ANNUAL REPORT 2016

ABANKA
Your friendliest bank

A clear view towards our objectives.

Abanka is synonymous with excellence in financial services.
Our values bring us together and guide us in our work.
They lead us in the pursuit of our mission and
the achievement of our vision:

to become Slovenia's number one bank of choice for our customers, employees and investors.

CONTENTS

The Abanka Group Annual Report 2016 is a translation of the original Abanka Group Annual Report 2016 issued in Slovene. This translation is provided for reference purpose only.

Searching for unique and exceptional paths.

We make useful changes and search for the best solutions. Through technological innovation and improved business processes, we are developing contemporary and interesting services tailored to the needs of our clients. **Innovation** is our strength, while **excellence** sets the standard for our superior **execution**. We build long-term respect, trust and cooperation through sound **partnerships**.

FINANCIAL HIGHLIGHTS AND PERFORMANCE INDICATORS

FINANCIAL HIGHLIGHTS AND PERFORMANCE INDICATORS – THE ABANKA GROUP

STATEMENT OF FINANCIAL POSITION (EUR thousand)	31 Dec. 2016	31 Dec. 2015	31 Dec. 2014
Total assets	**3,614,833**	3,830,227	4,314,408
Total amount of deposits of the non-banking sector, measured at amortised cost	**2,775,399**	2,845,442	3,087,531
Total amount of loans and advances to the non-banking sector, measured at amortised cost	**1,806,473**	1,850,384	1,958,819
Total equity	**616,828**	550,379	501,963

INCOME STATEMENT (EUR thousand)	2016	2015	2014
Net interest income	**78,714**	77,114	94,940
Net non-interest income	**53,767**	65,638	(8,000)
Labour costs, general and administration costs	**(70,671)**	(74,765)	(74,644)
Depreciation	**(8,382)**	(10,021)	(8,941)
Impairments and provisions	**30,183**	(8,980)	(218,259)
Profit or loss from ordinary operations before tax	**83,611**	48,986	(214,904)
Corporate income tax on ordinary operations	**(6,097)**	(7,264)	5,728

STATEMENT OF COMPREHENSIVE INCOME (EUR thousand)	2016	2015	2014
Other comprehensive income before tax	**(11,595)**	8,503	32,044
Income tax relating to components of other comprehensive income	**932**	(1,812)	(7,105)

INDICATORS	2016	2015	2014
Common Equity Tier 1 capital ratio	**26.5%**	23.0%	19.0%
Tier 1 capital ratio	**26.5%**	23.0%	19.0%
Total capital ratio	**26.5%**	23.0%	19.0%
Performance (in %)			
– return on assets after tax(1)	**2.08**	1.04	(4.68)
– return on equity after tax(2)	**13.14**	7.95	(65.80)

Note:

The financial statements of the Abanka Group include business events, assets and liabilities of the acquired company Banka Celje d.d. as from 1 January 2015. The comparative financial statements of the acquiring company Abanka Vipa d.d. for 2014 were adjusted as if the two companies were operating together already in the comparable period.

Notes:

Data and performance indicators have been calculated in accordance with the Instructions for compiling the statement of financial position, the income statement and the statement of comprehensive income and for calculating the performance indicators of banks and savings banks, which the Bank of Slovenia set out based on the Decision on the books of account and annual reports of banks and savings banks (Official Gazette of the RS, No. 50/2015).

(1) The indicator equals the ratio **profit or loss after tax/average assets**. Average assets have been calculated as the average amount of assets as at the last day of each quarter, including the amount of assets as at the last day of December of the previous year.

(2) The indicator equals the ratio **profit or loss after tax/average equity**. Average equity has been calculated as the average amount of equity as at the last day of each quarter, including the amount of equity as at the last day of December of the previous year.

