	873,413	12,384	51,723	761	938,281
Transferred to Group 1	7,231	(7,230)	(1)	0	0	6,403	(6,390)	(13)	0	0
Transferred to Group 2	(12,367)	13,562	(1,196)	0	0	(11,619)	11,836	(217)	0	0
Transferred to Group 3	(1,122)	(1,545)	2,667	0	0	(958)	(2,385)	3,343	0	0
Enhancements through issuing and acquisition	210,383	892	2,908	0	214,183	205,293	380	1,336	0	207,009
Decreases through derecognition	(440,211)	(11,062)	(14,456)	0	(465,729)	(74,638)	(2,490)	(5,025)	0	(82,153)
Write-downs*	0	0	(1,083)	(566)	(1,649)	0	0	(3,392)	0	(3,392)
Other changes	279,971	5,644	1,958	(128)	287,446	(76,513)	(1,736)	(5,450)	(67)	(83,766)
As at 31 December	**965,267**	**11,860**	**33,103**	**0**	**1,010,230**	**921,381**	**11,599**	**42,305**	**694**	**975,979**

* Write-downs include write-offs and transfers (write-downs) of receivables to off-balance sheet in accordance with Article 32 of the Decision on Credit Risk Management for Banks and Savings Banks.

b) Movements in gross value of balances at central bank and sight deposits at banks

Group DBS	2020				2019			
	Group 1	Group 2	Group 3	Total	Group 1	Group 2	Group 3	Total
As at 1 January	87,233	0	0	87,233	65,336	0	0	65,336
Enhancements through issuing and acquisition	0	0	0	0	5,000	0	0	5,000
Other changes	(6,307)	0	0	(6,307)	16,897	0	0	16,897
As at 31 December	**80,926**	**0**	**0**	**80,926**	**87,233**	**0**	**0**	**87,233**

DBS d. d.	2020				2019			
	Group 1	Group 2	Group 3	Total	Group 1	Group 2	Group 3	Total
As at 1 January	87,233	0	0	87,233	65,336	0	0	65,336
Enhancements through issuing and acquisition	0	0	0	0	5,000	0	0	5,000
Other changes	(6,307)	0	0	(6,307)	16,897	0	0	16,897
As at 31 December	**80,926**	**0**	**0**	**80,926**	**87,233**	**0**	**0**	**87,233**

c) Movements in gross value of debt securities measured at amortised cost

Group DBS	2020				2019			
	Group 1	Group 2	Group 3	Total	Group 1	Group 2	Group 3	Total
As at 1 January	117,770	0	0	117,770	107,770	0	0	107,770
Enhancements through issuing and acquisition	38,664	0	0	38,664	28,670	0	0	28,670
Decreases through derecognition	(6,149)	0	0	(6,149)	(18,089)	0	0	(18,089)
Other changes	(1,158)	0	0	(1,158)	(581)	0	0	(581)
As at 31 December	**149,127**	**0**	**0**	**149,127**	**117,770**	**0**	**0**	**117,770**

DBS d. d.	2020				2019			
	Group 1	Group 2	Group 3	Total	Group 1	Group 2	Group 3	Total
As at 1 January	117,770	0	0	117,770	107,770	0	0	107,770
Enhancements through issuing and acquisition	38,664	0	0	38,664	28,670	0	0	28,670
Decreases through derecognition	(6,149)	0	0	(6,149)	(18,089)	0	0	(18,089)
Other changes	(1,158)	0	0	(1,158)	(581)	0	0	(581)
As at 31 December	**149,127**	**0**	**0**	**149,127**	**117,770**	**0**	**0**	**117,770**

d) Movements in gross value of loans and other financial assets measured at amortised cost

Group DBS	2020					2019				
	Group 1	Group 2	Group 3	POCI	Total	Group 1	Group 2	Group 3	POCI	Total
As at 1 January	716,165	12,377	45,081	694	774,317	700,269	12,919	57,137	761	771,086
Transferred to Group 1	8,121	(8,120)	(1)	0	0	6,657	(6,644)	(13)	0	0
Transferred to Group 2	(13,696)	15,126	(1,431)	0	0	(12,340)	12,922	(582)	0	0
Transferred to Group 3	(1,181)	(1,958)	3,139	0	0	(969)	(2,699)	3,668	0	0
Enhancements through issuing and acquisition	170,276	893	2,540	0	173,709	175,672	402	1,336	0	177,410
Decreases through derecognition	(425,741)	(11,073)	(13,953)	0	(450,767)	(57,037)	(2,569)	(7,542)	0	(67,148)
Write-downs*	0	0	(1,083)	(566)	(1,649)	0	0	(3,392)	0	(3,392)
Other changes	281,016	5,393	1,868	(128)	288,149	(96,087)	(1,954)	(5,531)	(67)	(103,639)
As at 31 December	**734,961**	**12,638**	**36,160**	**0**	**783,759**	**716,165**	**12,377**	**45,081**	**694**	**774,317**

* Write-downs include write-offs and transfers (write-downs) of receivables to off-balance sheet in accordance with Article 32 of the Decision on Credit Risk Management for Banks and Savings Banks.

DBS d. d.	2020					2019				
	Group 1	Group 2	Group 3	POCI	Total	Group 1	Group 2	Group 3	POCI	Total
As at 1 January	715,984	11,599	41,275	694	769,552	700,159	12,384	50,693	761	763,997
Transferred to Group 1	7,231	(7,230)	(1)	0	0	6,403	(6,390)	(13)	0	0
Transferred to Group 2	(12,367)	13,562	(1,196)	0	0	(11,619)	11,836	(217)	0	0
Transferred to Group 3	(1,122)	(1,545)	2,667	0	0	(958)	(2,385)	3,343	0	0
Enhancements through issuing and acquisition	171,134	892	2,540	0	174,566	171,231	380	1,336	0	172,947
Decreases through derecognition	(433,600)	(11,062)	(13,191)	0	(457,853)	(56,404)	(2,490)	(5,025)	0	(63,919)
Write-downs*	0	0	(1,083)	(566)	(1,649)	0	0	(3,392)	0	(3,392)
Other changes	287,436	5,644	1,958	(128)	294,911	(92,828)	(1,736)	(5,450)	(67)	(100,081)
As at 31 December	**734,697**	**11,860**	**32,970**	**0**	**779,527**	**715,984**	**11,599**	**41,275**	**694**	**769,552**

* Write-downs include write-offs and transfers (write-downs) of receivables to off-balance sheet in accordance with Article 32 of the Decision on Credit Risk Management for Banks and Savings Banks.

e) Movements in gross value of other assets

Group DBS				2020				2019
	Group 1	Group 2	Group 3	Total	Group 1	Group 2	Group 3	Total
As at 1 January	403	0	1,030	1,433	165	0	1,030	1,195
Enhancements through issuing and acquisition	585	0	368	953	399	0	0	399
Decreases through derecognition	(464)	0	(1,265)	(1,729)	(145)	0	0	(145)
Other changes	(1)	0	0	(1)	(16)	0	0	(16)
As at 31 December	**523**	**0**	**133**	**656**	**403**	**0**	**1,030**	**1,433**

DBS d. d.				2020				2019
	Group 1	Group 2	Group 3	Total	Group 1	Group 2	Group 3	Total
As at 1 January	394	0	1,030	1,424	147	0	1,030	1,177
Enhancements through issuing and acquisition	585	0	368	953	392	0	0	392
Decreases through derecognition	(462)	0	(1,265)	(1,727)	(145)	0	0	(145)
Other changes	0	0	0	0	0	0	0	0
As at 31 December	**517**	**0**	**133**	**650**	**394**	**0**	**1,030**	**1,424**

f) Movements in off-balance sheet commitments and contingent off-balance sheet liabilities

Group DBS				2020				2019
	Group 1	Group 2	Group 3	Total	Group 1	Group 2	Group 3	Total
As at 1 January	63,140	937	1,502	65,579	63,365	301	782	64,448
Transferred to Group 1	414	(414)	0	0	462	(462)	0	0
Transferred to Group 2	(1,570)	1,618	(48)	0	(474)	1,118	(644)	0
Transferred to Group 3	(409)	(35)	444	0	(702)	(12)	714	0
Enhancements through issuing and acquisition	44,211	1,941	297	46,449	37,293	581	1,758	39,632
Decreases through derecognition	(37,793)	(3,044)	(2,098)	(42,935)	(36,804)	(589)	(1,108)	(38,501)
As at 31 December	**67,993**	**1,003**	**97**	**69,093**	**63,140**	**937**	**1,502**	**65,579**

DBS d. d.				2020				2019
	Group 1	Group 2	Group 3	Total	Group 1	Group 2	Group 3	Total
As at 1 January	63,758	937	1,502	66,197	63,433	301	782	64,516
Transferred to Group 1	414	(414)	0	0	462	(462)	0	0
Transferred to Group 2	(1,570)	1,618	(48)	0	(474)	1,118	(644)	0
Transferred to Group 3	(409)	(35)	444	0	(702)	(12)	714	0
Enhancements through issuing and acquisition	44,211	1,941	297	46,449	38,293	581	1,758	40,632
Decreases through derecognition	(38,157)	(3,044)	(2,098)	(43,299)	(37,254)	(589)	(1,108)	(38,951)
As at 31 December	**68,247**	**1,003**	**97**	**69,347**	**63,758**	**937**	**1,502**	**66,197**

5.1.6. Debt securities and bills

To assess the risk associated with debts, the Group uses either its internal credit ratings for issuers or the credit ratings of Standard & Poor's, Moody's and Fitch. Owing to the system of limits, investments are made into debts with good ratings.

The table below shows the Group's exposure with respect to its debt securities according to Standard & Poor's ratings, as at 31 December 2020 and 31 December 2019.

Group DBS			2020				2019	
	Debt securities at amortised cost	Debt securities held for trading	Debt securities measured at fair value through other comprehensive income	Total	Debt securities at amortised cost	Debt securities held for trading	Debt securities measured at fair value through other comprehensive income	Total
AA	15,162	0	0	15,162	15,214	0	0	15,214
A+	132,647	0	0	132,647	100,941	0	0	100,941
Unrated	1,303	0	0	1,303	1,602	0	0	1,602
Total	**149,112**	**0**	**0**	**149,112**	**117,757**	**0**	**0**	**117,757**

DBS d. d.			2020				2019	
	Debt securities at amortised cost	Debt securities held for trading	Debt securities measured at fair value through other comprehensive income	Total	Debt securities at amortised cost	Debt securities held for trading	Debt securities measured at fair value through other comprehensive income	Total
AA	15,162	0	0	15,162	15,214	0	0	15,214
A+	132,647	0	0	132,647	100,941	0	0	100,941
Unrated	1,303	0	0	1,303	1,602	0	0	1,602
Total	**149,112**	**0**	**0**	**149,112**	**117,757**	**0**	**0**	**117,757**

Both in 2020 and 2019, the largest proportion of our debts portfolio was Slovenian state bonds and treasury bills, which totalled EUR 144 million (2019: EUR 117 million). Alongside state bonds, the Group's portfolio also included institutions' bonds totalling slightly less than EUR 4 million. The remainder of just over EUR 1 million worth portfolio consists of commercial papers and bonds that were issued by major Slovenian companies but not rated by prominent rating agencies. The Group's proprietary portfolio did not include subordinated, structured and non-investment grade debt securities.

5.1.7. Collateral acquired by prescription

In 2020, the Group acquired assets by calling on the collateral held as guarantee, namely:

				Carrying amount
		Group DBS		DBS d. d.
	2020	2019	2020	2019
Property	6,957	355	6,957	355
Total	**6,957**	**355**	**6,957**	**355**

5.1.8. Breakdown of all exposure categories according to remaining maturity: up to 1 year and over 1 year

The table below gives the remaining maturities according to categories of exposure.

Group DBS

		Remaining maturity as at 31 December 2020			Remaining maturity as at 31 December 2019		
	Exposure category	Up to 1 year	Over 1 year	TOTAL	Up to 1 year	Over 1 year	TOTAL
01	Central government and central banks	139,388	358,491	497,879	88,318	392,552	480,870
02	Regional and local government	283	3,845	4,128	93	4,945	5,038
03	Public sector entities	3,351	4,816	8,167	5,000	5,462	10,462
06	Institutions	29,825	3,903	33,728	24,686	3,900	28,586
07	Corporate	10,643	10,535	21,178	20,305	9,782	30,087
08	Retail exposures	71,745	157,854	229,599	65,037	147,018	212,055
09	Secured by mortgages of immovable property	24,289	253,203	277,492	23,809	235,599	259,408
10	Exposures in default	10,686	2,245	12,931	11,833	960	12,793
11	Regulatory high risk categories	7,422	572	7,994	14,387	1,653	16,040
14	Investments in investment funds	0	2,721	2,721	0	2,709	2,709
15	Other exposure	17,334	350	17,684	23,684	479	24,163
16	Equity exposure	3,095	0	3,095	4,165	0	4,165
	As at 31 December	318,061	798,535	1,116,596	281,317	805,059	1,086,376

DBS d. d.

		Remaining maturity as at 31 December 2020			Remaining maturity as at 31 December 2019		
	Exposure category	Up to 1 year	Over 1 year	TOTAL	Up to 1 year	Over 1 year	TOTAL
01	Central government and central banks	139,380	358,491	497,871	88,314	392,758	481,072
02	Regional and local government	283	3,845	4,128	93	4,945	5,038
03	Public sector entities	3,350	4,772	8,122	5,000	5,388	10,388
06	Institutions	29,825	3,903	33,728	24,686	3,900	28,586
07	Corporate	9,292	18,447	27,739	19,910	17,058	36,968
08	Retail exposures	71,313	148,744	220,057	64,725	138,278	203,003
09	Secured by mortgages of immovable property	25,427	252,814	278,241	24,993	234,964	259,957
10	Exposures in default	9,835	2,170	12,005	11,059	841	11,900
11	Regulatory high risk categories	6,764	561	7,325	13,728	1,652	15,380
14	Investments in investment funds	0	2,721	2,721	0	2,709	2,709
15	Other exposure	17,020	350	17,370	23,179	479	23,658
16	Equity exposure	7,334	0	7,334	8,380	0	8,380
	As at 31 December	319,823	796,818	1,116,641	284,067	802,972	1,087,039

At the year-end of 2020, 28.0% of the Group's exposure had maturities of up to one year and 72.0% over one year. In 2020, in absolute terms, the value of exposures to companies and also high-risk exposures decreased the most, while exposures secured by mortgages on residential property and retail exposures increased the most. In conformity with its internal policies, the Group has removed balance sheet exposures from the statement of financial position to keep them in off-balance sheet records. This relates to exposures for which it has ensured to cover the total exposure by applying revaluation allowance or provisions for credit risk losses. These are not comprised in the table showing exposure categories. The exposure categories shown include prudential consolidation, the basis for which is financial statements on such prudential basis rather than regulatory consolidation of the balance sheet.

5.1.9. Capital requirements according to exposure categories

The Group calculates the capital requirement for credit risk according to the standardised approach. The ratings of an external credit rating agency are used to determine exposure towards the central government and central banks.

Group DBS

	Exposure category	2020 Net exposure	2020 Capital requirement	2019 Net exposure	2019 Capital requirement
01	Central government and central banks	497,879	619	480,870	831
02	Regional and local government	4,128	66	5,038	81
03	Public sector entities	8,167	476	10,462	587
06	Institutions	33,728	1,873	28,586	1,522
07	Corporate	21,178	1,285	30,088	1,892
08	Retail exposures	229,599	11,185	212,055	10,613
09	Secured by mortgages of immovable property	277,492	9,844	259,408	9,294
10	Exposures in default	12,931	1,182	12,793	1,121
11	Regulatory high risk categories	7,994	949	16,039	1,678
14	Investments in investment funds	2,721	28	2,709	29
15	Other exposure	17,684	888	24,163	980
16	Equity exposure	3,095	248	4,165	333
	As at 31 December	1,116,596	28,643	1,086,376	28,961

The capital requirement dynamics for credit risk followed the change in the structure of net exposure by category.

5.1.10. Bank's exposure to credit risk: net exposure values, and average exposure amounts as at 31 Dec 2020 and 31 Dec 2019

The table below illustrates the net values, and average amount of the Bank's exposure to credit risk – whereby not considering any collateral held by the Bank or any other enhancements of credit quality – as at 31 December 2020 as compared to the balance at 31 December 2019. The table is broken down according to different categories of exposure.

The exposure levels for on-balance sheet and off-balance sheet assets are given on the basis of net carrying amounts as reported in the statement of financial position, including off-balance sheet figures, and grouped into categories of exposure pursuant to CRR/CRD IV.

DBS d. d.

	Exposure category	2020 Net exposure	2020 Average exposure	2019 Net exposure	2019 Average exposure
01	Central government and central banks	497,871	484,870	481,072	476,724
02	Regional and local government	4,128	5,377	5,038	5,554
03	Public sector entities	8,122	10,172	10,388	13,734
06	Institutions	33,728	32,330	28,586	32,309
07	Corporate	27,739	30,630	36,968	34,403
08	Retail exposures	220,056	209,767	203,003	198,787
09	Secured by mortgages of immovable property	278,241	270,373	259,957	257,740
10	Exposures in default	12,005	12,266	11,900	15,474
11	Regulatory high risk categories	7,324	9,050	15,380	13,080
14	Investments in investment funds	2,721	2,707	2,709	2,713
15	Other exposure	17,370	19,565	23,658	22,986
16	Equity exposure	7,334	7,295	8,380	10,972
	As at 31 December	1,116,639	1,094,402	1,087,039	1,084,476

5.2. Market risk

In managing market risk, the Group relies on the Risk-taking and Risk Management Policy for Market Risk. In compliance with its policy, market risk management is a collaboration of:
- front office (Financial Markets Section),
- various sections (Financial Management Section, Risk Management Section),
- various boards and committees (Liquidity Commission, Investment Committee, Asset and Liability Committee).

Each organisation unit taking part in market risk management has clearly defined competences and responsibilities. The basic principle applied by the Group in doing so is a clear division of the work processes each of them carries out:
- front office: carrying out trading transactions, analysing market prospects or trends, brokering trade in financial Instruments for customers, providing investment counselling to customers;
- back office: submitting and accepting clearances of transactions, implementation of a material and/or cash settlement, preparing underlying documents for accounting and recording transactions to compose bank position records, performing completeness checks for documentation received from trading sections, verification of transactions for compliance with market conditions and for documentation of deviations allowed, preparation of reports for senior management;
- Risk Management Section: measuring and analysing the Bank's exposure due to taking market positions, defining and monitoring set limits, implementation of stress scenarios, evaluation of unlisted securities, informing the senior management through the Asset and Liability Committee, etc.,
- Financial Management Section: plans, analyses, controlling, reporting, registries.

The Group's exposure to market risk is low. Market risk exposure in 2020, as in 2019, primarily included exposure to interest rate risk due to Euribor changes and, to a lesser degree, market and foreign exchange risk. In any case, the Group pursues a policy of portfolio diversification and investing in highly liquid assets from countries with a high credit rating, avoiding investments with speculative-grade ratings.

The Group calculates the capital requirement for market risk under the standardised approach, pursuant to the provisions of Regulation (EU) No 575/2013. The table below shows capital requirements for market risk according to types of financial instruments.

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Equity instruments	10	0	10	0
Debt instruments	0	0	0	0
SUM OF CAPITAL REQUIREMENTS FOR MARKET RISK	**10**	**0**	**10**	**0**

As at 31 December 2020, the Group had a minimum trading portfolio of just under EUR 64 thousand.

The Group monitors market risk by means of:
- prompt data on trading positions, spending of limits and overdrafts, and exposure to different risks,
- prompt data on currency positions,
- daily reporting on securities trading,
- end-of day reporting on overdrafts,
- monthly reporting on capital requirements for market risk, and
- quarterly risk analyses.

To manage market risks, the Group has:
- adopted the Risk-taking and Risk Management Strategy, which also includes a chapter on market risk,
- established relevant internal controls in implementing transactions,
- introduced quantitative analytic methods to measure individual types of market and foreign exchange risks with the growing complexity and scope of trading, and monthly performance of stress tests for exceptional yet likely situations.

Market risk management is based on a diversified system of limits (limits on equity and debt security positions, limits on exposure to individual types of issuers, limits of maximum possible loss, limits according to individual authorised persons, etc.), which the Group regularly reviews and adjusts, if necessary.

Due to the increased volatility of capital markets (compared to bond markets and money markets), the Group devotes special attention to its equity positions. To this end, it has in place the additional "stop-loss" limit system for each position on both the domestic and foreign markets, which daily examines the set limits. In assessing the risk of individual financial instruments, the Group calculates Value-at-Risk over a time horizon (on a monthly basis in the reports to the Asset and Liability Committee) for each position as well as for both sub-portfolios (domestic and foreign equities) and the joint portfolio, in order to detect any potential increased risk due to exposure to increased volatility.

With respect to the bond portfolio on the trading book, the Group calculates the time profile for each position and the related extent of sensitivity to loss in economic value in the event of an interest rate shock (so-called "basis point value"). The value of the average-duration bond portfolio on the trading book over a time horizon is also monitored. All these calculations are conducted once per month, and their results are included into the report to the Asset and Liability Committee.

The rigorous system of limits, which requires that the securities portfolio be diversified and highly liquid as well as that issuers have good credit ratings, keeps the Group's appetite for assuming market risk at a low level.

5.2.1. Methods for measuring risk related to trading in trading portfolio equities

To measure and control market risk, the Group applies the Value-at-Risk method (VaR) for its equity trading portfolio. VaR measures the risk of loss on a specific portfolio of financial assets for a 10-day time horizon, with a 99% level of confidence.

As at 31 December 2020, the equity portfolio had a VaR of EUR 8 thousand (31 December 2019: EUR 0).

In order to measure and manage extreme losses that would occur in cases of heavily deteriorated market situations, the Group performs additional monthly stress tests for the equity trading portfolio.

5.2.2. Methods for measuring risk related to trading in trading portfolio debt securities

The Group measures these risks using Basis Point Value (BPV), which denotes the change in the market value of a trading book position, attributable to the parallel movement in the yield curve. BPV tells us how much value financial instruments will gain or lose depending on the market interest rate, i.e. change in yield. As at 31 December 2020, the Group had no debts in its bond trading portfolio.

5.2.3. Foreign exchange risk

Foreign exchange risk is monitored and managed on a daily basis. Limits of maximum acceptable exposures to foreign exchange risk are clearly defined and monitored daily.

The Financial Markets Section balances currency positions and exposure to foreign exchange risk by taking the following measures:
- spot and forward purchases and sales of foreign exchange in the interbank market,
- setting daily mean rates and exchange rates,
- entering into purchases and sales of foreign exchange with legal entities and individuals.

In 2020, the Group promptly balanced the differences between foreign exchange purchases and sales, which were mainly the result of payment and foreign exchange transactions. Exposure towards financial instruments denominated in foreign currencies was very low and consistent with the set limits.

The tables below show assets and liabilities as at 31 December 2020 and 31 December 2019 by currency.

Group DBS

FOREIGN EXCHANGE RISK as at 31 December 2020					
Balance sheet items	EUR	USD	CHF	OTHER	TOTAL
Cash, balances at central banks, and sight deposits at banks	79,613	2,335	4,077	1,250	87,275
Financial assets held for trading	64	24	0	0	88
Non-trading financial assets mandatorily measured at fair value through profit or loss	1,258	0	0	0	1,258
Financial assets measured at fair value through other comprehensive income	3,047	0	0	0	3,047
Financial assets measured at amortised cost	914,220	0	159	0	914,379
- Debt securities	149,112	0	0	0	149,112
- Loans to banks	206	0	0	0	206
- Loans to customers	762,781	0	159	0	762,940
- Other financial assets	2,121	0	0	0	2,121
Tangible assets	33,619	0	0	0	33,619
- Property, plant and equipment	10,562	0	0	0	10,562
- Investment property	23,057	0	0	0	23,057
Intangible assets	584	0	0	0	584
Income tax assets	3,938	0	0	0	3,938
- Current tax assets	233	0	0	0	233
- Deferred tax assets	3,705	0	0	0	3,705
Other assets	1,212	0	0	0	1,212
TOTAL ASSETS (1)	**1,037,555**	**2,359**	**4,236**	**1,250**	**1,045,400**
Financial liabilities held for trading	24	0	0	0	24
Financial liabilities measured at amortised cost	966,030	2,384	4,294	1,020	973,728
- Deposits by banks and central banks	426	0	0	0	426
- Deposits by customers	959,044	2,377	4,290	1,019	966,730
- Borrowings from banks and central banks	2,057	0	0	0	2,057
- Other financial liabilities	4,503	7	4	1	4,515
Provisions	2,382	0	0	1	2,383
Income tax liabilities	35	0	0	0	35
- Current tax liabilities	30	0	0	0	30
- Deferred tax liabilities	5	0	0	0	5
Other liabilities	1,044	0	0	0	1,044
TOTAL LIABILITIES (2)	**969,515**	**2,384**	**4,294**	**1,021**	**977,214**
MISMATCH (1) less (2)	**68,040**	**(25)**	**(58)**	**229**	**68,186**
Off-balance sheet liabilities	**68,933**	**0**	**0**	**160**	**69,093**

FOREIGN EXCHANGE RISK as at 31 December 2019					
Balance sheet items	EUR	USD	CHF	OTHER	TOTAL
Total assets	1,010,398	2,407	4,098	1,257	1,018,160
Total liabilities	947,556	2,395	4,087	1,122	955,160
MISMATCH (1) **less** (2)	**62,842**	**12**	**11**	**135**	**63,000**
Off-balance sheet liabilities	**65,423**	**0**	**0**	**156**	**65,579**

As at 31 December 2020, the Group did not report capital requirements for foreign exchange risk, as its net currency position did not exceed 2% of the Group's capital.

DBS d. d.

FOREIGN EXCHANGE RISK as at 31 December 2020					
Balance sheet items	**EUR**	**USD**	**CHF**	**OTHER**	**TOTAL**
Cash, balances at central banks, and sight deposits at banks	79,613	2,335	4,077	1,250	87,275
Financial assets held for trading	64	24	0	0	88
Non-trading financial assets mandatorily measured at fair value through profit or loss	1,258	0	0	0	1,258
Financial assets measured at fair value through other comprehensive income	3,047	0	0	0	3,047
Financial assets measured at amortised cost	911,414	0	167	0	911,581
- Debt securities	149,112	0	0	0	149,112
- Loans to banks	206	0	0	0	206
- Loans to customers	760,064	0	167	0	760,231
- Other financial assets	2,032	0	0	0	2,032
Long-term equity participation in subsidiaries, associates and joint ventures	4,238	0	0	0	4,238
Tangible assets	32,028	0	0	0	32,028
- Property, plant and equipment	10,269	0	0	0	10,269
- Investment property	21,759	0	0	0	21,759
Intangible assets	505	0	0	0	505
Income tax assets	3,938	0	0	0	3,938
- Current tax assets	233	0	0	0	233
- Deferred tax assets	3,705	0	0	0	3,705
Other assets	1,174	0	0	0	1,174
TOTAL ASSETS (1)	**1,037,279**	**2,359**	**4,244**	**1,250**	**1,045,132**
Financial liabilities held for trading	24	0	0	0	24
Financial liabilities measured at amortised cost	966,235	2,384	4,294	1,020	973,933
- Deposits by banks and central banks	426	0	0	0	426
- Deposits by customers	959,283	2,377	4,290	1,019	966,969
- Borrowings from banks and central banks	2,057	0	0	0	2,057
- Other financial liabilities	4,469	7	4	1	4,481
Provisions	2,359	0	0	1	2,360
Income tax liabilities	34	0	0	0	34
- Current tax liabilities	29	0	0	0	29
- Deferred tax liabilities	5	0	0	0	5
Other liabilities	878	0	0	0	878
TOTAL LIABILITIES (2)	**969,530**	**2,384**	**4,294**	**1,021**	**977,229**
MISMATCH (1) less (2)	**67,749**	**(25)**	**(50)**	**229**	**67,903**
Off-balance sheet liabilities	**69,187**	**0**	**0**	**160**	**69,347**

FOREIGN EXCHANGE RISK as at 31 December 2019					
Balance sheet items	**EUR**	**USD**	**CHF**	**OTHER**	**TOTAL**
Total assets	1,010,172	2,407	4,102	1,257	1,017,938
Total liabilities	947,440	2,395	4,087	1,122	955,044
Mismatch (1) less (2)	**62,732**	**12**	**15**	**135**	**62,894**
Off-balance sheet liabilities	**66,041**	**0**	**0**	**156**	**66,197**

As at 31 December 2020 the Bank did not report capital requirements for foreign exchange risk, as its net currency position did not exceed 2% of the Bank's capital.

5.2.4. Interest rate risk

In managing interest rate risk, the Group relies on the Risk-taking and Risk Management Policy for Interest Rate Risk. Taking interest rate risk and managing it within the Group is a collaboration of:
- front office (Branch Network, Financial Markets Section),
- various sections (Financial Management Section, Risk Management Section),
- various boards (Lending Committee, Liquidity Commission, Asset and Liability Committee).

The Group additionally monitors exposure to interest rate risk with reference to items in the banking book. In doing so, it relies on the methodology of interest rate sensitivity gap reports according to the type of maturity and time periods relative to the following setting of interest rates (gap analysis). Interest rate gaps show the difference between the cash flows of interest-sensitive assets and interest-sensitive liabilities according to duration gaps. In the analysis of interest rate risk, the Group takes into consideration the distribution of stable sight deposits separately for corporate customers and natural persons, and savings deposits in accordance with the internal model, i.e. by transferring them from the sight deposit (O/N) time bucket to other time buckets with regard to the established continuity. In accordance with guidelines for managing interest rate risk originating in the operations of a non-trading book as prescribed by EBA, the Group distributes stable sight deposits for natural persons and bank's savings deposits into time buckets of up to 10 years, sight deposits for corporate customers into time buckets of up to 5 years, whereas unstable deposits are assumed to become due immediately. For deposits without an agreed maturity, the maximum average maturity of 5 years might be used in conformity to the mentioned guidelines, whereas the actual average maturity used by the Group for deposits without an agreed maturity is considerably lower than the maturity mentioned. Due to its immateriality, the Group did not include behavioural risk in the measurement of interest rate risk. It assesses the size of the behavioural risk at least once a year and will include it in interest rate risk calculations if necessary, when it proves significant. Reports on exposure to interest rate risk are reviewed by the Bank's Asset and Liability Committee on a monthly basis, and are noted quarterly by the Management Board, the Risk Committee, and the Supervisory Board in the context of a risk management analysis.

Measuring, monitoring and examining interest rate risk in the Group is kept separate from adopting decisions on banking positions, which prevents conflicts of interest. This is conducted by the Risk Management Section, which regularly monitors all activities in this area.

With the gap analysis, the Group monitors the sensitivity of net interest income in the next 12 months based on eight stress scenarios, which are shown in the table Interest income sensitivity to interest rate movements as at 31 December 2020.

To measure the economic value of equity (EVE), the Groups uses six stress scenarios based on the EBA guidelines:
1) parallel shock up by 200 basis points;
2) parallel shock down by 200 basis points;
3) steepener shock (short-term interest rates down and long-term interest rates up);
4) flattener shock (short-term interest rates up and long-term interest rates down);
5) short - term interest rate shock up; and
6) short - term interest rate shock down.

The result of the scenario having the worst impact on the EVE sum is used by the Group as the basis for forming additional capital requirement for interest rate risk under Pillar 2; it is computed as the 6-month average of highest losses of the economic value of equity. For the purposes of balancing interest rate risk on the banking book, the Group has in place a two-stage system of limits for each interest rate gap. The first stage is a position limit for each established gap, calculated using a proprietary methodology, while the second is a limit for the total exposure of the economic value of equity with the internal limit set at 10% of the Group's equity, which, due to the precautionary principle is set lower than required by EBA, which prescribes it at 15%.

According to the balance as at 31 December 2020, the Group had at its disposal an adequate amount of capital to offset the potential losses from interest rate risk. According to six stress scenarios, in the event of a movement of the yield curve, the effect of the changed interest rate never exceeded 10% of the economic value of equity.

The result with the most significant negative change of the economic value of equity out of six stress test scenarios amounted to EUR 3,095 thousand as at 31 December 2020, which is 5.02% of the Group's equity capital (2019: EUR 2,255 thousand); in both years the result was within the regulatory limit.

Interest income sensitivity to interest rate movements as at 31 December 2020

Group DBS

Scenario*	Expected net interest	Absolute change in baseline scenario	Relative change in baseline scenario
Baseline scenario	17,288		
One-time curve shift (+2%) - immediate shock	27,984	10,696	61.87%
One-time curve shift (-2%) - immediate shock	4,932	(12,356)	(71.47%)
Curve shift (+2%) - gradually over 12 months	22,731	5,443	31.49%
Curve shift (-2%) - gradually over 12 months	10,966	(6,322)	(36.57%)
Curve shift (+2%) - immediate shock, only money market interest (EURIBOR)	30,001	12,713	73.54%
Curve shift (-2%) - immediate shock, only money market interest (EURIBOR)	8,075	(9,213)	(53.29%)
Curve shift (+2%) - gradually over 12 months, only money market interest (EURIBOR)	23,750	6,462	37.38%
Curve shift (-2%) - gradually over 12 months, only money market interest (EURIBOR)	12,504	(4,784)	(27.67%)

* The scenario presupposes that the interest rate cannot be negative.

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Scenario*	Expected net interest	Absolute change in baseline scenario	Relative change in baseline scenario
Baseline scenario	17,029		
One-time curve shift (+2%) - immediate shock	27,540	10,511	61.72%
One-time curve shift (-2%) - immediate shock	4,924	(12,106)	(71.09%)
Curve shift (+2%) - gradually over 12 months	22,359	5,330	31.30%
Curve shift (-2%) - gradually over 12 months	10,848	(6,182)	(36.30%)
Curve shift (+2%) - immediate shock, only money market interest (EURIBOR)	29,671	12,641	74.23%
Curve shift (-2%) - immediate shock, only money market interest (EURIBOR)	7,888	(9,141)	(53.68%)
Curve shift (+2%) - gradually over 12 months, only money market interest (EURIBOR)	23,453	6,423	37.72%
Curve shift (-2%) - gradually over 12 months, only money market interest (EURIBOR)	12,284	(4,745)	(27.86%)

* The scenario presupposes that the interest rate cannot be negative.

Assuming that the Group's investments and liabilities as at 31 December 2020 remained unchanged and held-to-maturity, and that the Group did not actively influence the structure of investments and liabilities in order to modify exposure to interest rate risk, a 2% drop in market interest rates (immediate shock) would cause a just over EUR 12 million decrease in net interest income over a one-year period (2019: almost EUR 12 million).

The following tables outline exposure to interest rate risk as at 31 December 2020 and 31 December 2019. Financial instruments are recorded at carrying amounts and categorised into time buckets according to the subsequent change in interest rate or maturity. Sight loans to customers (O/N) also include loans linked to six-month Euribor rate, for which interest rates are fixed each 1 January.

Group DBS

INTEREST RATE RISK as at 31 December 2020

Balance sheet item	TOTAL	Non-interest bearing	Total accrued interest	Sight	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Cash, balances at central banks, and sight deposits at banks	87,275	0	87,275	77,236	1,107	8,932	0	0	0
Financial assets held for trading	88	88	0	0	0	0	0	0	0
Non-trading financial assets mandatorily measured at fair value through profit or loss	1,258	0	1,258	0	1,258	0	0	0	0
Financial assets measured at fair value through other comprehensive income	3,047	3,047	0	0	0	0	0	0	0
Financial assets measured at amortised cost	914,379	6,323	908,056	326,459	67,248	195,974	172,145	83,868	62,362
- Debt securities	149,112	1,395	147,717	0	0	0	15,683	77,071	54,963
- Loans to banks	206	6	200	0	0	0	200	0	0
- Loans to customers	762,940	2,801	760,139	326,459	67,248	195,974	156,262	6,797	7,399
- Other financial assets	2,121	2,121	0	0	0	0	0	0	0
Other assets	1,212	1,212	0	0	0	0	0	0	0
TOTAL ASSETS	**1,007,259**	**10,670**	**996,589**	**403,695**	**69,613**	**204,906**	**172,145**	**83,868**	**62,362**
Financial liabilities held for trading	24	24	0	0	0	0	0	0	0
Financial liabilities measured at amortized cost	973,728	5,877	967,851	739,682	97,538	34,550	74,160	21,657	264
- Deposits by banks and central banks	426	0	426	426	0	0	0	0	0
- Deposits by customers	966,730	1,305	965,425	737,256	97,538	34,550	74,160	21,657	264
- Borrowings from banks and central banks	2,057	57	2,000	2,000	0	0	0	0	0
- Other financial liabilities	4,515	4,515	0	0	0	0	0	0	0
Other liabilities	1,044	1,044	0	0	0	0	0	0	0
TOTAL LIABILITIES	**974,796**	**6,945**	**967,851**	**739,682**	**97,538**	**34,550**	**74,160**	**21,657**	**264**
Net exposure to interest rate risk	**32,463**	**3,725**	**28,738**	**(335,987)**	**(27,925)**	**170,356**	**97,985**	**62,211**	**62,098**

INTEREST RATE RISK as at 31 December 2019

Balance sheet item	TOTAL	Non-interest bearing	Total accrued interest	Sight	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Total assets	983,548	15,749	967,799	396,051	19,469	201,932	167,437	117,160	65,750
Total liabilities	952,869	7,529	945,340	643,553	94,857	37,194	90,498	76,970	2,268
Net exposure to interest rate risk	**30,679**	**8,220**	**22,459**	**(247,502)**	**(75,388)**	**164,738**	**76,939**	**40,190**	**63,482**

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INTEREST RATE RISK as at 31 December 2020

Balance sheet item	TOTAL	Non-interest bearing	Total accrued interest	Sight	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Cash, balances at central banks, and sight deposits at banks	87,275	0	87,275	77,236	1,107	8,932	0	0	0
Financial assets held for trading	88	88	0	0	0	0	0	0	0
Non-trading financial assets mandatorily measured at fair value through profit or loss	1,258	0	1,258	0	1,258	0	0	0	0
Financial assets measured at fair value through other comprehensive income	3,047	3,047	0	0	0	0	0	0	0
Financial assets measured at amortised cost	911,581	6,149	905,432	316,828	68,344	198,126	173,564	86,208	62,362
- Debt securities	149,112	1,395	147,717	0	0	0	15,683	77,071	54,963
- Loans to banks	206	6	200	0	0	0	200	0	0
- Loans to customers	760,231	2,716	757,515	316,828	68,344	198,126	157,681	9,137	7,399
- Other financial assets	2,032	2,032	0	0	0	0	0	0	0
Long-term equity participation in subsidiaries, associates and joint ventures	4,238	4,238	0	0	0	0	0	0	0
Other assets	1,174	1,174	0	0	0	0	0	0	0
TOTAL ASSETS	**1,008,661**	**14,696**	**993,965**	**394,064**	**70,709**	**207,058**	**173,564**	**86,208**	**62,362**
Financial liabilities held for trading	24	24	0	0	0	0	0	0	0
Financial liabilities measured at amortized cost	973,933	5,842	968,091	739,682	97,577	34,606	74,297	21,665	264
- Deposits by banks and central banks	426	0	426	426	0	0	0	0	0
- Deposits by customers	966,969	1,304	965,665	737,256	97,577	34,606	74,297	21,665	264
- Borrowings from banks and central banks	2,057	57	2,000	2,000	0	0	0	0	0
- Other financial liabilities	4,481	4,481	0	0	0	0	0	0	0
Other liabilities	878	878	0	0	0	0	0	0	0
TOTAL LIABILITIES	**974,835**	**6,744**	**968,091**	**739,682**	**97,577**	**34,606**	**74,297**	**21,665**	**264**
Net exposure to interest rate risk	**33,826**	**7,952**	**25,874**	**(345,618)**	**(26,868)**	**172,452**	**99,267**	**64,543**	**62,098**

INTEREST RATE RISK as at 31 December 2019									
Balance sheet item	TOTAL	Non-interest bearing	Total accrued interest	Sight	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Total assets	983,894	18,139	965,755	387,694	20,052	203,227	168,790	120,242	65,750
Total liabilities	952,770	7,430	945,340	643,553	94,857	37,194	90,498	76,970	2,268
Net exposure to interest rate risk	**31,124**	**10,709**	**20,415**	**(255,859)**	**(74,805)**	**166,033**	**78,292**	**43,272**	**63,482**

The Group's largest exposure as at 31 December 2020 was in euro, with exposures in other currencies negligible and immaterial. Interest rate risk in 2020 arose mainly out of the imbalance between the maturities of interest-rate-sensitive investments and liabilities, and out of the subsequent determination of interest rates.