FINANCIAL HIGHLIGHTS AND PERFORMANCE INDICATORS – ABANKA

STATEMENT OF FINANCIAL POSITION (EUR thousand)	31 Dec. 2016	31 Dec. 2015	31 Dec. 2014
Total assets	**3,612,362**	3,828,463	4,313,632
Total amount of deposits of the non-banking sector, measured at amortised cost	**2,776,583**	2,847,516	3,094,066
– from legal and other persons, who pursue a business activity[1]	**850,784**	1,012,255	1,269,171
– retail	**1,925,799**	1,835,261	1,824,895
Total amount of loans and advances to the non-banking sector, measured at amortised cost	**1,826,524**	1,869,335	1,976,171
– to legal and other persons, who pursue a business activity[1]	**1,011,425**	1,068,039	1,170,052
– retail	**815,099**	801,296	806,119
Total equity	**614,451**	548,465	496,464
Impairments of financial assets and provisions	**289,157**	347,982	382,293
Off-balance sheet items (B.1 to B.4)	**695,525**	813,757	1,071,280

INCOME STATEMENT (EUR thousand)	2016	2015	2014
Net interest income	**77,573**	76,455	94,463
Net non-interest income	**52,498**	64,672	(11,411)
Labour costs, general and administration costs	**(68,246)**	(72,004)	(71,607)
Depreciation	**(7,185)**	(9,221)	(8,203)
Impairments and provisions	**27,807**	(9,877)	(225,050)
Profit or loss before tax from ordinary operations	**82,447**	50,025	(221,808)
Corporate income tax from ordinary operations	**(5,791)**	(7,250)	6,130

STATEMENT OF COMPREHENSIVE INCOME (EUR thousand)	2016	2015	2014
Other comprehensive income before tax	**(11,590)**	8,069	32,191
Income tax relating to components of other comprehensive income	**932**	(1,812)	(7,105)

NUMBER OF EMPLOYEES	31 Dec. 2016	31 Dec. 2015	31 Dec. 2014
	1,147	1,248	1,312

SHARES	31 Dec. 2016	31 Dec. 2015	31 Dec. 2014
Number of shareholders[2]	**1**	1	1
Number of shares[2]	**15,100,000**	15,100,000	15,100,000
Proportion of par-value shares in share capital (in EUR)[2]	**10.00**	10.00	10.00
Book value per share (in EUR)[2]	**40.69**	36.32	19.53

Note:

The financial statements of Abanka d.d. include business events, assets and liabilities of the acquired company Banka Celje d.d. as from 1 January 2015. The comparative financial statements of the acquiring company Abanka Vipa d.d. for 2014 were adjusted as if the two companies were operating together already in the comparable period.

Note:

[1] non-financial corporations, public sector entities, other financial institutions, sole proprietors, foreign corporate entities and non-profit institutions serving households.

[2] The data for 2014 are presented for Abanka Vipa d.d., while the data for 2015 and 2016 are presented for the merged Abanka d.d.

INDICATORS	2016	2015	2014
Common Equity Tier 1 capital ratio	**26.3%**	22.9%	19.0%
Tier 1 capital ratio	**26.3%**	22.9%	19.0%
Total capital ratio	**26.3%**	22.9%	19.0%
Quality of assets and contingent liabilities (in %)			
Impairment of financial assets measured at amortised cost and provisions for commitments and contingencies/classified on-balance-sheet assets and off-balance-sheet items(6)	**9.22**	10.85	10.75
Performance (in %)			
– interest margin(1)	**2.05**	1.89	2.09
– financial intermediation margin(2)	**3.44**	3.49	1.84
– return on assets after tax(3)	**2.03**	1.06	(4.77)
– return on equity before tax(4)	**13.95**	9.52	(72.10)
– return on equity after tax(5)	**12.97**	8.14	(70.11)
Operational costs (in %)			
– operational costs/average assets	**1.99**	2.01	1.77
Liquidity (in %)			
– liquid assets/current financial liabilities to the non-banking sector, measured at amortised cost(6)	**48.05**	64.04	80.30
– liquid assets/average assets(6)	**28.14**	22.34	33.11

Notes:

Data and performance indicators have been calculated in accordance with the Instructions for compiling the statement of financial position, the income statement and the statement of comprehensive income and for calculating the performance indicators of banks and savings banks, which the Bank of Slovenia set out based on the Decision on the books of account and annual reports of banks and savings banks (Official Gazette of the RS, No. 50/2015).

(1) The indicator equals the ratio **net interest income/average assets**. Average assets have been calculated as the average amount of assets over the last 13 months as at the last day of each month, including the amount of assets as at the last day of December of the previous year.