In 2020, the Group began monitoring and assessing exposures arising from the risk of changes in the credit spread, which is the result of activities from the non-trading book (CSRBB).

In 2021, the Group plans to continue matching interest rate gaps, the emphasis being on sight time gaps of longer maturity, and to maintain a low exposure to interest rate risk. It will also continue to upgrade its methodology for establishing and measuring interest rate risk, while also fulfilling the guidelines for managing interest rate risk originating in the operations of a non-trading book as prescribed by EBA.

5.2.5. Average interest rates as at 31 December

	Group DBS				DBS d. d.			
	2020		2019		2020		2019	
	EUR	USD	EUR	USD	EUR	USD	EUR	USD
Assets		%		%		%		%
Cash, balances at central banks, and sight deposits at banks	(0.32)	0.01	(0.32)	0.05	(0.32)	0.01	(0.32)	0.05
Investment securities - debt	1.45	0.00	1.99	0.00	1.45	0.00	1.99	0.00
Loans to banks	5.46	0.00	0.79	1.46	5.46	0.00	0.79	1.46
Loans to customers	2.00	0.00	2.04	0.00	2.00	0.00	2.04	0.00
Liabilities								
Borrowings from banks and central banks	0.00	0.00	(0.40)	0.00	0.00	0.00	(0.40)	0.00
Deposits by customers	0.03	0.01	0.05	0.04	0.03	0.01	0.05	0.04
Subordinated liabilities	5.89	0.00	5.98	0.00	5.89	0.00	5.98	0.00

5.3. Liquidity risk

In managing liquidity risk, the Group applies the Risk-taking and Risk Management Policy for Liquidity Risk. Liquidity risk management in the Group is a collaboration of:
- Management Board,
- front office (Financial Markets Section),
- various sections (Financial Management Section, Risk Management Section, Payments Section, Treasury Section),
- various boards and commissions (Liquidity Commission, Asset and Liability Committee).

The Group's liquidity situation depends on the set of activities for meeting required cash flows as well as on the availability of liquidity assets that at all times ensure immediate fulfilment of matured financial obligations with customers. For this purpose, the Group holds on its portfolio adequate amounts of cash and highly liquid securities that can be liquidated immediately and without loss in carrying value.

The Group maintains a diversified pool of liquidity reserves in the form of cash and other highly liquid assets that are free from encumbrances and available at any time. To this end, the Group continually monitors the amount and composition of its liquidity reserves, preparing a list of all liquid assets, including what proportions can be collected and are encumbered or free from encumbrances.

The Group has in place a set of stress scenarios, which are applied to the current liquidity gaps on a monthly basis, as stipulated by future cash flows ordered according to contractual maturity. All stress test scenario outcomes have designated limits, with the critical limit being defined at one-month's survival. A critical outcome represents the minimum amount of the Group's liquidity reserves and spans the period from the first day of the analysis to the moment the cumulative liquidity gap turns negative and exceeds the Group's total unencumbered liquidity assets.

If a critical outcome is confirmed, the Risk Management Section informs the Treasury Division, which must present liquidity balancing measures and report them to the Liquidity Committee. The Bank Management Board, the Internal Audit Department and the Risk Management Section need to be informed of the recovery plan and its planned implementation.

Further, the Group monitors a wide array of interim liquidity trends and structural liquidity ratios. It has requisite limits designated for all values of the monitored ratios, and regularly examines them.

At least once a year, the Group also stress tests the liquidity contingency plan using the liquidity shock scenario prepared by the Risk Management Section. On the basis of this scenario, the Treasury Division prepares the Group's response, and diligently notes the duration and implementation of the simulated post-shock recovery process, including an estimate of potential financial consequences. The harmonised report on stress testing of the liquidity continuity plan is presented to the Liquidity Commission.

Liquidity risk is evaluated comprehensively at the Group level once a year within the internal liquidity adequacy assessment process (ILAAP), which is used to assess liquidity and liquidity risk management.

In 2020, the Group had at its disposal an adequate pool of liquidity reserves, which can be utilised to settle any liabilities as well as off-balance sheet liabilities. In addition, it has at its disposal adequate secondary liquidity (liquid debt securities, domestic loans eligible as collateral with the European Central Bank, etc.) which it could easily and efficiently liquidate and use in case of a liquidity stress event that compromised the daily system of liquidity management, such as e.g. an unexpected large-scale withdrawal of deposits.

To monitor its operations and the related major risks that could affect its existence, the Group has laid down an array of quantitative indicators in its Restoration plan. The following restoration plan liquidity indicators were selected: liquidity coverage ratio (LCR), net stable funding ratio (NSFR), and indicator of wholesale funding costs (SGF). Limit values have been set for each indicator stated, marking the point of commencement for internal processes based on the restoration plan. As well as in the aforementioned Group Restoration plan, the array of indicators with set limits has also been summarised in the Risk-taking and Risk Management Strategy.

The Group calculates on a regular basis the LCR liquidity coverage ratio, which has been defined as the ratio of the stock of high-quality liquid assets and the expected total net cash outflows over a 30-day period. The indicator has been regulated, and thus not allowed to fall below 100%. As at 31 December 2020, the liquidity coverage ratio was 570%.

All results of monitoring liquidity risk are reported to the Bank's Asset and Liability Committee on a monthly basis, while the Management Board, the Risk Committee and the Supervisory Board are presented quarterly with reports on exposure to liquidity risk in the context of a risk management analysis.

The following tables summarise the Group's and Bank's exposure to liquidity risk as at 31 December 2020 and 31 December 2019. Financial instruments are recorded at undiscounted amounts according to the remaining contractual maturity as at 31 December 2020, which in addition to the asset's carrying value includes expected future cash flows from interest.

Group DBS

LIQUIDITY RISK as at 31 December 2020							
Balance sheet items	Sight	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash, balances at central banks, and sight deposits at banks	77,236	1,107	8,932	0	0	0	87,275
Financial assets held for trading	88	0	0	0	0	0	88
Non-trading financial assets mandatorily measured at fair value through profit or loss	0	0	0	1,258	0	0	1,258
Financial assets measured at fair value through other comprehensive income	326	0	0	0	2,721	0	3,047
Financial assets measured at amortised cost	18,486	54,248	25,469	105,848	394,633	401,927	1,000,611
- Debt securities	0	15	1,616	16,133	80,499	55,264	153,527
- Loans to banks	0	0	0	11	209	0	220
- Loans to customers	18,246	54,070	23,717	89,699	312,382	346,629	844,743
- Other financial assets	240	163	136	5	1,543	34	2,121
Other assets	183	9	0	0	29	991	1,212
TOTAL ASSETS	**96,319**	**55,364**	**34,401**	**107,106**	**397,383**	**402,918**	**1,093,491**
Financial liabilities held for trading	0	24	0	0	0	0	24
Financial liabilities measured at amortized cost	737,715	100,556	34,724	74,465	26,183	491	974,134
- Deposits by banks and central banks	426	0	0	0	0	0	426
- Deposits by customers	737,099	97,603	34,671	74,456	22,904	291	967,024
- Borrowings from banks and central banks	0	0	0	0	2,169	0	2,169
- Other financial liabilities	190	2,953	53	9	1,110	200	4,515
Other liabilities	849	83	1	18	88	5	1,044
TOTAL LIABILITIES	**738,564**	**100,663**	**34,725**	**74,483**	**26,271**	**496**	**975,202**
Net exposure to liquidity risk	**(642,245)**	**(45,299)**	**(324)**	**32,623**	**371,112**	**402,422**	**118,289**

LIQUIDITY RISK as at 31 December 2019							
Balance sheet items	Sight	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Total assets	114,527	6,292	34,465	101,464	303,888	511,079	1,071,715
Total liabilities	647,337	95,056	37,323	90,991	80,406	2,536	953,649
Net exposure to liquidity risk	**(532,810)**	**(88,764)**	**(2,858)**	**10,473**	**223,482**	**508,543**	**118,066**

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LIQUIDITY RISK as at 31 December 2020							
Balance sheet items	Sight	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash, balances at central banks, and sight deposits at banks	77,236	1,107	8,932	0	0	0	87,275
Financial assets held for trading	88	0	0	0	0	0	88
Non-trading financial assets mandatorily measured at fair value through profit or loss	0	0	0	1,258	0	0	1,258
Financial assets measured at fair value through other comprehensive income	326	0	0	0	2,721	0	3,047
Financial assets measured at amortised cost	16,490	55,277	25,266	105,610	392,958	401,009	996,610
- Debt securities	0	15	1,616	16,133	80,499	55,264	153,527
- Loans to banks	0	0	0	11	209	0	220
- Loans to customers	16,295	55,099	23,514	89,461	310,751	345,711	840,831
- Other financial assets	195	163	136	5	1,499	34	2,032
Long-term equity participation in subsidiaries, associates and joint ventures	4,238	0	0	0	0	0	4,238
Other assets	183	0	0	0	0	991	1,174
TOTAL ASSETS	**98,561**	**56,384**	**34,198**	**106,868**	**395,679**	**402,000**	**1,093,690**
Financial liabilities held for trading	0	24	0	0	0	0	24
Financial liabilities measured at amortised cost	737,681	100,556	34,724	74,465	26,183	491	974,100
- Deposits by banks and central banks	426	0	0	0	0	0	426
- Deposits by customers	737,099	97,603	34,671	74,456	22,904	291	967,024
- Borrowings from banks and central banks	0	0	0	0	2,169	0	2,169
- Other financial liabilities	156	2,953	53	9	1,110	200	4,481
Other liabilities	849	0	1	8	15	5	878
TOTAL LIABILITIES	**738,530**	**100,580**	**34,725**	**74,473**	**26,198**	**496**	**975,002**
Net exposure to liquidity risk	**(639,969)**	**(44,196)**	**(527)**	**32,395**	**369,481**	**401,504**	**118,688**

LIQUIDITY RISK as at 31 December 2019							
Balance sheet items	Sight	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Total assets	115,665	6,751	35,270	99,419	303,644	510,841	1,071,590
Total liabilities	647,238	95,056	37,323	90,991	80,406	2,536	953,550
Net exposure to liquidity risk	**(531,573)**	**(88,305)**	**(2,053)**	**8,428**	**223,238**	**508,305**	**118,040**

The liquidity gap for the sight time period is indeed deeply in the negative, however, financial liabilities in this group include total sight deposits, and this despite the fact that according to the calculation of the liquidity coverage ratio as at 31 December 2020 (LCR), the Group attains a 94% stability of deposits. In simulating liquidity stress tests, sight deposits and deposits redeemable at notice in the sight time period are categorised into time buckets according to their stability/instability calculated using an in-house model. Additionally, the simulation of liquidity stress tests also takes into account the actual and potential future cash flows based on an analysis of funds drawn from off-balance sheet arrangements, the actual share of repayments from loans, and the share of renewed deposits.

Based on the conducted analyses, the Group estimates that its off-balance-sheet positions do not contribute particularly to its exposure to liquidity risk, which is why they were not included into the above table.

As at 31 December 2020, the Group had EUR 293 million of unencumbered liquidity reserves, i.e. of eligible assets available for use in ECB credit operations, which substantially exceed liquidity shortages in case of stress scenarios.

In the future, the Group will maintain the minimum required amount of liquid assets as estimated using stress scenarios, in the form of top-rated debt securities. In addition, attention will be devoted to monitoring the LCR and NSFR and to meeting their required values as well as limit values as specified in accordance with the restoration plan.

5.4. Fair value of financial assets and liabilities

5.4.1. Financial assets not measured at fair value

Group DBS

	2020					2019				
		Fair value					Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total	Carrying amount	Level 1	Level 2	Level 3	Total
Assets										
Debt securities at amortised cost	149,112	135,744	19,999	0	155,743	117,757	102,435	19,645	988	123,068
Loans and advances to banks	206	0	0	206	206	6,618	0	0	6,618	6,618
Loans and advances to customers	762,761	0	0	838,898	838,898	747,012	0	0	817,228	817,228
Other financial assets	2,121	0	0	2,121	2,121	3,214	0	0	3,214	3,214
Total assets	**914,200**	**135,744**	**19,999**	**841,225**	**996,968**	**874,601**	**102,435**	**19,645**	**828,048**	**950,128**
Liabilities										
Deposits by banks	426	0	0	426	426	339	0	0	339	339
Deposits by customers*	966,730	0	0	966,730	966,730	894,724	0	0	894,724	894,724
Borrowings from banks and central banks*	2,057	0	0	2,057	2,057	51,498	0	0	51,498	51,498
Other financial liabilities	4,515	0	0	4,515	4,515	4,449	0	0	4,449	4,449
Total liabilities	**973,728**	**0**	**0**	**973,728**	**973,728**	**951,010**	**0**	**0**	**951,010**	**951,010**

* According to the Methodology for Preparing a Recapitulation of the Statement of Financial Position, in 2020 and 2019, deposits by customers, and borrowings from banks include deposits, and loans and advances with characteristics of subordinated debt.

DBS d. d.

	2020					2019				
		Fair value					Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total	Carrying amount	Level 1	Level 2	Level 3	Total
Assets										
Debt securities at amortised cost	149,112	135,744	19,999	0	155,743	117,757	102,435	19,645	988	123,068
Loans and advances to banks	206	0	0	206	206	6,618	0	0	6,618	6,618
Loans and advances to customers	760,231	0	0	834,946	834,946	745,587	0	0	815,279	815,279
Other financial assets	2,032	0	0	2,032	2,032	3,137	0	0	3,137	3,137
Total assets	**911,581**	**135,744**	**19,999**	**837,184**	**992,927**	**873,099**	**102,435**	**19,645**	**826,022**	**948,102**
Liabilities										
Deposits by banks	426	0	0	426	426	339	0	0	339	339
Deposits by customers*	966,969	0	0	966,969	966,969	894,987	0	0	894,987	894,987
Borrowings from banks and central banks*	2,057	0	0	2,057	2,057	51,498	0	0	51,498	51,498
Other financial liabilities	4,481	0	0	4,481	4,481	4,425	0	0	4,425	4,425
Total liabilities	**973,933**	**0**	**0**	**973,933**	**973,933**	**951,249**	**0**	**0**	**951,249**	**951,249**

* According to the Methodology for Preparing a Recapitulation of the Statement of Financial Position, in 2020 and 2019, deposits by customers, and borrowings from banks include deposits, and loans and advances with characteristics of subordinated debt.

(a) Loans and advances to banks

The estimated fair value of loans and advances to banks is based on the discounted cash flows method using prevailing market interest rates for debts with similar credit risk and remaining maturity. The fair value of loans to commercial banks is estimated to closely resemble their carrying amount. Fixed-rate credit operations are short-term, meaning the contractual interest rates do not differ considerably from end-of-year market interest rates, while the Group does not have any long-term loans to banks. This is why the fair value of loans to commercial banks is the same as their carrying amount.

(b) Loans and advances to customers

Loans and advances are net of provisions for impairment. The calculated fair value of loans and advances to customers is based on discounting the future cash flows until maturity less the impairment losses, whereby the discount curve has been based on a zero curve as at 31 December 2020.

(c) Debt securities measured at amortised cost

The Group reports debt securities in accounting records at amortised cost. Their fair value of debt securities at amortised cost as at 31 December 2020 was calculated using actual market prices formed in the markets where they are listed.

(d) Deposits and borrowings

The Group's long-term debt has no market value. Fair value is estimated as the discounted amount of future cash flows, taking into account market interest rates that the Group would currently have to pay for new deposits with similar characteristics and the same residual maturity. Since most borrowings are linked to changing market interest rates, the fair value of deposits does not substantially differ from their carrying amounts.

The fair value of sight deposits to the depository institution depends on the expectations of the timing and amounts of withdrawals of the existing balance, the level of prevailing interest rates with similar terms, the costs of servicing these deposits and the depository institution's – thus the Group's – own credit risk. This is especially important for sight deposits.

The estimated fair value of other deposits is based on discounted contractual cash flows using market interest rates that the Group would currently have to pay for new deposits with similar remaining maturity.

For deposits from banks and deposits from other customers, there are no differences between carrying amount and fair value.

5.4.2. Financial and non-financial assets measured at fair value

Valuation methods for financial instruments measured at fair value in the financial statements

	Group DBS				DBS d. d.			
2020	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Financial assets held for trading (Note 4.2. a)	64	0	24	**88**	64	0	24	**88**
Non-trading financial assets mandatorily measured at fair value through profit or loss (Note 4.3.)	0	0	1,258	**1,258**	0	0	1,258	**1,258**
Financial assets measured at fair value through other comprehensive income (Note 4.4. a)	0	0	3,047	**3,047**	0	0	3,047	**3,047**
Non-financial assets								
Investment property (Note 4.11. a)	0	0	23,057	**23,057**	0	0	21,759	**21,759**
Financial liabilities								
Financial liabilities held for trading (Note 4.16.)	0	0	24	**24**	0	0	24	**24**

	Group DBS				DBS d. d.			
2019	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Financial assets held for trading (Note 4.2. a)	0	0	110	**110**	0	0	110	**110**
Non-trading financial assets mandatorily measured at fair value through profit or loss (Note 4.3.)	0	0	1,562	**1,562**	0	0	1,562	**1,562**
Financial assets measured at fair value through other comprehensive income (Note 4.4. a)	0	0	3,041	**3,041**	0	0	3,041	**3,041**
Non-financial assets								
Investment property (Note 4.11. a)	0	0	17,240	**17,240**	0	0	17,240	**17,240**
Financial liabilities								
Financial liabilities held for trading (Note 4.16.)	0	0	110	**110**	0	0	110	**110**

The fair value of investments is measured at three levels.
Level 1: Level 1 includes investments in equity and debt securities listed on a regulated securities market and whose fair value equals their market price, i.e. the last official closing price.

Level 2: Level 2 includes investments in unlisted debt securities and derivatives. Fair value for Level 2 investments is determined through an internal methodology. The value of unlisted debt securities for which fair value cannot be calculated even from external data sources is determined using the discounted value method. Unlisted mutual fund shares are measured at their net asset value, which is published daily. If a transaction is concluded in the market and thereafter a market price forms for a security previously measured according to the Bank's internal methodology, the security is restated at the market price.

Level 3: Level 3 includes unlisted equities (EUR 2.7 million is the investment into the bank resolution fund), bonds, receivables and payables associated with the purchase and sale of foreign exchange, loans and advances, and investment property at fair value. The valuation of equities that do not have quoted prices is based on market observables. Key parameters are compared with those of similar assets and liabilities traded in an active market, with the data coming from Bloomberg or another reliable source. Own interest in a private limited liability company is calculated based on carrying value of equity multiplied by the percentage of own share in equity and the liquidity deduction of 25%. In determining their fair value, the Group applies the same internal methodologies as for Level 2 instruments. The fair value of investment property is determined on the basis of appraisal reports prepared by independent appraisers working in compliance with International Valuation Standards (IVS).

Level 3: Financial assets measured at fair value through other comprehensive income – breakdown

	Group DBS		DBS d. d.	
	2020	2019	2020	2019
Equities				
Bank resolution fund	2,721	2,709	2,721	2,709
Equity investments at cost	326	332	326	332
TOTAL	**3,047**	**3,041**	**3,047**	**3,041**

In 2020, the bank resolution fund total amounted to EUR 2,721 thousand. Pursuant to the Bank Resolution Authority and Fund Act, the Group paid EUR 2,702 thousand into the Bank Resolution Fund in 2016. These assets are managed by the Bank of Slovenia consistent with the Regulation on the Investment Policy and Management Fees of the Bank Resolution Fund. The Bank of Slovenia sends regular monthly reports on the value of the investment, which serves as the basis for its valuation and which is why the Group categorises it as Level 3. The Group additionally categorises as Level 3 capital assets worth EUR 0.3 million for which market value does not exist and which are measured at fair value through other comprehensive income.

There were no transfers between different valuation levels in 2020 and 2019.

5.5. Managing operational risk

In managing operational risk, the Group applies the Risk-taking and Risk Management Policy for Operational Risk.

Operational risk management in the Group is a collaboration of:
- Management Board,
- senior management,
- Risk Management Section,
- Operations Compliance Department,
- Information Security Department,
- various boards and committees (Operational Risk Committee, Security Committee, Asset and Liability Committee).

To monitor its operations and the related major risks that could affect its existence, the Group has laid down an array of quantitative indicators in its Restoration plan. For monitoring operational risk, it has selected the indicator of significant operational loss. The indicator is monitored monthly at the Bank's Asset and Liability Committee. The array of indicators with set limits has been laid down in the Restoration plan and also summarised in the Risk-taking and Risk Management Strategy. Operational risk management at the Group level is also assessed once a year within the internal capital adequacy assessment process (ICAAP process).

Regular reporting on (loss) events associated with operational risk has been in place since 1 April 2007. The Group has proprietary application support for systematic monitoring of loss events arising out of operational risk, which is regularly updated and upgraded. The Resolution on Internal Governance, Governance Body and Internal Capital Adequacy Assessment Process for Banks and Savings Banks allows each employee of the Group to report a (loss) event into the loss events database. 285 (loss) events associated with operational risk were reported in this manner in 2020, which is less than in 2019 when there were 341. The realised net loss in 2020 was higher than in 2019. In 2020, it amounted to EUR 114 thousand (of which EUR 91 thousand due to COVID-19), and in 2019 to EUR 49.3 thousand. The total reported net loss was immaterial considering the capital requirement for operational risk, which for the Group was EUR 3,956 thousand.

The system of reporting operational risk events includes measures to resolve such events and prevent repeat events. Since the final quarter of 2010, operational risk (loss) events have been additionally monitored according to key risk indicators. Reports on operational risk (loss) events with the financial impact over EUR 500 and operational risk events that might affect the Bank's reputation are promptly presented to the Bank's Management Board, whereas the Internal Audit Department and the Operations Compliance Department are briefed on all the events recorded.

In 2020, the Bank regularly updated its business continuity plan BCP I (alternative provision of services in case of shorter or longer interruptions of regular operations), BCP II (Bank's operations in case of natural disasters, break-ins, burglaries, earthquakes, communication failures and blackouts, min. twice a year) and BCP III (operations of a back-up computer centre and data restoration). The BCP I, BCP II and BCP III are being tested regularly, with test reports being presented to the Operational Risk Board and the Bank Management Board once a year. In 2020, the Bank staged 16 BCP I tests, 13 BCP II tests and 15 BCP III tests. It also performed 425 tests of alarm systems and 156 tests of technical security maintenance systems.

The Group calculates and reports the capital requirement for operational risk using the simple approach. The capital requirement for operational risk is calculated as the three-year average of the sum of net interest income and net non-interest income, minus extraordinary income, the result then multiplied with the weight of 15%. Using the said simple approach, the 2020 capital requirement for operational risk totalled EUR 3,956 thousand (2019: EUR 3,884 thousand. In 2020, the Group also calculated the capital requirement for information purposes using the standardised approach.

The Bank calculates and reports the capital requirement for operational risk using the simple approach. The capital requirement for operational risk is calculated as the three-year average of the sum of net interest income and net non-interest income, minus extraordinary income, the result then multiplied with the weight of 15%. Using the said simple approach, the Bank's 2020 capital requirement for operational risk totalled EUR 3,892 thousand (2019: EUR 3,813 thousand). In 2020, the Bank also calculated the capital requirement for information purposes using the standardised approach.

5.6. Capital management

In managing capital risk, the Group applies the Risk-taking and Risk Management Policy for Capital Risk. Capital risk management in the Group is a collaboration of:

- Management Board,
- Risk Committee,
- Supervisory Board,
- all commercial sections in the Group,
- Risk Management Section,
- Financial Management Section,
- various boards and committees (Asset and Liability Committee, Lending Committee, Non-performing Loans Committee, Real Estate Management Board).

With regard to capital risk management and in relation to policies of managing other inherent risks within the Group, the following is adopted and implemented where necessary:

- measures to increase the Group's regulatory capital,
- measures to reduce risk-adjusted items, including measures to improve the quality of credit and market portfolios,
- measures to improve the Group's risk profile, and
- measures to reduce the requirements regarding adequate regulatory capital.

To ensure appropriate capital risk management in accordance with the devised Restoration plan, the Group has laid down an array of quantitative indicators to monitor its operations and the related major risks in key areas that could affect its existence. To monitor capital risk, it has selected two indicators, the common equity tier 1 ratio (CET 1) and the OCR overall capital requirement ratio[1], whereas the level of financial leverage is also being monitored although not yet binding. The indicators are monitored monthly at the Bank's Asset and Liability Committee, and quarterly at the Bank's Management Board, the Risk Committee, and the Bank's Supervisory Board. The array of indicators with set limits has been laid down in the Restoration plan and also summarised in the Risk-taking and Risk Management Strategy.

Capital risk management at the Group level is also assessed once a year within the internal capital adequacy assessment process (ICAAP process).

Capital management is a continuous process of determining and maintaining the sufficient scope and quality of capital. The Group must always have at its disposal an adequate amount of capital and capital requirement ratios, which are stipulated by law and depend on the scope and type of services performed by the Group and on the risks the Group is exposed to. In determining the amount and categories of capital, the Group abides by statutory provisions related to capital as stipulated since 1 January 2014 by the Regulation (CRR), the Directive (CRD), EBA guidelines and requirements of the Bank of Slovenia, which the latter prescribes to the Group based on the annual SREP review.

The Group's regulatory capital consists of tier I and tier II capital. Under the Regulation, tier I capital consists of common equity tier I and additional tier I capital. The calculation of common equity tier 1 capital is based on: paid capital instruments meeting conditions for inclusion into common equity tier I, share premium, revenue reserves, retained earnings/loss, accumulated other comprehensive income, treasury shares, intangible assets, deferred tax assets associated with future returns and not arising out of temporary differences, as well as a special credit risk adjustment and an adjustment for prudent valuation of financial assets. The following constitute deductions from common equity tier 1 capital: loss, treasury shares, intangible assets, deferred tax assets associated with future returns and not arising out of temporary differences, special credit risk adjustment and adjustment for prudent valuation of financial assets.

The Group did not have additional tier I capital neither according to the balance as at 31 December 2020 nor as at 31 December 2019.

The Group's tier II capital consists of subordinated debt (subordinated liabilities with contractual maturities of 5 years and 1 day, or longer). The amount of subordinated debt included into tier II capital decreases on a straight-line basis over the final five years prior to maturity (i.e. prior to repayment).

Capital may never drop below the amount stipulated by the Regulation (EU) No 575/2013 and must always equal at least the sum of minimum capital requirements as stated in the Regulation.

The table below shows the calculation of the Group's and Bank's capital and capital requirement ratios.

[1] Overall capital requirement.

		Group DBS		DBS d. d.	
		2020	**2019**	**2020**	**2019**
COMMON EQUITY TIER I CAPITAL: INSTRUMENTS AND RESERVES					
1	Capital instruments and the related share premium	17,811	17,811	17,811	17,811
	of which: instrument type 1	17,811	17,811	17,811	17,811
2	Retained earnings and revenue reserves	15,097	14,378	15,097	14,378
3	Accumulated other comprehensive income and other reserves	30,600	30,593	30,598	30,587
4	**Common equity tier I capital before regulatory adjustments**	**63,508**	**62,782**	**63,505**	**62,776**
COMMON EQUITY TIER I CAPITAL: REGULATORY ADJUSTMENTS					
5	Additional fair value and credit risk adjustments	(35)	(434)	(41)	(427)
6	Intangible assets (deductions for associated tax liabilities)	(584)	(591)	(505)	(529)
7	Deferred tax assets associated with future profits and not arising out of temporary differences (deductions for associated tax liabilities if conditions from Article 38(3) are met)	(610)	(622)	(610)	(622)
8	Direct and indirect holdings in own common equity tier I capital instruments	(601)	(601)	(601)	(601)
9	Total regulatory adjustments to common equity tier I capital	(1,830)	(2,248)	(1,757)	(2,179)
10	Common equity tier I capital	61,678	60,535	61,749	60,597
11	**TIER I CAPITAL (common equity tier I + additional tier I)**	**61,678**	**60,535**	**61,749**	**60,597**
TIER II CAPITAL: INSTRUMENTS AND PROVISIONS					
12	Capital instruments and the related share premium account	2,954	4,179	2,954	4,179
13	Tier II capital before regulatory adjustments	2,954	4,179	2,954	4,179
14	**TIER II CAPITAL**	**2,954**	**4,179**	**2,954**	**4,179**
15	**TOTAL CAPITAL (tier I + tier II)**	**64,631**	**64,714**	**64,702**	**64,776**
16	Total risk-weighted assets	407,608	410,547	408,884	411,942
CAPITAL RATIOS AND CAPITAL BUFFERS					
17	**Common equity tier I capital** (in %)	**15.13**	**14.74**	**15.10**	**14.71**
18	**Tier I capital** (in %)	**15.13**	**14.74**	**15.10**	**14.71**
19	**Total capital** (in %)	**15.86**	**15.76**	**15.82**	**15.72**
20	Common equity tier I capital that qualifies as capital buffer (in %)	15.13	14.74	15.10	14.71
21	Institution-specific buffer requirement (in %)	2.500	2.500	2.500	2.500
22	of which: capital conservation buffer requirement (in %)	2.500	2.500	2.500	2.500
23	Direct and indirect equity holdings in financial sector entities where the institution does not have a significant investment (amount below 10% threshold, reduced by permitted short positions)	2,902	2,893	2,902	2,893
24	Direct and indirect equity holdings in common equity tier I capital instruments of financial sector entities where the institution has a significant investment (amount below 10% threshold, reduced by permitted short positions)	0	0	4,238	4,215
25	Deferred tax assets arising out of temporary differences (amount under 10% threshold, reduced by associated tax liabilities if conditions from Article 38(3) are met)	3,095	3,949	3,095	3,949

The Group's regulatory capital as at 31 December 2020 amounted to EUR 64,631 thousand, down EUR 83 thousand year-on-year. The quality of capital structure improved at the year-end of 2020 as compared to 2019, the share of equity tier I capital in the capital structure having increased to 95.4% (from 93.5% in 2019). Total capital requirements at Group level totalled EUR 32,609 thousand at the year-end of 2020, down EUR 235 thousand year-on-year. The Group's capital requirements for credit risk decreased mainly due to a decrease in the exposure to high-risk items and exposure to corporate customers. At the same time, in accordance with the adopted 2020 Strategy and Plan, the Group mainly increased exposure to retail banking and exposures secured by mortgages on immovable property. The overall capital requirement ratio (OCR) as at 31 December 2020 thus stood at 15.86%, up 0.10 of a percentage point year-on-year, and by 1.86 of a percentage point higher than what had been imposed by the Bank of Slovenia. Tier 1 capital ratio and common equity tier 1 ratio as at 31 December 2020 were 15.13%, up 0.39 of a percentage point year-on-year.

Given the Group's internal capital adequacy assessment established in the ICAAP process, the reported capital requirement ratio is considered appropriate for managing the risk of potential losses. The Group will continue to operate an adequate amount of capital to sustain its normal operations in the future. For 2020, the Bank of Slovenia imposed minimum capital requirement ratios for the Group on the basis of the SREP process: the OCR overall capital requirement ratio together with the P2G capital guideline[2] at 15%, of which 1% for the capital guideline (2019: 14%) and the TSCR capital requirement ratio[3] unchanged at 11.5% (the same as in 2019). At the year-end of 2020, the Group thus met all the capital requirement ratios imposed by the Bank of Slovenia.

Based on the SREP process, the Bank of Slovenia imposed minimum capital requirement ratios for the Group for 2021: the OCR overall capital requirement ratio together with the P2G capital guideline at 15% (of which 1% for the capital guideline), and the TSCR capital requirement ratio at 11.5%.

The Bank’s regulatory capital as at 31 December 2020 amounted to EUR 64,702 thousand, down EUR 74 thousand year-on-year. The quality of capital structure improved at the year-end of 2020 as compared to 2019, the share of tier I capital in the capital structure having increased to 95.4% (from 93.5% in 2019). Total capital requirements at the level of the Bank totalled EUR 32,711 thousand at the year-end of 2020, down EUR 245 thousand year-on-year.

The Bank’s capital requirements for credit risk decreased mainly due to a decrease in the exposure to high-risk items and exposure to corporate customers. At the same time, in accordance with the adopted 2020 Strategy and Plan, the Bank mainly increased exposure to retail banking and exposures secured by mortgages on immovable property.

The OCR overall capital requirement ratio as at 31 December 2020 thus stood at 15.82%, up 0.10 of a percentage point year-on-year. Tier 1 capital ratio and common equity tier 1 ratio as at 31 December 2020 were 15.10%, up 0.39 of a percentage point year-on-year.

As part of the SREP process, the Bank of Slovenia imposed no minimum capital requirement ratios for the Bank for 2020, but only imposed these ratios at the Group level.

As at 31 December 2020, the Bank's equity holdings in financial sector entities where it had a significant investment (100% of capital), were DBS Leasing d. o. o. and DBS Nepremičnine d. o. o. The equity investment in DBS Leasing totalled EUR 2,699 thousand as at 31 December 2020; consistent with Article 49(2) of the Regulation it was not deduced from capital, but was included in the calculation of the capital requirement for credit risk. The equity investment in DBS Nepremičnine d. o. o. totalled EUR 1,539 thousand as at 31 December 2020. Consistent with the provisions of Article 4(1) and 4(18) of the Regulation, DBS Nepremičnine d. o. o. is considered an ancillary services undertaking and therefore one of the financial sector entities under Article 4(1) and 4(27c) of the same. In the calculation of capital and capital requirements for credit risk, Article 49(2) of the Regulation applies to DBS Nepremičnine d. o. o. the same as to DBS Leasing d. o. o.

Under Regulation (EU) No 575/2013, the Bank also had a 100% investment in a qualified holding outside the financial sector: in DBS Adria d. o. o. with EUR 0 thousand following impairment. The investment was not included in prudential consolidation and was not deduced from capital due to Article 89 of the Regulation. Therefore, it was included in the calculation of the capital requirement for credit risk.

[2] Pillar 2 guidance.
[3] Total SREP capital requirement.

The table below shows the balancing of the Group's items of capital with its financial statements.