(2) The indicator equals the ratio **(net interest income+net non-interest income)/average assets**. Average assets have been calculated as the average amount of assets over the last 13 months as at the last day of each month, including the amount of assets as at the last day of December of the previous year.

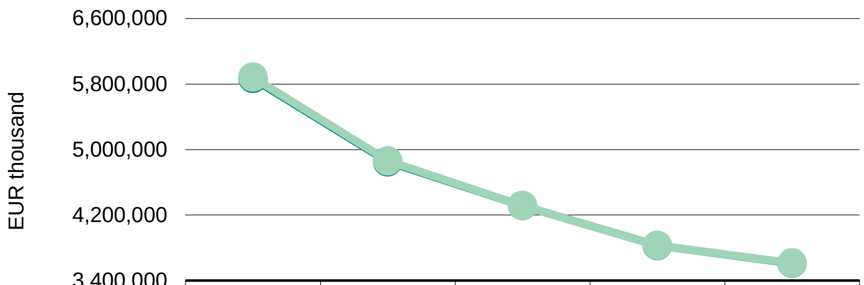
(3) The indicator equals the ratio **profit or loss after tax/average assets**. Average assets have been calculated as the average amount of assets over the last 13 months as at the last day of each month, including the amount of assets as at the last day of December of the previous year.

(4) The indicator equals the ratio **profit or loss before tax/average equity**. Average equity has been calculated as the average amount of equity over the last 13 months as at the last day of each month, including the amount of equity as at the last day of December of the previous year.

(5) The indicator equals the ratio **profit or loss after tax/average equity**. Average equity has been calculated as the average amount of equity over the last 13 months as at the last day of each month, including the amount of equity as at the last day of December of the previous year.

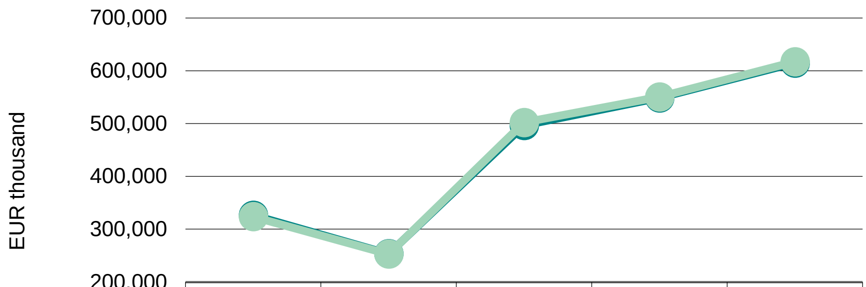
(6) The data for 2014 are presented for Abanka Vipa d.d., while the data for 2015 and 2016 are presented for the merged Abanka d.d.

TOTAL ASSETS



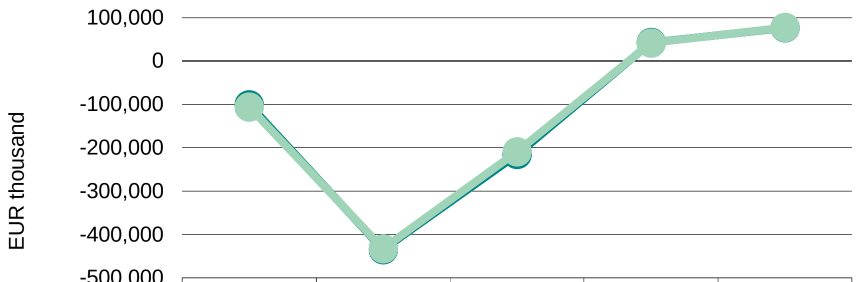
	2012	2013	2014	2015	2016
Abanka	5,868,062	4,851,701	4,313,632	3,828,463	3,612,362
Abanka Group	5,884,088	4,863,631	4,314,408	3,830,227	3,614,833

TOTAL EQUITY



	2012	2013	2014	2015	2016
Abanka	326,501	253,452	496,464	548,465	614,451
Abanka Group	323,587	252,897	501,963	550,379	616,828