Code	Items	Prudential consolidation 2020	Inclusion into calculation of capital for the purpose of CA as at 31 December 2020	Note
1	Cash, balances at central banks, and sight deposits at banks	87,275		
2	Financial assets held for trading	88	0	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
3	Non-trading financial assets mandatorily measured at fair value through profit or loss	1,258	(1)	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
4	Financial assets measured at fair value through other comprehensive income	3,047	(3)	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
5	Financial assets measured at amortised cost	914,379		
	- Debt securities	149,112		
	- Loans to banks	206		
	- Loans to customers	762,940		
	- Other financial assets	2,121		
6	Tangible assets	33,619		
	- Property, plant and equipment	10,562		
	- Investment property	23,057		
7	Intangible assets	584	(584)	deduction item Article 36 b - fully
8	Income tax assets	3,938		
	- Current tax assets	233		
	- Deferred tax assets	3,705		
	Depending on future profitability and not arising out of temporary differences	610	(610)	deduction item Article 36 c - 100% of item's value during transitional period
	Depending on future profitability and arising out of temporary differences	3,095		
9	Other assets	1,212		
10	**TOTAL ASSETS** (from 1 to 9)	**1,045,400**		
11	Financial liabilities held for trading	24	0	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
12	Financial liabilities measured at amortised cost	973,728		
	- Deposits by banks and central banks	426		
	- Deposits by customers	966,730	2,388	included on the basis of Articles 62 and 63
	- Borrowings from banks and central banks	2,057	565	included on the basis of Articles 62 and 63
	- Other financial liabilities	4,515		
13	Provisions	2,383		
14	Income tax liabilities	35		
	- Current tax liabilities	30		
	- Deferred tax liabilities	5		
15	Other liabilities	1,044		
16	**TOTAL LIABILITIES** (from 11 to 15)	**977,214**		
17	Share capital	17,811	17,811	fully included; Article 26
18	Share premium	31,257	31,257	fully included; Article 26
19	Accumulated other comprehensive income	(657)	(657)	100% of unrealised losses included since 2018, Article 467
20	Revenue reserves	15,097	15,097	fully included; Article 26
21	Treasury shares	(601)	(601)	deduction item, Article 36 f - fully
22	Retained earnings (including profit/loss for the year)	5,279	5,279	conditions for inclusion not yet met
	Retained earnings	73		
	Profit for the period	5,206		
23	**EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** (from 17 to 22)	**68,186**	**64,662**	
24	TOTAL EQUITY (23)	68,186		
25	**TOTAL EQUITY AND LIABILITIES** (16 + 24)	**1,045,400**		
			64,662	**Regulatory capital (sum of capital from SFP)**
			(31)	deduction item Article 26(2) and Delegated Regulation No 183/2014
			64,631	**Regulatory capital**

The table below shows the balancing of the Bank's items of capital with its financial statements.

Code	Items	2020	Inclusion into calculation of capital for the purpose of CA as at 31 December 2020	Explanation from Regulation 575/2013
1	Cash, balances at central banks, and sight deposits at banks	87,275		
2	Financial assets held for trading	88	0	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
3	Non-trading financial assets mandatorily measured at fair value through profit or loss	1,258	(1)	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
4	Financial assets measured at fair value through other comprehensive income	3,047	(3)	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
5	Financial assets measured at amortised cost	911,581		
	- Debt securities	149,112		
	- Loans to banks	206		
	- Loans to customers	760,231		
	- Other financial assets	2,032		
6	Long-term equity participation in subsidiaries, associates and joint ventures	4,238	(4)	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
7	Tangible assets	32,028		
	- Property, plant and equipment	10,269		
	- Investment property	21,759		
8	Intangible assets	505	(505)	deduction item Article 36 b - fully
9	Income tax assets	3,938		
	- Current tax assets	233		
	- Deferred tax assets	3,705		
	Depending on future profitability and not arising out of temporary differences	610	(610)	deduction item Article 36 c - 100% of item's value during transitional period
	Depending on future profitability and arising out of temporary differences	3,095		
10	Other assets	1,174		
11	**TOTAL ASSETS** (from 1 to 10)	**1,045,132**		
12	Financial liabilities held for trading	24	0	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
13	Financial liabilities measured at amortised cost	973,933		
	- Deposits by banks and central banks	426		
	- Deposits by customers	966,969	2,388	included on the basis of Articles 62 and 63
	- Borrowings from banks and central banks	2,057	565	included on the basis of Articles 62 and 63
	- Other financial liabilities	4,481		
14	Provisions	2,360		
15	Income tax liabilities	34		
	- Current tax liabilities	29		
	- Deferred tax liabilities	5		
16	Other liabilities	878		
17	**TOTAL LIABILITIES** (from 12 to 16)	**977,229**		
18	Share capital	17,811	17,811	fully included; Article 26
19	Share premium	31,257	31,257	fully included; Article 26
20	Accumulated other comprehensive income	(660)	(660)	100% of unrealised losses included since 2018, Article 467
21	Revenue reserves	15,097	15,097	fully included; Article 26
22	Treasury shares	(601)	(601)	deduction item, Article 36 f - fully
23	Retained earnings (including profit/loss for the year)	4,999	4,999	conditions for inclusion not yet met
	Retained earnings	(53)		
	Profit for the period	5,052		
24	**TOTAL EQUITY** (from 18 to 23)	**67,903**		
25	**TOTAL EQUITY AND LIABILITIES** (17 + 24)	**1,045,132**	**64,734**	**Regulatory capital (sum of capital from SFP)**
			(32)	deduction item Article 26(2) and Delegated Regulation No 183/2014
			64,702	**Regulatory capital**

5.7. Asset encumbrance

(a) Assets

Group DBS

	2020				2019			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of non-encumbered assets	Fair value of non-encumbered assets	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of non-encumbered assets	Fair value of non-encumbered assets
Assets of the reporting institution	**12,617**	**-**	**1,032,783**	**-**	**62,172**	**-**	**955,988**	**-**
Sight deposits	0	-	83,462	-	0	-	89,725	-
Equities	0	0	3,110	3,110	0	0	3,041	3,041
Debt securities	2,617	2,617	146,495	153,127	2,732	2,732	115,025	120,336
Loans and other financial assets other than demand loans	10,000	-	753,916	-	59,440	-	697,606	-
Other assets	0	-	45,800	-	0	-	50,591	-

DBS d. d.

	2020				2019			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of non-encumbered assets	Fair value of non-encumbered assets	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of non-encumbered assets	Fair value of non-encumbered assets
Assets of the reporting institution	**12,617**	**-**	**1,032,515**	**-**	**62,172**	**-**	**955,766**	**-**
Sight deposits	0	-	83,462	-	0	-	89,725	-
Equities	0	0	3,110	3,110	0	0	3,041	3,041
Debt securities	2,617	2,617	146,495	153,127	2,732	2,732	115,025	120,336
Loans and other financial assets other than demand loans	10,000	-	751,118	-	59,440	-	695,081	-
Other assets	0	-	48,330	-	0	-	52,894	-

(b) Collateral received

Group DBS

	2020		2019	
	Fair value of encumbered collateral received or own debt securities issued	Fair value of received collateral or own debt securities issued available for encumbrance	Fair value of encumbered collateral received or own debt securities issued	Fair value of received collateral or own debt securities issued available for encumbrance
Collateral received by the reporting institution	**0**	**0**	**0**	**0**
Equity instruments	0	0	0	0
Debt securities	0	0	0	0
Loans and other financial assets other than demand loans	0	0	0	0
Other collateral received	0	0	0	0
Own debt securities issued other than own covered bonds or ABSs	**0**	**0**	**0**	**0**

DBS d. d.

	2020		2019	
	Fair value of encumbered collateral received or own debt securities issued	Fair value of received collateral or own debt securities issued available for encumbrance	Fair value of encumbered collateral received or own debt securities issued	Fair value of received collateral or own debt securities issued available for encumbrance
Collateral received by the reporting institution	**0**	**0**	**0**	**0**
Equity instruments	0	0	0	0
Debt securities	0	0	0	0
Loans and other financial assets other than demand loans	0	0	0	0
Other collateral received	0	0	0	0
Own debt securities issued other than own covered bonds or ABSs	**0**	**0**	**0**	**0**

(c) Encumbered assets/collateral received and related liabilities

Group DBS

	2020		2019	
	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	**0**	**0**	**49,440**	**49,440**

DBS d. d.

	2020		2019	
	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	**0**	**0**	**49,440**	**49,440**

(d) Information on the importance of encumbrance

The Group's encumbered assets include investments in debt securities measured at amortised cost and held to maturity, and non-marketable assets (loans to the state). According to the Decision on Liquid Investments for the Purpose of the Bank Resolution Fund (Official Gazette of the Republic of Slovenia, No. 6/15), a bank must have investments in financial instruments, the so-called liquid investments in the amount as determined for each bank by the Bank of Slovenia, to meet cash requirements for payments in the Bank Resolution Fund. The volume of formed investments for the purpose of the bank resolution fund for the Bank amounts to EUR 2,077 thousand. The purpose of the fund is to finance compulsory liquidation measures that may be imposed on the bank by the Bank of Slovenia. As at 31 December 2020, the encumbered assets for the needs of the bank resolution fund amount to EUR 2,617 thousand. In the case of non-marketable assets, the encumbered amount equals a credit line with the Bank of Slovenia in the amount of EUR 10,000 thousand. In 2020, the Bank has no encumbered funds under TLTRO (targeted longer-term refinancing operations of the ECB) due to early repayment of 25 March 2020.

5.8. Disclosures under the Decision on the application of the Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07)

Pursuant to the provisions of the EBA Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis, the Group discloses exposures subject to moratoria on payments as at 31 December 2020.

(a) Information on loans and advances subject to legislative and non-legislative moratoria

Group DBS

		a	b	c	d	e	f	g
		Gross carrying amount						
			Performing			Non performing		
				Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days
1	**Loans and advances subject to moratorium in line with EBA Guidelines**	**32,816**	**31,294**	**945**	**2,365**	**1,522**	**1,371**	**1,509**
2	of which: Households	10,039	**9,901**	155	544	**138**	0	138
3	of which: Collateralised by residential immovable property	5,377	**5,309**	0	257	**67**	0	67
4	of which: Non-financial corporations	22,777	**21,393**	790	1,821	**1,384**	1,371	1,371
5	of which: Small and Medium-sized Enterprises	19,431	**18,047**	790	1,782	**1,384**	1,371	1,371
6	of which: Collateralised by commercial immovable property	19,894	**18,510**	521	1,346	**1,384**	1,371	1,371

Group DBS

		h	i	j	k	l	m	n	o
		Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount
			Performing			Non performing			
				Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	Inflows to non-performing exposures
1	**Loans and advances subject to moratorium in line with EBA Guidelines**	**(1,283)**	**(738)**	**(175)**	**(287)**	**(545)**	**(470)**	**(545)**	**0**
2	of which: Households	(139)	**(64)**	(3)	(29)	**(75)**	0	(75)	0
3	of which: Collateralised by residential immovable property	(42)	**(38)**	0	(21)	**(3)**	0	(3)	0
4	of which: Non-financial corporations	(1,144)	**(674)**	(172)	(257)	**(470)**	(470)	(470)	0
5	of which: Small and Medium-sized Enterprises	(1,057)	**(586)**	(172)	(247)	**(470)**	(470)	(470)	0
6	of which: Collateralised by commercial immovable property	(1,003)	**(532)**	(103)	(169)	**(470)**	(470)	(470)	0

(b) Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria

Group DBS

		a	b	c	d	e	f	g	h	i
			Gross carrying amountt							
						Residual maturity of moratoria				
		Number of obligors		Of which: legislative moratoria	Of which: expired	<= 3 months	> 3 months ≤ = 6 months	> 6 months ≤ = 9 months	> 9 months ≤ = 12 months	> 1 year
1	Loans and advances for which moratorium was offered	301	**49,706**	-	-	-	-	-	-	-
2	**Loans and advances subject to moratorium (granted)**	**228**	**35,117**	**35,117**	**2,301**	**13,043**	**18,109**	**303**	**1,361**	**0**
3	of which: Households	-	**11,188**	11,188	1,149	4,069	4,912	303	756	0
4	of which: Collateralised by residential immovable property	-	**6,078**	6,078	702	1,692	3,235	0	450	0
5	of which: Non-financial corporations	-	**23,929**	23,929	1,152	8,974	13,198	0	605	0
6	of which: Small and Medium-sized Enterprises	-	**20,583**	20,583	1,152	8,835	9,991	0	605	0
7	of which: Collateralised by commercial immovable property	-	**21,046**	21,046	1,152	7,508	11,781	0	605	0

(c) Information on newly originated loans and advances subject to public guarantee schemes introduced in response to the COVID-19 crisis

Group DBS

		a	b	c	d
		Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
			of which: forborne	Public guarantees received	Inflows to non-performing exposures
1	**Newly originated loans and advances subject to public guarantee schemes**	0	0	0	0
2	of which: Households	0	-	-	0
3	of which: Collateralised by residential immovable property	0	-	-	0
4	of which: Non-financial corporations	0	0	0	0
5	of which: Small and Medium-sized Enterprises	0	-	-	0
6	of which: Collateralised by commercial immovable property	0	-	-	0

5.9. Impacts of COVID-19 on the Group's operations in 2020

In 2020, the Group paid close attention to the situation related to the epidemic and the risks arising from it. It carefully monitored and complied with the legislative framework, i.e. legal requirements for approving moratoria in accordance with the Act Determining the Intervention Measure of Deferred Payment of Borrowers' Liabilities, the Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy and its Amendments, and the Bank of Slovenia and EBA guidelines in accordance with EBA/GL/2020/02. According to the former Act, in 2020, the Bank granted a moratorium on 228 debtors in the total amount of EUR 6,342 thousand.

We estimate that the impact of the epidemic on the Bank's operations in 2020 was limited. As the branches were closed, we find that there was a decrease in fee and commission income from payment transactions, and as a result, non-interest income decreased by EUR 246 thousand. The epidemic also had an additional impact on costs, as the Bank incurred EUR 30 thousand in costs related to the purchase of disinfectants and masks, as well as marketing and security, due to measures against COVID-19. Computer equipment was purchased in the amount of EUR 61 thousand and recorded under fixed assets; it was required to establish the possibility of working from home to ensure the smooth operation of the Bank. As part of labour costs, the costs of crisis allowance and other salary compensations paid on the basis of intervention legislation to contain the COVID-19 epidemic were also recognised. For 2020, these amounted to EUR 56 thousand for the Group and EUR 39 thousand for the Bank. Based on the legislation to contain the COVID-19 epidemic, the costs were reimbursed and were recognised among other operating revenues, so there were no effects on the operating result.

The formation of additional group impairments had a greater impact on the Bank's operations. In accordance with IFRS 9, the Bank must take into account forward-looking information when forming impairments. Thus, in July 2020, on the basis of IMAD's Summer Forecast of Economic Trends, it formed additional group impairments in the amount of EUR 2,432 thousand, of which the effect on the corporate portfolio was EUR 2,386 thousand of additional impairments and EUR 46 thousand on the retail portfolio. IMAD also published the Autumn and Winter Forecast of Economic Trends, and although both were more optimistic than the Summer Forecast of Economic Trends, we maintained the parameters calculated on the basis of the 2020 Summer Forecast under the precautionary principle and, consequently, higher impairments.

RISK AND CAPITAL MANAGEMENT (disclosures under Pillar 3 of the Basel Accord)

CONTENTS

1. INTRODUCTION

European banks have to disclose many types of information to enable stakeholders a more precise estimate of the risks the banks are exposed to in their operations. Part 8 of the Regulation on Prudential Requirements for Credit Institutions and Investment Firms (Regulation (EU) No 575/2013) provides minimum disclosure requirements for information concerning risk management and capital requirements, and it is directly binding for all member states. Some disclosure requirements do not apply to the Group – because they refer to different approaches to calculating capital requirements, or because they refer to lines of business not conducted by the Group – and therefore they are not included in this report.

In calculating its regulatory capital requirements, the Group uses the following approaches:
- credit risk – standardised approach,
- market risk – standardised approach,
- operational risk – simple approach.

2. SCOPE OF APPLICATION

Pursuant to the capital requirements legislation, the Group has to disclose information about its risk and capital management on a consolidated basis. Calculations at Group level are based on prudential consolidation, which includes DBS d. d. and the subsidiaries DBS Leasing d. o. o. and DBS Nepremičnine d. o. o. Subsidiaries are included in prudential consolidation using the full consolidation method.

Consolidation for accounting purposes includes DBS d. d., DBS Leasing d. o. o., DBS Nepremičnine d. o. o., and DBS Adria d. o. o.

The table below contains a list of Group companies, their main features and the method of consolidation. More on individual companies is available in the Business Report of the Annual Report under section IV.

Subsidiaries	Business activity	Group's share of voting rights	Registered office	Consolidation method for financial reporting	Prudential consolidation method
DBS Leasing d. o. o.	Finance	100%	Republic of Slovenia	Full	Full
DBS Nepremičnine d. o. o.	Buying and selling of own real estate	100%	Republic of Slovenia	Full	Full
DBS Adria d. o. o.	Management of real estate	100%	Republic of Croatia	Full	-

Group statement of financial position as at 31 December 2020 – comparison of consolidation for accounting purposes, and prudential consolidation

Code	Items	Accounting consolidation		Prudential consolidation		Difference between accounting and prudential consolidation	
		2020	2019*	2020	2019	2020	2019
1	Cash, balances at central banks, and sight deposits at banks	87,281	98,951	87,275	98,944	6	7
2	Financial assets held for trading	88	110	88	110	0	0
3	Non-trading financial assets mandatorily measured at fair value through profit or loss	1,258	1,562	1,258	1,562	0	0
4	Financial assets measured at fair value through other comprehensive income	3,047	3,041	3,047	3,041	0	0
5	Financial assets measured at amortised cost	914,200	874,601	914,379	875,624	(179)	(1,023)
	- Debt securities	149,112	117,757	149,112	117,757	0	0
	- Loans to banks	206	6,618	206	6,618	0	0
	- Loans to customers	762,761	747,012	762,940	748,035	(179)	(1,023)
	- Other financial assets	2,121	3,214	2,121	3,214	0	0
	Long-term equity participation in subsidiaries, associates and joint ventures	-	-	0	0	0	0
6	Tangible assets	33,619	28,715	33,619	28,715	0	0
	- Property, plant and equipment	10,562	11,475	10,562	11,475	0	0
	- Investment property	23,057	17,240	23,057	17,240	0	0
7	Intangible assets	584	591	584	591	0	0
8	Income tax assets	3,938	5,306	3,938	5,306	0	0
	- Current tax assets	233	528	233	528	0	0
	- Deferred tax assets	3,705	4,778	3,705	4,778	0	0
9	Other assets	1,212	3,444	1,212	3,443	0	1
10	Non-current assets held for sale, and discontinued operations	153	26,059	0	824	153	25,235
11	**TOTAL ASSETS** (from 1 to 10)	**1,045,380**	**1,042,380**	**1,045,400**	**1,018,160**	**(20)**	**24,220**
12	Financial liabilities held for trading	24	110	24	110	0	0
13	Financial liabilities measured at amortised cost	973,728	951,010	973,728	951,064	0	(54)
	- Deposits by banks and central banks	426	339	426	339	0	0
	- Deposits by customers	966,730	894,724	966,730	894,769	0	(45)
	- Borrowings from banks and central banks	2,057	51,498	2,057	51,498	0	0
	- Other financial liabilities	4,515	4,449	4,515	4,458	0	(9)
14	Provisions	2,383	1,753	2,383	2,215	0	(462)
15	Income tax liabilities	35	76	35	76	0	0
	- Current tax liabilities	30	73	30	73	0	0
	- Deferred tax liabilities	5	3	5	3	0	0
16	Other liabilities	1,044	1,695	1,044	1,695	0	0
17	Liabilities relating to non-current assets held for sale and discontinued operations	0	22,932	0	0	0	22,932
18	**TOTAL LIABILITIES** (from 12 to 17)	**977,214**	**977,576**	**977,214**	**955,160**	**0**	**22,416**
19	Share capital	17,811	17,811	17,811	17,811	0	0
20	Share premium	31,257	31,257	31,257	31,257	0	0
21	Accumulated other comprehensive income	(657)	(752)	(657)	(664)	0	(88)
22	Revenue reserves	15,097	14,378	15,097	14,378	0	0
23	Treasury shares	(601)	(601)	(601)	(601)	0	0
24	Retained earnings (including profit/loss for the year)	5,259	2,711	5,279	819	(20)	1,892
25	**EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** (from 19 to 24)	**68,166**	**64,804**	**68,186**	**63,000**	**(20)**	**1,804**
26	TOTAL EQUITY (25)	68,166	64,804	68,186	63,000	(20)	1,804
27	**TOTAL EQUITY AND LIABILITIES** (18 + 26)	**1,045,380**	**1,042,380**	**1,045,400**	**1,018,160**	**(20)**	**24,220**

* Consolidated financial statements taking into account the error correction as at 1 Jan 2019.

Group income statement as at 31 December 2020 – comparison of consolidation for accounting purposes, and prudential consolidation

Code	Items	Accounting consolidation		Prudential consolidation		Difference between accounting and prudential consolidation	
		1-12 2020	1-12 2019	1-12 2020	1-12 2019	1-12 2020	1-12 2019
1	Interest income	17,525	18,921	17,567	18,979	(42)	(58)
2	Interest expense	(973)	(1,647)	(973)	(1,648)	0	1
3	**Net interest income** (1 + 2)	**16,552**	**17,274**	**16,594**	**17,331**	**(42)**	**(57)**
4	Dividends	26	29	26	29	0	0
5	Fee (commission) income	9,996	10,153	10,003	10,176	(7)	(23)
6	Fee (commission) expense	(1,917)	(1,964)	(1,916)	(1,964)	(1)	0
7	**Net fee (commission) income** (5 + 6)	**8,079**	**8,189**	**8,087**	**8,212**	**(8)**	**(23)**
8	Realised gains/losses from financial assets and liabilities not measured at fair value through profit or loss	221	895	224	895	(3)	0
9	Net gains/losses from financial assets and liabilities held for trading	138	164	138	164	0	0
10	Net gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	25	0	25	0	0	0
11	Foreign exchange translation	(2)	3	0	4	(2)	(1)
12	Net gains/losses on derecognition of assets	447	673	447	673	0	0
13	Other net operating gains/losses	1,027	840	1,042	906	(15)	(66)
14	Administrative expenses	(17,801)	(17,794)	(17,799)	(17,802)	(2)	8
15	Cash contributions to resolution funds and deposit guarantee schemes	(1,287)	(1,324)	(1,287)	(1,324)	0	0
16	Depreciation and amortisation	(1,375)	(1,466)	(1,375)	(1,466)	0	0
17	Provisions	(292)	(60)	(164)	(38)	(128)	(22)
18	Impairment charge	39	(3,121)	392	(6,697)	(353)	3,576
19	Net gains/losses from non-current assets held for sale and related liabilities	(2,063)	12	23	12	(2,086)	0
20	**PROFIT/LOSS FROM CONTINUOUS OPERATIONS BEFORE TAX** (3 + 4 + sum (7 to 19))	**3,734**	**4,314**	**6,373**	**899**	**(2,639)**	**3,415**
21	Tax	(1,140)	(197)	(1,140)	(193)	0	(4)
22	**PROFIT/LOSS FROM CONTINUOUS OPERATIONS AFTER TAX** (20 + 21)	**2,594**	**4,117**	**5,233**	**706**	**(2,639)**	**3,411**
23	Profit/loss from discontinued operations, net of tax	724	(2,861)	0	0	724	(2,861)
24	**PROFIT/LOSS FOR THE YEAR** (22 + 23)	**3,318**	**1,256**	**5,233**	**706**	**(1,915)**	**550**

3. CAPITAL

3.1. The Group's capital adequacy

Pursuant to Regulation (EU) No 575/2013 (Article 492.2), the Group has to disclose three different capital requirement ratios, the minimum values of which[4] are the following:

- common equity tier 1 ratio: 4.5%, or 7% with the capital conservation buffer,
- tier 1 capital ratio: 6%, and
- OCR overall capital requirement ratio: 8%.

Pursuant to Article 437 (d) (e) of the Regulation, elements of capital are presented in the form stipulated by the EBA Implementing Technical Standard, published as Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2014, along with the realised capital requirement ratios.

[4] The supervisory authority has the discretionary power to impose, in the context of the SREP process, on a bank or banking group higher target values of capital requirement ratios.

The Group calculates capital and capital requirement ratios pursuant to the legislation. In 2020, the common equity tier 1 ratio, the tier 1 capital ratio and the OCR overall capital requirement ratio improved compared to 2019. The Group also met all requirements imposed by the Bank of Slovenia for 2020 in the context of the Supervisory Review and Evaluation Process (SREP).

Based on the SREP process, the Bank of Slovenia imposed minimum capital requirement ratios for the Group for 2021: the OCR overall capital requirement ratio together with the P2G capital guideline at 15% (of which 1% for the capital guideline), and the TSCR capital requirement ratio at 11.5%.

Elements of regulatory capital and capital requirements:

		2020	2019	Reference to articles in Regulation (EU) 575/2013
COMMON EQUITY TIER I CAPITAL: INSTRUMENTS AND RESERVES				
1	Capital instruments and the related share premium account	17,811	17,811	26(1), 27, 28, 29, 26(3), EBA list
	of which: instrument type 1	17,811	17,811	26(3), EBA list
2	Retained earnings and revenue reserves	15,097	14,378	26(1)(c)
3	Accumulated other comprehensive income and other reserves	30,600	30,593	26(1)
4	**Common equity tier I capital before regulatory adjustments**	**63,508**	**62,782**	
COMMON EQUITY TIER I CAPITAL: REGULATORY ADJUSTMENTS				
5	Additional fair value and credit risk adjustments	(35)	(434)	26(2), 34, 105, Delegated Regulation 183/2014
6	Intangible assets (deductions for associated tax liabilities)	(584)	(591)	36(1)(b), 37, 472(4)
7	Deferred tax assets associated with future profits and not arising out of temporary differences (deductions for associated tax liabilities if conditions from Article 38(3) are met)	(610)	(622)	36(1)(c), 38, 472(5)
8	Direct and indirect holdings in own common equity tier I capital instruments	(601)	(601)	36(1)(f), 42, 472(8)
9	Total regulatory adjustments to common equity tier I capital	(1,830)	(2,248)	
10	Common equity tier I capital	61,678	60,535	
11	**TIER I CAPITAL (common equity tier I + additional tier I)**	**61,678**	**60,535**	
TIER II CAPITAL: INSTRUMENTS AND PROVISIONS				
12	Capital instruments and the related share premium account	2,954	4,179	62, 63
13	Tier II capital before regulatory adjustments	2,954	4,179	62, 63
14	**TIER II CAPITAL**	**2,954**	**4,179**	
15	**TOTAL CAPITAL (tier I + tier II)**	**64,631**	**64,714**	
16	Total risk-weighted assets	407,608	410,547	
CAPITAL RATIOS AND CAPITAL BUFFERS				
17	**Common equity tier I capital** (in %)	**15.13**	**14.74**	
18	**Tier I capital** (in %)	**15.13**	**14.74**	
19	**Total capital** (in %)	**15.86**	**15.76**	
20	Common equity tier I capital that qualifies as capital buffer (in %)	15.13	14.74	
21	Institution-specific buffer requirement	2.500	2.500	440
22	of which: capital conservation buffer requirement	2.500	2.500	440
23	Direct and indirect equity holdings in financial sector entities where the institution does not have a significant investment (amount below 10% threshold, reduced by permitted short positions)	2,902	2,893	36(1)(h), 45, 46, 472(10), 56(c), 59, 60, 475(4), 66(c), 69, 70, 477(4)
24	Deferred tax assets arising out of temporary differences (amount under 10% threshold, reduced by associated tax liabilities if conditions from Article 38(3) are met)	3,095	3,949	36(1)(c), 38, 48, 470, 472(5)

3.2. Reconciliation of regulatory capital to financial statements

Regulatory capital and capital adequacy ratios are calculated using data from the Group's financial statements. Disclosure on the reconciliation of regulatory capital to the balance sheet was prepared according to Articles 437 (a) (f) and 447 (e) of the Regulation (EU) No 575/2013. The Group's capital consists of the majority of capital items from the statement of financial position, and subordinated debt, and it is additionally lowered by deduction items. The table below shows the proportions of individual items that are included in the calculation of regulatory capital.

Reconciliation of statement of financial position items with regulatory capital for the purpose of the Group's capital adequacy as at 31 December 2020

Code	Items	Prudential consolidation 2020	Inclusion into calculation of capital for the purpose of CA as at 31 December 2020	Note
1	Cash, balances at central banks, and sight deposits at banks	87,275		
2	Financial assets held for trading	88	0	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
3	Non-trading financial assets mandatorily measured at fair value through profit or loss	1,258	(1)	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
4	Financial assets measured at fair value through other comprehensive income	3,047	(3)	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
5	Loans and advances	914,379		
	Held-to-maturity investments	149,112		
	- Loans and advances to banks	206		
	- Loans and advances to customers	762,940		
	- Other financial assets	2,121		
6	Tangible assets	33,619		
	- Property, plant and equipment	10,562		
	- Investment property	23,057		
7	Intangible assets	584	(584)	deduction item Article 36 b - fully
8	Income tax assets	3,938		
	- Current tax assets	233		
	- Deferred tax assets	3,705		
	Depending on future profitability and not arising out of temporary differences	610	(610)	deduction item Article 36 c - 100% of item's value during transitional period
	Depending on future profitability and arising out of temporary differences	3,095		
9	Other assets	1,212		
10	**TOTAL ASSETS** (from 1 to 9)	**1,045,400**		
11	Financial liabilities held for trading	24	0	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
12	Financial liabilities measured at amortised cost	973,728		
	- Deposits by banks and central banks	426		
	- Deposits by customers	966,730	2,388	included on the basis of Articles 62 and 63
	- Borrowings from banks and central banks	2,057	565	included on the basis of Articles 62 and 63
	- Other financial liabilities	4,515		
13	Provisions	2,383		
14	Income tax liabilities	35		
	- Current tax liabilities	30		
	- Deferred tax liabilities	5		
15	Other liabilities	1,044		
16	**TOTAL LIABILITIES** (from 11 to 16)	**977,214**		
17	Share capital	17,811	17,811	fully included; Article 26
18	Share premium	31,257	31,257	fully included; Article 26
19	Accumulated other comprehensive income	(657)	(657)	100% of unrealised losses included since 2018, Article 467
20	Revenue reserves	15,097	15,097	fully included; Article 26
21	Treasury shares	(601)	(601)	deduction item, Article 36 f - fully
22	Retained earnings (including profit/loss for the year)	5,279	5,279	conditions for inclusion not yet met
	Retained earnings	113		
	Profit for the period	5,233		
23	**EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** (from 17 to 22)	**68,186**	**64,662**	
24	TOTAL EQUITY (23)	68,186		
25	**TOTAL EQUITY AND LIABILITIES** (16 + 24)	**1,045,400**		
			64,662	**Regulatory capital (sum of capital from SFP)**
			(31)	deduction item Article 26(2) and Delegated Regulation No 183/2014
			64,631	**Regulatory capital**

3.3. Detailed presentation of regulatory capital items

Pursuant to Article 437 (d) (e) of the Regulation (EU) No 575/2013, this is a detailed presentation of regulatory capital items. The form of presentation is stipulated by the EBA Implementing Technical Standard published as Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2014 (Annex VI – Transitional own funds disclosure template).

Differences between capital for accounting purposes, and capital in the calculation of the Group's capital adequacy as at 31 December 2020

Item in statement of financial position			Item in calculation of regulatory capital
Share capital	17,811	17,811	Paid capital instruments
Share premium	31,257	31,257	Share premium
Accumulated other comprehensive income	(657)	(657)	Accumulated other comprehensive income
Revenue reserves, including retained earning	15,097	15,097	Reserves and retained earnings
Treasury shares	(601)	(601)	Treasury shares
Net profit for the year	5,233	0	Net profit for the year
		(610)	Deferred tax assets associated with future profits and not arising out of temporary differences
		(584)	Intangible assets
		(31)	Special credit risk adjustments
		(4)	Prudent valuation of financial assets in the banking and trading book
		61,678	**Common equity tier I (CET 1)**
		0	Additinal tier I (AT 1)
		61,678	**Total tier I**
		2,954	Tier II (T2)
Total capital for accounting purposes	**68,140**	**64,631**	**Total regulatory capital**

3.4. Capital instruments included in capital

In 2020 the Bank's regulatory capital consisted of common equity tier I capital and capital instruments that met the criteria for inclusion into tier II capital, for which the Bank obtained the relevant decisions from the Bank of Slovenia. As at 31 December 2020, the Bank had no capital instruments meeting the criteria for inclusion into additional tier I capital. Tables below show the main features of capital instruments included into tier I and tier II capital, pursuant to Article 437 (b) (c) of Regulation (EU) No 575/2013.

The table below shows the main features of the Group's and Bank's ordinary shares.

Main features of tier I capital	
Issuer	DEŽELNA BANKA SLOVENIJE d. d., Ljubljana
Unique identifier (CUSIP, ISIN or Bloomberg code)	SZBR; ISIN SI0021110083
Legislation governing instrument	Slovene
Regulatory treatment	
Transitional CRR rules	Common equity tier I
Post-transitional CRR rules	Common equity tier I
Eligible at solo / (sub)consolidated basis	Solo and consolidated
Instrument type (types specified by individual jurisdiction)	Ordinary shares
Amount recognised in regulatory capital (as at the last reporting date)	Paid capital: EUR 17,811 thousand
Nominal amount of instrument	Par value shares; no.: 4,268,248
Issue price	NA
Redemption price	NA
Accounting classification	Shareholders' equity
Original date of issuance	16 April 1990 (Bank's entry in court register)
Perpetual or dated	Perpetual
Original maturity date	No maturity
Issuer call subject to prior supervisory approval	No
Optional call date, contingent call dates and redemption amount	NA
Subsequent call dates, if applicable	NA
Coupons / dividends	
Fixed or variable dividend / coupon interest rate	Dividend
Coupon interest rate and any related index	NA
Possibility of unpaid earnings	Yes
Fully discretionary, partially discretionary or mandatory (in terms of timing)	NA
Fully discretionary, partially discretionary or mandatory (in terms of amount)	NA
Existence of step up or other incentive to redeem	Yes
Noncumulative or cumulative	NA
Convertible or non-convertible	NA
If convertible, conversion trigger(s)	NA
If convertible, fully or partially	NA
If convertible, conversion rate	NA
If convertible, mandatory or optional conversion	NA
If convertible, specify instrument type convertible into	NA
If convertible, specify issuer of instrument it converts into	NA
Write-down features	No
If write-down, write-down trigger(s)	NA
If write-down, full or partial	NA
If write-down, permanent or temporary	NA
If temporary write-down, description of write-down mechanism	NA
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	First instrument to cover loss subordinated to all other instruments
Non-compliant transitioned features	No
If yes, specify non-compliant features	NA

Enter "NA" if not applicable.

The main features of the Group's tier II capital are presented in the following three tables. It is included in the calculation of regulatory capital on the date of maturity stipulated in the contracts.

Tier II capital paid in 2015 with date of maturity 30 September 2021

Main features of tier II capital	
Issuer	DEŽELNA BANKA SLOVENIJE d. d., Ljubljana
Unique identifier (CUSIP, ISIN or Bloomberg code)	NA
Legislation governing instrument	Slovene
Regulatory treatment	
Transitional CRR rules	Tier II capital
Post-transitional CRR rules	Tier II capital
Eligible at solo / (sub)consolidated basis	Solo and consolidated
Instrument type (types specified by individual jurisdiction)	EU 575/2013, Article 63
Amount recognised in regulatory capital (as at the last reporting date)	Tier II capital instruments
Nominal amount of instrument	EUR 150 thousand
Issue price	NA
Redemption price	NA
Accounting classification	Subordinated liabilities
Original date of issuance	29 September 2015
Perpetual or dated	Dated
Original maturity date	30 September 2021
Issuer call subject to prior supervisory approval	No
Optional call date, contingent call dates and redemption amount	NA
Subsequent call dates, if applicable	NA
Coupons / dividends	
Fixed or variable dividend / coupon interest rate	4.70%
Coupon interest rate and any related index	NA
Possibility of unpaid earnings	NA
Fully discretionary, partially discretionary or mandatory (in terms of timing)	NA
Fully discretionary, partially discretionary or mandatory (in terms of amount)	NA
Existence of step up or other incentive to redeem	No
Noncumulative or cumulative	NA
Convertible or non-convertible	Non-convertible
If convertible, conversion trigger(s)	NA
If convertible, fully or partially	NA
If convertible, conversion rate	NA
If convertible, mandatory or optional conversion	NA
If convertible, specify instrument type convertible into	NA
If convertible, specify issuer of instrument it converts into	NA
Write-down features	No
If write-down, write-down trigger(s)	NA
If write-down, full or partial	NA
If write-down, permanent or temporary	NA
If temporary write-down, description of write-down mechanism	NA
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to all unsubordinated creditors
Non-compliant transitioned features	No
If yes, specify non-compliant features	NA

Enter "NA" if not applicable.

Tier II capital paid in 2015 with date of maturity 30 September 2022

Main features of tier II capital	
Issuer	DEŽELNA BANKA SLOVENIJE d. d., Ljubljana
Unique identifier (CUSIP, ISIN or Bloomberg code)	NA
Legislation governing instrument	Slovene
Regulatory treatment	
Transitional CRR rules	Tier II capital
Post-transitional CRR rules	Tier II capital
Eligible at solo / (sub)consolidated basis	Solo and consolidated
Instrument type (types specified by individual jurisdiction)	EU 575/2013, Article 63
Amount recognised in regulatory capital (as at the last reporting date)	Tier II capital instruments
Nominal amount of instrument	EUR 2,000 thousand / EUR 1,300 thousand
Issue price	NA
Redemption price	NA
Accounting classification	Subordinated liabilities
Original date of issuance	29 May 2015 / 29 September 2015
Perpetual or dated	Dated
Original maturity date	31 May 2020 / 30 September 2022
Issuer call subject to prior supervisory approval	No
Optional call date, contingent call dates and redemption amount	NA
Subsequent call dates, if applicable	NA
Coupons / dividends	
Fixed or variable dividend / coupon interest rate	6-month Euribor + 6% / 6.00%
Coupon interest rate and any related index	NA
Possibility of unpaid earnings	NA
Fully discretionary, partially discretionary or mandatory (in terms of timing)	NA
Fully discretionary, partially discretionary or mandatory (in terms of amount)	NA
Existence of step up or other incentive to redeem	No
Noncumulative or cumulative	NA
Convertible or non-convertible	Non-convertible
If convertible, conversion trigger(s)	NA
If convertible, fully or partially	NA
If convertible, conversion rate	NA
If convertible, mandatory or optional conversion	NA
If convertible, specify instrument type convertible into	NA
If convertible, specify issuer of instrument it converts into	NA
Write-down features	No
If write-down, write-down trigger(s)	NA
If write-down, full or partial	NA
If write-down, permanent or temporary	NA
If temporary write-down, description of write-down mechanism	NA
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to all unsubordinated creditors
Non-compliant transitioned features	No
If yes, specify non-compliant features	NA

Enter "NA" if not applicable.

Tier II capital paid in 2015 with date of maturity 10 October 2025

Main features of tier II capital	
Issuer	DEŽELNA BANKA SLOVENIJE d. d., Ljubljana
Unique identifier (CUSIP, ISIN or Bloomberg code)	NA
Legislation governing instrument	Slovene
Regulatory treatment	
Transitional CRR rules	Tier II capital
Post-transitional CRR rules	Tier II capital
Eligible at solo / (sub)consolidated basis	Solo and consolidated
Instrument type (types specified by individual jurisdiction)	EU 575/2013, Article 63
Amount recognised in regulatory capital (as at the last reporting date)	Tier II capital instruments
Nominal amount of instrument	EUR 2,000 thousand
Issue price	NA
Redemption price	NA
Accounting classification	Subordinated liabilities
Original date of issuance	9 October 2015
Perpetual or dated	Dated
Original maturity date	10 October 2025
Issuer call subject to prior supervisory approval	No
Optional call date, contingent call dates and redemption amount	NA
Subsequent call dates, if applicable	NA
Coupons / dividends	
Fixed or variable dividend / coupon interest rate	6.00%
Coupon interest rate and any related index	NA
Possibility of unpaid earnings	NA
Fully discretionary, partially discretionary or mandatory (in terms of timing)	NA
Fully discretionary, partially discretionary or mandatory (in terms of amount)	NA
Existence of step up or other incentive to redeem	No
Noncumulative or cumulative	NA
Convertible or non-convertible	Non-convertible
If convertible, conversion trigger(s)	NA
If convertible, fully or partially	NA
If convertible, conversion rate	NA
If convertible, mandatory or optional conversion	NA
If convertible, specify instrument type convertible into	NA
If convertible, specify issuer of instrument it converts into	NA
Write-down features	No
If write-down, write-down trigger(s)	NA
If write-down, full or partial	NA
If write-down, permanent or temporary	NA
If temporary write-down, description of write-down mechanism	NA
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to all unsubordinated creditors
Non-compliant transitioned features	No
If yes, specify non-compliant features	NA

Enter "NA" if not applicable.

4. CAPITAL BUFFERS

Disclosure details for capital buffers are laid down in Article 440 (a) (b) of Regulation (EU) No 575/2013 and in Commission Delegated Regulation (EU) No 1555/2015. EU capital requirements legislation introduced already in 2016 a system of capital buffers, which represent an additional requirement in determining the amount of regulatory capital. In addition to the requirements imposed to mitigate risks of Pillars 1 and 2 of the Basel Accord, banks' top quality capital – common equity tier I – must now also meet the capital buffer requirements.

(a) Capital conservation buffer

In 2020, the Group had to meet the capital conservation buffer in full, i.e. 2.50% (2019: also 2.50%), with common equity tier I capital as imposed by the Bank of Slovenia.

(b) Countercyclical capital buffer

The Bank of Slovenia also introduced the countercyclical capital buffer in 2016. Commission Delegated Regulation (EU) No 2015/155 of 28 May 2015 stipulates the form of templates for disclosures in the annual report. The objective of the countercyclical capital buffer is to provide a buffer of capital to banks in periods of excess aggregate credit growth, which they can use in stress periods and periods of unfavourable lending conditions. When the defined buffer rate is higher than 0%, or when the set rate is raised, the new buffer rate enters into use 12 months after the announcement. Buffer rate values can range between 0% and 2.5% of the total amount of risk exposure. The value of the buffer for exposures in Slovenia, effective since 1 January 2017, is 0%. In defining the buffer rate, the Bank of Slovenia followed the methodology of the Basel Committee on Banking Supervision (BCBS) and the European Systemic Risk Board (ESRB), and used an assessment of the credit cycle status in Slovenia. Buffer rates for exposures in other countries of the European Economic Area are listed on the ESRB website, where they are updated quarterly. Buffer rates for credit exposures in countries not listed on the ESRB website and not defined by the Bank of Slovenia or a competent authority in the relevant country, are 0%.

Regulatory disclosures on the geographical distribution of credit exposures subject to the countercyclical buffer, capital requirements and levels of the bank-specific countercyclical buffer have to be made on a quarterly basis. The information has to be publicly disclosed at least once a year in the annual report, the obligation effective from 1 January 2016.

The calculation of the bank-specific countercyclical buffer requirement is done on an individual and consolidated basis: the bank geographically distributes credit exposures subject to the calculation of capital requirements for credit risk according to the standardised approach, and determines specific risk or default risk, and migrations of exposure from the trading book and capital requirements under securitisation.

The bank-specific countercyclical capital buffer rate consists of the weighted average countercyclical capital buffer rates used in countries in which the institution has the relevant credit exposure.

The table below shows the geographical distribution of credit exposures used in the computation of the countercyclical buffer for the Group in 2020.

	General credit exposures		Trading book exposure		Securitisation exposure		Capital requirements					
	Exposure value for SA	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securiti-sation exposures	Total	Capital re-quirements weights	Countercyclical capital buffer rate
Breakdown by country	010	020	030	040	050	060	070	080	090	100	110	120
BELGIUM	5	0	0	0	0	0	0	0	0	0	0.00	0.00
CROATIA	185	0	0	0	0	0	15	0	0	15	0.06	0.00
GERMANY	13	0	0	0	0	0	1	0	0	1	0.00	0.00
HUNGARY	3	0	0	0	0	0	0	0	0	0	0.00	0.00
ITALY	186	0	0	0	0	0	15	0	0	15	0.06	0.00
THE NETHERLANDS	14	0	0	0	0	0	1	0	0	1	0.00	0.00
SLOVENIA	319,435	0	63	0	0	0	25,555	10	0	25,565	99.80	0.00
SWITZERLAND	2	0	0	0	0	0	0	0	0	0	0.00	0.00
UNITED ARAB EMIRATES	221	0	0	0	0	0	18	0	0	18	0.07	0.00
UNIT. KINGD. OF GREAT BRIT. AND NORTH IRELAND	6	0	0	0	0	0	1	0	0	1	0.00	0.00
UNITED STATES OF AMERICA	11	0	0	0	0	0	1	0	0	1	0.00	0.00

The table below shows the geographical distribution of credit exposures used in the computation of the countercyclical buffer for the Group in 2019.

	General credit exposures		Trading book exposure		Securitisation exposure		Capital requirements					
	Exposure value for SA	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securiti-sation exposures	Total	Capital re-quirements weights	Countercyclical capital buffer rate
Breakdown by country	010	020	030	040	050	060	070	080	090	100	110	120
BELGIUM	6	0	0	0	0	0	0	0	0	0	0.00	0.00
CROATIA	176	0	0	0	0	0	14	0	0	14	0.05	0.00
GERMANY	13	0	0	0	0	0	1	0	0	1	0.00	0.00
HUNGARY	7	0	0	0	0	0	1	0	0	1	0.00	0.00
ITALY	406	0	0	0	0	0	32	0	0	32	0.12	0.00
THE NETHERLANDS	17	0	0	0	0	0	1	0	0	1	0.00	0.00
SAINT KITTS AND NEVIS	12	0	0	0	0	0	1	0	0	1	0.00	0.00
SLOVENIA	323,358	0	0	0	0	0	25,869	0	0	25,869	99.73	0.00
UNITED ARAB EMIRATES	228	0	0	0	0	0	18	0	0	18	0.07	0.00
UNIT. KINGD. OF GREAT BRIT. AND NORTH IRELAND	7	0	0	0	0	0	1	0	0	1	0.00	1.00
UNITED STATES OF AMERICA	11	0	0	0	0	0	1	0	0	1	0.00	0.00

The table below shows the amount of the institution-specific countercyclical buffer; the Group-specific countercyclical buffer for 2020 was EUR 0 (the same as in 2019).

	2020	2019
Total risk exposure amount	407,608	410,547
Institution specific countercyclical buffer rate	0	0
Institution specific countercyclical buffer requirement	0	0

5. CAPITAL REQUIREMENTS

5.1. Summary of the Group's approach to assessing the adequacy of its internal capital to support current and future activities

Article 438 (a) of Regulation (EU) No 575/2013 requires that institutions disclose their approach to assessing the adequacy of their internal capital to support current and future activities. In determining its level of adequate internal capital (internal capital adequacy assessment process – ICAAP), the Group abides by the requirements of:
- Regulation (CRR),
- Directive (CRD),
- Guidelines on ICT Risk Assessment under the Supervisory Review and Evaluation process,
- Guidelines on ICAAP and ILAAP information for purposes of supervisory review and evaluation,
- ECB guide to the internal capital adequacy assessment process,
- recommendations of the Bank of Slovenia,
- best banking practices.

For making an internal assessment of its risk-based capital requirements and internal capital adequacy, the Group employs an in-house methodology based on requisite internal instructions for implementing stress tests. These are used to assess the Group's risk-based capital requirements under Pillar 2 of the Basel Capital Accord, and are included in a collective risk assessment. The Group thereby takes into account the capital requirement for credit risk, which is not included in the calculation of the capital requirement for credit risk under Pillar 1 (portfolio downgrade risk due to changed economic conditions, concentration risk and remaining risk from hedging), as well as its requirement for interest rate, liquidity, market liquidity risk, equity risk, capital risk, reputation risk, profitability risk, strategic risk, bank management risk and investment property requirements. Once a year, the Group prepares stress test calculations according to the instructions of the Bank of Slovenia and EBA,[5] and includes them into its calculation of internal capital adequacy assessment. Each calculation of capital requirements includes an assessment of the impact of the planned volume of activities on the Group's future capital and capital ratios. Also once a year, the Group implements the ICAAP process in accordance with EBA guidelines. It is approved by the Bank's Management Board, reported to the Risk Committee, submitted for approval to the Supervisory Board and then submitted to the Bank of Slovenia.

On a monthly basis, the Group reports the internal capital adequacy assessment and capital requirement ratios to the Asset and Liability Committee and the Management Board, and quarterly also to the Risk Committee and the Supervisory Board.

The Group maintains an adequate amount, type and distribution of the capital required to suit its risk profile, which enables it to fulfil all its obligations. Its risk profile is examined once a year and special attention is also devoted to the assessment of internal control areas.

Consistent with EBA guidelines, the Group also implements the internal liquidity adequacy assessment process (ILAAP), a comprehensive assessment of how well liquidity risk is controlled based on qualitative and quantitative criteria. The ILAAP process is approved by the Bank's Management Board, reported to the Risk Committee, submitted for approval to the Supervisory Board and then submitted to the Bank of Slovenia.

5.2. Result of the Bank's internal capital assessment process

Article 438 (b) of the Regulation requires that institutions disclose the result of their internal capital adequacy assessment process. For 2020, the Bank of Slovenia imposed new minimum capital requirement ratios for the

[5] In 2020, stress tests were cancelled due to the COVID-19 pandemic.

Group on the basis of the SREP process: the OCR overall capital requirement ratio together with the P2G capital guideline at 15% (2019: 14%), of which 1% for the capital guideline, and the TSCR capital requirement ratio at 11.5%.

5.3. Capital requirements

The Group's capital requirements are disclosed pursuant to Articles 438 (c) (e) (f) and 445 of Regulation No 575/2013. In calculating its regulatory capital requirements, the Group uses the following approaches:
- credit risk – standardised approach,
- market risk – standardised approach,
- operational risk – simple approach.

The capital requirement for individual risks totals 8% of the total exposure to a particular type of risk. The table below shows the breakdown of the Group's individual capital requirements at the year-ends of 2020 and 2019.

Table: Group's capital requirements

	2020	2019
Capital requirement for credit risk	**28,643**	**28,959**
Exposure to central government and central banks	619	831
Exposure to regional and local government	66	81
Exposure to public sector	476	587
Exposure to institutions	1,873	1,522
Exposure to corporate customers	1,285	1,892
Exposure to retail customers	11,185	10,613
Exposure secured by mortgages on residential property	9,844	9,294
Outstanding items	1,182	1,121
Regulatory high risk categories	949	1,678
Collective investment undertakings	28	29
Equity exposure	248	333
Other exposure	888	980
Capital requirement for the risk of credit valuation adjustment (CVA)	**0**	**0**
Capital requirement for market risk	**10**	**0**
Capital requirement for debts	0	0
Capital requirement for equities	10	0
Capital requirement for commodities	0	0
Capital requirement for foreign exchange risk	**0**	**0**
Capital requirement for operational risk	**3,956**	**3,884**
Total capital requirements	**32,609**	**32,843**
Total risk-weighted assets (RWA)	**407,608**	**410,547**

6. CREDIT RISK ADJUSTMENTS

The Group's credit risk policy derives from the regulatory framework – which consists of requirements and recommendations regarding taking, measuring and controlling credit risk in banks, including securing funds and commitments – and the Group's aspirations to manage and control credit risk efficiently and rationally. The policy is tailored to the Group's size, and the nature and complexity of its activities.

6.1. Total exposure to credit risk before collateral held or other credit enhancements

The table below illustrates total exposure amounts, net exposure values, and average exposure amounts for credit risk as at 31 December 2020 and 31 December 2019, whereby not considering any collateral held by the Group or any other enhancements of credit quality. The table is broken down according to different categories of exposure.

The exposure levels for on-balance sheet and off-balance sheet assets are given on the basis of net carrying amounts as reported in the statement of financial position, including off-balance sheet figures, and grouped into categories of exposure pursuant to CRR/CRD IV.

Table: Group's exposure to credit risk: total exposure amounts, net exposure values, and average exposure amounts as at 31 December 2020 and 31 December 2019

				2020			2019
	Exposure category	Total exposure	Net exposure	Average exposure	Total exposure	Net exposure	Average exposure
01	Central government and central banks	497,916	497,879	484,948	480,870	480,870	476,767
02	Regional and local government	4,129	4,128	5,377	5,039	5,038	5,554
03	Public sector entities	8,227	8,167	10,229	10,524	10,462	13,811
06	Institutions	33,825	33,728	32,330	28,586	28,586	32,309
07	Corporate	21,602	21,178	23,289	33,869	30,088	27,495
08	Retail exposures	231,919	229,599	219,323	214,211	212,055	207,948
09	Secured by mortgages of immovable properties	280,220	277,492	269,682	260,807	259,408	257,125
10	Exposures in default	18,984	12,931	13,143	16,577	12,793	16,143
11	Regulatory high risk categories	15,087	7,994	9,743	21,892	16,039	13,564
14	Investments in investment funds	2,721	2,721	2,707	2,709	2,709	2,713
15	Other exposure	17,684	17,684	19,965	24,163	24,163	23,571
16	Equity exposure	3,095	3,095	3,074	4,165	4,165	6,722
	As at 31 December	1,135,409	1,116,596	1,093,810	1,103,412	1,086,376	1,083,722

The Group controls and will continue to maintain credit risk exposure consistent with the Bank's strategy and in line with capital restrictions.

6.2. Risk concentration of financial assets exposed to credit risk

(a) Geographical distribution of exposure

The table below shows the Group's exposures at the year-ends of 2020 and 2019, given at their carrying value and broken down according to categories of exposure and geographical areas. Counterparties are grouped according to domicile of the opposite party. The table also provides amounts of impaired and past due exposure. As is shown clearly in the table, the Group conducts its business primarily in Slovenia.

Table: Geographical distribution of the Group's exposure broken down into major categories of exposure as at 31 December 2020 and 31 December 2019

		As at 31 December 2020				As at 31 December 2019			
	Exposure category	Slovenia	Other EU member	Other countries	TOTAL	Slovenia	Other EU member	Other countries	TOTAL
01	Central government and central banks	482,717	15,162	0	497,879	465,656	15,214	0	480,870
02	Regional and local government	4,128	0	0	4,128	5,038	0	0	5,038
03	Public sector entities	8,167	0	0	8,167	10,462	0	0	10,462
06	Institutions	33,201	527	0	33,728	25,289	3,297	0	28,586
07	Corporate	20,989	184	5	21,178	29,900	182	5	30,087
08	Retail exposures	229,477	103	19	229,599	211,552	484	19	212,055
09	Secured by mortgages of immovable properties	277,077	415	0	277,492	259,178	230	0	259,408
10	Exposures in default	12,710	0	221	12,931	12,552	0	241	12,793
11	Regulatory high risk categories	7,994	0	0	7,994	16,040	0	0	16,040
14	Investments in investment funds	2,721	0	0	2,721	2,709	0	0	2,709
15	Other exposure	17,684	0	0	17,684	24,163	0	0	24,163
16	Equity exposure	3,095	0	0	3,095	4,165	0	0	4,165
	As at 31 December	1,099,960	16,391	245	1,116,596	1,066,704	19,407	265	1,086,376
	Impaired exposure	18,520	7	285	18,812	16,795	5	276	17,076
	Past due exposure as at 31 December,	20,988	3	506	21,497	22,996	1	174	23,171
	of which impaired exposure as at 31 December.	8,294	1	285	8,580	7,019	0	159	7,178

At the year-end of 2020, the share of exposure to EU member states stood at 1.5%, down 0.3 of percentage point from the end of 2019. The share of exposure to other countries was even smaller, in both periods.

(b) Economy sectors – industries

The two tables below show the Group's exposures at the year-ends of 2020 and 2019, given at their carrying value and broken down according to categories of exposure and sectors of the economy. The tables also provide amounts of impaired and past due exposure.

Table: Group exposure according to economy sectors – industries, broken down into major exposure categories, as at 31 December 2020

	Exposure category	Finances and insuran.	Trade industry	Manufa-cturing	Constru-ction	Expert, scient. & technical activities	Foreign persons	Real-estate services	Cater-ing	Publ. admin. and def.	Agric. and hunting	Transp. and ware-housing	Cuture, entert. &recreat. activi-ties	Other various busin. activities	Inform. & commu-nication activi-ties	Other activi-ties	House-holds	TOTAL
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
01	Central government and central banks	75,993	0	0	0	0	0	0	0	421,886	0	0	0	0	0	0	0	497,879
02	Regional and local government	0	0	0	0	0	0	0	0	4,128	0	0	0	0	0	0	0	4,128
03	Public sector entities	696	439	0	0	327	0	9	5	160	3	0	62	0	20	6,446	0	8,167
06	Institutions	33,728	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	33,728
07	Corporate	2,846	5,262	4,109	2,706	105	0	446	106	13	1,602	45	102	501	836	2,499	0	21,178
08	Retail exposures	323	11,848	6,766	4,421	4,676	103	1,237	2,242	63	1,736	3,766	370	1,262	1,558	1,144	188,084	229,599
09	Secured by mortgages of immovable properties	330	35,615	24,248	5,424	3,222	415	2,448	6,519	639	6,941	2,244	2,269	2,207	1,156	7,375	176,440	277,492
10	Exposures in default	0	5,346	1,850	204	11	0	217	2,748	0	109	26	0	0	0	2	2,418	12,931
11	Regulatory high risk categories	0	2,677	602	1,380	1,278	0	2,042	15	0	0	0	0	0	0	0	0	7,994
14	Investments in investment funds	2,721	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2,721
15	Other exposure	17,187	0	0	0	0	0	0	0	0	0	0	0	0	0	0	497	17,684
16	Equity exposure	149	0	0	0	55	0	0	0	2,770	0	0	0	0	33	88	0	3,095
	As at 31 December 2020	133,973	61,187	37,575	14,135	9,674	518	6,399	11,635	429,659	10,391	6,081	2,803	3,970	3,603	17,554	367,439	1,116,596
	Impaired exposure	135	5,810	1,106	847	3,079	0	942	3,063	91	420	186	34	706	238	55	2,100	18,812
	Past due exposures,	8	4,791	2,136	1,030	3,812	2	915	5,119	1	256	91	18	30	3	4	3,280	21,496
	of which impaired exposures	1	901	302	290	2,520	0	486	2,403	0	146	44	2	26	2	2	1,455	8,580

Table: Group exposure according to economy sectors – industries, broken down into major exposure categories, as at 31 December 2019

	Exposure category	Finances and insuran.	Trade industry	Manufa-cturing	Constru-ction	Expert, scient. & technical activities	Foreign persons	Real-estate services	Cater-ing	Publ. admin. and def.	Agric. and hunting	Transp. and ware-housing	Cuture, entert. &recreat. activi-ties	Other various busin. activities	Inform. & commu-nication activi-ties	Other activi-ties	House-holds	TOTAL
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
01	Central government and central banks	90,760	0	0	0	0	0	0	0	390,110	0	0	0	0	0	0	0	480,870
02	Regional and local government	0	0	0	0	0	0	0	0	5,038	0	0	0	0	0	0	0	5,038
03	Public sector entities	994	448	0	0	327	0	11	3	188	4	0	63	0	20	8,404	0	10,462
06	Institutions	28,586	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	28,586
07	Corporate	2,855	13,096	4,987	3,993	752	0	440	60	30	1,389	33	48	38	758	1,608	0	30,087
08	Retail exposures	168	13,759	6,044	3,861	4,050	484	739	1,396	79	1,342	3,440	477	1,470	1,376	2,006	171,364	212,055
09	Secured by mortgages of immovable properties	403	38,062	21,572	6,855	2,666	230	2,854	6,303	659	6,766	1,834	2,150	1,033	1,293	8,058	158,670	259,408
10	Exposures in default	0	4,925	2,020	367	42	1	208	2,893	0	156	21	30	0	0	2	2,128	12,793
11	Regulatory high risk categories	2,604	2	638	2,188	4,101	0	6,481	22	0	0	0	0	3	0	1	0	16,040
14	Investments in investment funds	2,709	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2,709
15	Other exposure	0	0	0	0	0	0	0	0	145	0	0	0	0	0	0	24,018	24,163
16	Equity exposure	163	0	0	0	58	0	0	0	3,834	0	0	0	0	21	89	0	4,165
	As at 31 December 2019	129,242	70,292	35,261	17,264	11,996	715	10,733	10,677	400,083	9,657	5,328	2,768	2,544	3,468	20,168	356,180	1,086,376
	Impaired exposure	88	5,467	348	591	3,788	2	2,372	1,488	44	204	120	11	26	136	630	1,761	17,076
	Past due exposures,	8	4,499	2,180	805	7,609	3	823	4,000	0	308	88	2	4	5	24	2,814	23,172
	of which impaired exposures	1	589	83	240	3,432	1	402	1,032	0	127	68	0	1	2	13	1,187	7,178

In absolute terms, exposure towards the public administration and households increased the most in 2020 as compared to 2019, while the most significant decrease was the exposure towards the trade industry.

7. LEVERAGE

The disclosure requirement regarding leverage is stipulated in Article 451 of Regulation (EU) No 575/2013 and in Commission Implementing Regulation (EU) No 200/2016. It is calculated under the provisions of the Capital Requirements Regulation and Directive (CRR/CRD IV) since 1 January 2014, and since January 2015 it is being calculated under supplements regarding computation as published in Commission Delegated Regulation (EU) No 2015/62; the disclosure requirement for the leverage ratio has been effective since 1 January 2015.

The leverage ratio equals the Group's capital measure divided by its total exposure measure, and it is given in percent. The capital measure is tier 1 capital, and the total exposure measure is the sum of the exposure values of all on-balance sheet and off-balance sheet items not deducted when determining the capital measure. For the purposes of controlling and managing risks associated with financial leverage, the Group had adopted a Leverage Policy back in 2015. The Policy imposes a leverage ratio of above 3% at all times.

At the year-end of 2020, the leverage ratio for the Group was 5.75%, thus exceeding the 3% threshold as imposed by the Regulation EU 2019/876 (CRR2) and effective from 28 June 2021.

Calculation of the leverage ratio

	2020	2019
Leverage ratio - using the definition of tier I capital without transitional provisions (in %)	5.75	5.78
Leverage ratio - using the definition of tier I capital with transitional provisions (in %)	5.75	5.78

The leverage ratio is disclosed pursuant to Commission Implementing Regulation (EU) No 2016/200 of 15 February 2016, and is displayed in tables LRSum, LRCom, LRSpl and LRQua.

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

LRSum	Summary reconciliation of accounting assets and leverage ratio exposures	2020	2019
1	Total assets as per published financial statements	1,045,441	1,019,037
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	27,852	28,227
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429 (13) of Regulation (EU) No 575/2013 "CRR")	0	0
4	Adjustments for derivatives	0	0
5	Adjustments for securities financing transactions "SFTs"	0	0
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	27,852	28,227
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	0	0
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	0	0
7	Other adjustments	27,852	28,227
8	Total leverage ratio exposure	1,073,293	1,047,264

Template LRCom: Leverage ratio common disclosure

LRCom: Leverage ratio common disclosure	2020	2019
On-balance sheet exposures (excluding derivatives and SFTs)		
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	1,052,048	1,023,344
(Asset amounts deducted in determining tier 1 capital)	(1,799)	(1,817)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	1,050,249	1,021,527
Securities financing transaction exposures		
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	1,058	2,194
Counterparty credit risk exposure for SFT assets	259	302
Total securities financing transaction exposures	1,317	2,497
Other off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	68,886	64,968
(Adjustments for conversion to credit equivalent amounts)	(47,159)	(41,728)
Other off-balance sheet exposures	21,727	23,240
Capital and total exposures		
Tier 1 capital	61,678	60,535
Total leverage ratio exposures	1,073,293	1,047,264
Leverage ratio		
Leverage ratio (in %)	5.75	5.78

Template LRSpl: Split-up of on-balance sheet exposures (excluding derivatives, SFTs, and exempt exposures)

LRSpl:	Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	2020	2019
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	1,052,048	1,024,222
EU-2	Trading book exposures	88	110
EU-3	Banking book exposures, of which:	1,051,960	1,024,112
EU-5	Exposures treated as sovereigns	506,606	490,455
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	3,498	4,826
EU-7	Institutions	30,031	24,891
EU-8	Secured by mortgages of immovable properties	266,741	248,333
EU-9	Retail exposures	180,491	172,073
EU-10	Corporate	15,196	22,848
EU-11	Exposures in default	12,911	11,662
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	36,486	49,024

Explanation of LRQua

Processes used to manage the risk of excessive leverage

In 2020, the Group calculated its leverage ratio on a monthly basis, together with the calculation of capital, capital requirements, needs, and capital requirement ratios. An improvement in tier I capital ratio will improve the leverage ratio. Movements in the leverage ratio are monitored monthly by the Asset and Liability Committee, and quarterly by the Management Board, the Risk Committee and the Supervisory Board. The leverage ratio is also assessed once a year as part of the internal capital adequacy assessment process (ICAAP), and the leverage ratio level is monitored as one of the indicators within the Restoration plan. The minimum leverage ratio level for 2020 was set at 3%, which is also the threshold. If the Group's leverage ratio does not meet target levels, remedial measures are adopted first by the Asset and Liability Committee and then also by the Management Board and the Supervisory Board. The leverage ratio can improve by increasing tier I capital or by decreasing risk-weighted assets.

Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers

In 2020, the monthly value of the leverage ratio ranged between 5.61% and 5.85% (with the average value of 5.28%), thus exceeding the value imposed in the Regulation EU 2019/876 (CRR2).

8. USE OF ECAI (Article 444 of CRR)

The Group uses the ECAI credit ratings pursuant to Article 114 (2) of CRR with regard to the ECAI long-term credit rating mapped to credit quality steps, and only for receivables in the category of exposure towards the central government. When defining risk weights in the calculation of the capital requirement for the category of exposure towards the central government and to central banks, the Group uses the credit ratings of Standard & Poor's. Pursuant to Article 114 (2) of CRR, the Bank should take into account a higher risk weight, however, due to complying with Article 114 (4) of CRR, it applied the risk weight of 0% to the exposures towards the central government and to central banks that have been denominated and financed in its domestic currency.

9. DISCLOSURE REQUIREMENTS, AS PROVIDED BY SECTION 8 OF REGULATION (EU) NO 575/2013

Article	Requirement	Published in AR section	Section
435	**Risk management policies and objectives**		
1	**Risk management objectives and policies**		
	a. strategies and processes to manage risks	BR	VIII.1.
	b. structure and organisation of the relevant risk management function including information on its authority and statute, or other appropriate arrangements	BR	VIII.1.
	c. scope and nature of risk reporting and measurement systems	BR	VIII.1.
	d. policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants	BR	VIII.1.
	e. declaration approved by the management body on the adequacy of risk management arrangements of the institution providing assurance that the risk management systems put in place are adequate with regard to the institution's profile and strategy	BR	VIII.2.
	f. concise risk statement approved by the management body succinctly describing the institution's overall risk profile associated with the business strategy; the statement includes key ratios and figures providing external stakeholders with a comprehensive view of the institution's management of risk, including how the risk profile of the institution interacts with the risk tolerance set by the management body	BR	VIII.3.
2	**Information regarding governance arrangements**		
	a. number of directorships held by members of the management body	BR	VI.4.
	b. recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise	BR	IX.5.2.
	c. policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved	BR	IX.5.2.
	d. whether or not the institution has set up a separate risk committee, and the number of times the risk committee has met	BR	VIII.4.
	e. description of the information flow on risk to the management body	BR	VIII.4.
3	**Non-financial statement**	BR	VII
436	**Scope of application**		
	a. name of the institution to which the requirements of the Regulation apply	RCM	2.
	b. outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities therein, explaining whether they are fully consolidated; proportionally consolidated; deducted from own funds; neither consolidated nor deducted	FS RCM	5. 2.
	c. any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries	/	/
	d. aggregate amount by which the actual own funds are less than required in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries	/	/
	e. if applicable, the circumstances of making use of the provisions laid down in Articles 7 (Derogation to the application of prudential requirements on an individual basis) and 9 (Individual consolidation method)	/	/
437	**Capital**		
	a. full reconciliation of common equity tier 1 items, additional tier 1 items, tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution	FS RCM	5.6. 3.2.
	b. description of the main features of the common equity tier 1 and additional tier 1 instruments and tier 2 instruments issued by the institution	RCM	3.4.
	c. full terms and conditions of all common equity tier 1, additional tier 1 and tier 2 instruments	RCM	3.4.
	d. separate disclosure of the nature and amounts of the following: 1. each prudential filter applied pursuant to Articles 32 to 35; 2. each deduction made pursuant to Articles 36, 56 and 66; 3. items not deducted in accordance with Articles 47, 48, 56, 66 and 79	FS RCM	5.6. 3.2.
	e. description of all restrictions applied to the calculation of own funds in accordance with the Regulation and the instruments, prudential filters and deductions to which those restrictions apply	FS RCM	5.6. 3.2.
	f. where institutions disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in the Regulation, a comprehensive explanation of the basis on which those capital ratios are calculated	/	/

438	**Capital requirements**		
	a. summary of the institution's approach to assessing the adequacy of its internal capital to support current and future activities	RCM	5.1.
	b. upon demand from the relevant competent authority, the result of the institution's internal capital adequacy assessment process including the composition of the additional own funds requirements based on the supervisory review process as referred to in point (a) of Article 104(1) of Directive 2013/36/EU	RCM	5.2.
	c. standardised approach for institutions calculating the risk-weighted exposure amounts in accordance with Chapter 2 of Part Three, Title II, 8% of the risk-weighted exposure amounts for each of the exposure classes specified in Article 112 (= standardised approach classes)	RCM	5.3.
	d. IRB approach	/	/
	e. capital requirements calculated in accordance with items (b) and (c) of Article 92(3), (1) position risk; (2) large exposures exceeding the limits specified in Articles 395 to 401, to the extent an institution is permitted to exceed those limits; (3) foreign-exchange risk; (4) settlement risk; (5) commodities risk	RCM	5.3.
	f. capital requirements calculated in accordance with Part Three, Title III, Chapters 2, 3 and 4 and disclosed separately (operational risk)	FS	5.5.
439	**Exposure to counterparty credit risk**	/	/
	Capital buffers		
440	Countercyclical buffers: a. geographical distribution of the institution's credit exposures relevant for the calculation of its countercyclical capital buffer	RCM	4.
	b. amount of institution specific countercyclical capital buffer	RCM	4.
441	G-SII buffers: 1. institutions identified as G-SIIs in accordance with Article 131 of Directive 2013/36/EU disclose, on an annual basis, the values of the indicators used for determining the score of the institutions in accordance with the identification methodology referred to in that Article	/	/
442	**Credit risk adjustments**		
	a. definitions for accounting purposes of 'past due' and 'impaired'	FS	5.1.3.
	b. description of the approaches and methods adopted for determining specific and general credit risk adjustments	FS	5.1.3.
	c. total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes	RCM	6.1.
	d. geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate	RCM	6.2.
	e. distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs, and further detailed if appropriate	RCM	6.2.
	f. residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate	FS	5.1.4.
	g. by significant industry or counterparty type, the amount of: – impaired exposures and past due exposures, provided separately; – specific and general credit risk adjustments – charges for specific and general credit risk adjustments during the reporting period	RCM	6.2.
	h. amount of the impaired exposures and past due exposures, provided separately, broken down by significant geographical areas including, if practical, the amounts of specific and general credit risk adjustments related to each geographical area	RCM	6.2.
	i. reconciliation of changes in the specific and general credit risk adjustments for impaired exposures, shown separately; the information comprises: – description of the type of specific and general credit risk adjustments; – opening balances; – amounts taken against the credit risk adjustments during the reporting period; – amounts set aside or reversed for estimated probable losses on exposures during the reporting period, any other adjustments including those determined by exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, and transfers between credit risk adjustments; – closing balances	RCM	6.2.
	Specific credit risk adjustments and recoveries recorded directly to the income statement are disclosed separately.	/	/
443	**Unencumbered assets**	FS	5.7.
444	**Use of ECAI**	RCM	8.
445	**Exposure to market risk**		
	separately for each risk; in addition, the own funds requirement for specific interest rate risk of securitisation positions is also disclosed separately	FS	5.2.

446	**Operational risk**		
	institutions disclose the approaches for the assessment of own funds requirements for operational risk that the institution qualifies for; a description of the methodology set out in Article 312(2), if used by the institution, including a discussion of relevant internal and external factors considered in the institution's measurement approach, and in the case of partial use, the scope and coverage of the different methodologies used	FS	5.5.
447	**Exposures in equities not included in the trading book**		
	a. differentiation between exposures based on their objectives, including for capital gains relationship and strategic reasons, and an overview of the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation and any significant changes in these practices	FS	4.3. a, b, 2.3. b, 5.4.2.
	b. balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value	FS	2.3. b, 5.4.2.
	c. types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures	FS	4.4. a
	d. cumulative realised gains or losses arising from sales and liquidations in the period	FS	4.4. b
	e. total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in the original or additional own funds	RCM	3.2.
448	**Exposure to interest rate risk on positions not included in the trading book**		
	a. nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk	FS	5.2.4.
	b. variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency	FS	5.2.4.
449	**Securitisation**	/	/
450	**Remuneration policy**		
	For the categories of staff whose professional activities have a material impact on its risk profile: a. information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders	BR	IX.5.4.
	b. information on the link between pay and performance	BR	IX.5.4.
	c. the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria	BR	IX.5.4.
	d. ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of Directive 2013/36/EU	BR	IX.5.4.
	e. information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based	BR	IX.5.4.
	f. the main parameters and rationale for any variable component scheme and any other non-cash benefits	BR	IX.5.4.
	g. aggregate quantitative information on remuneration, broken down by business area	BR	IX.5.4.
	h. aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution, indicating the following: (i) the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries; (ii) the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types; (iii) the amounts of outstanding deferred remuneration, split into vested and unvested portions; (iv) the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments; (v) new sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments; (vi) the amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person	BR FS	IX.5.4. 4.34.
	i. number of individuals being remunerated EUR 1 million or more per financial year, for remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500,000 and for remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million	BR	/
	j. upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management	FS	4.34(d)(e)
451	**Leverage**		

	a. leverage ratio and how the institution applies Article 499(2) and (3)	RCM	7.
	b. breakdown of the total exposure measure as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements	RCM	7.
	c. where applicable, the amount of derecognised fiduciary items in accordance with Article 429(11)	RCM	7.
	d. description of the processes used to manage the risk of excessive leverage	RCM	7.
	e. description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers	RCM	7.
452	**Use of the IRB approach to credit risk**	/	/
453	**Use of credit risk mitigation techniques**		
	a. policies and processes for, and an indication of the extent to which the entity makes use of, on- and off-balance sheet netting	/	/
	b. policies and processes for collateral valuation and management	FS	5.1.2.
	c. description of the main types of collateral taken by the institution	FS	5.1.2.
	d. main types of guarantor and credit derivative counterparty and their creditworthiness	/	/
	e. information about market or credit risk concentrations within the credit mitigation taken	FS	5.1.2., 5.2.
	f. for institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, but not providing own estimates of LGDs or conversion factors in respect of the exposure class, separately for each exposure class, the total exposure value (after, where applicable, on- or off-balance sheet netting) that is covered — after the application of volatility adjustments — by eligible financial collateral, and other eligible collateral	/	/
	g. for institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, separately for each exposure class, the total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees or credit derivatives; for the equity exposure class, this requirement applies to each of the approaches provided in Article 155	/	/
454	**Use of the advanced measurement approaches to operational risk**	/	/
455	**Use of internal market risk models**	/	/
492	**Transitional provisions for disclosure of own funds**		
4	During the period from 1 January 2014 to 31 December 2021, institutions shall disclose the amount of instruments that qualify as Common Equity Tier 1 instruments, Additional Tier 1 instruments and Tier 2 instruments by virtue of applying Article 484 (capital instruments not meeting the criteria for inclusion into own funds under the new legislation; their removal may be gradual).	RCM	3.4.
	Bank of Slovenia Decision on the application of the Guidelines on the disclosure of non-performing and forborne exposures	FS	5.1.4. (c)
	Decision on the application of the Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07)	FS	5.8.(a), (b), (c)

Sections of the annual report (AR)
BR = Business Report
FS = Financial Statements of the Deželna banka Slovenije Group
RCM = Risk and Capital Management

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Branches: Koper, Sežana, Dutovlje, Komen, Kozina, Ilirska Bistrica, Nova Gorica, Tolmin, Kobarid, Idrija, Cerkno, Postojna, Pivka.

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Branches: Novo mesto, Šentjernej, Črnomelj, Metlika, Ivančna Gorica, Brežiče, Krško, Kočevje, Ribnica, Velike Lašče.