PROFIT/LOSS AFTER TAX

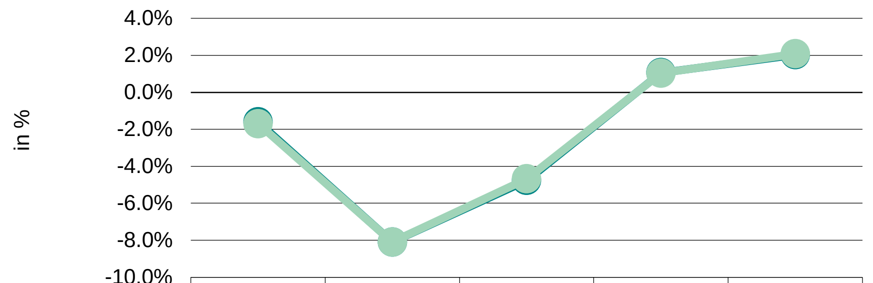


	2012	2013	2014	2015	2016
Abanka	-100,678	-435,134	-215,678	42,775	76,656
Abanka Group	-106,049	-432,770	-209,176	41,722	77,514

Note:

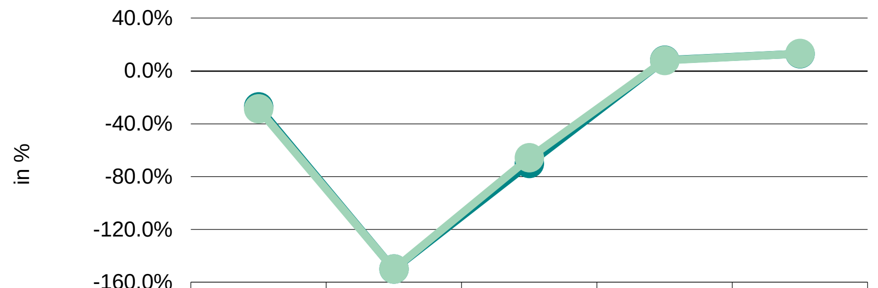
The financial statements of Abanka d.d. and the Abanka Group include business events and assets and liabilities of the acquired company Banka Celje d.d. as of 1 January 2015. The comparative financial statements of the acquiring company Abanka Vipa d.d. for 2014 were adjusted as if the two companies were operating together already in the comparable period. The data of Abanka and the Abanka Group for the 2012–2013 period are calculated as the sum of individual categories on the basis of financial statements of Abanka Vipa d.d. and Banka Celje d.d., while the indicators are calculated based on these categories.

RETURN ON AVERAGE ASSETS (net ROAA)



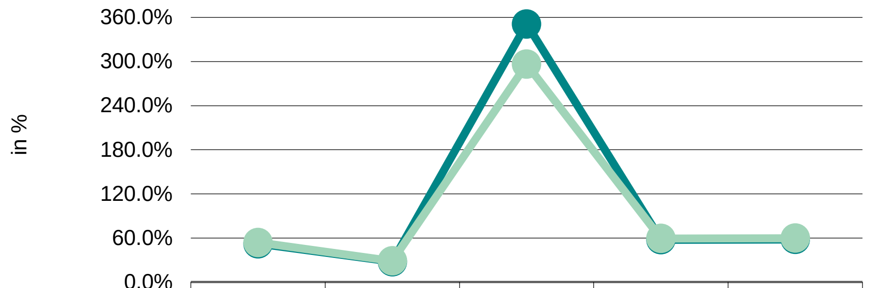
	2012	2013	2014	2015	2016
Abanka	-1.6%	-8.1%	-4.8%	1.1%	2.0 %
Abanka Group	-1.7%	-8.1%	-4.7%	1.0%	2.1 %

RETURN ON AVERAGE EQUITY (net ROAE)



	2012	2013	2014	2015	2016
Abanka	-27.3%	-150.1%	-70.1%	8.1%	13.0 %
Abanka Group	-28.8%	-150.1%	-65.8%	8.0%	13.1 %

COST TO INCOME RATIO (CIR)



	2012	2013	2014	2015	2016
Abanka	52.0%	27.8%	351.2%	57.6%	58.0 %
Abanka Group	53.9%	28.7%	296.3%	59.4%	59.7 %

Note:

The financial statements of Abanka d.d. and the Abanka Group include business events and assets and liabilities of the acquired company Banka Celje d.d. as of 1 January 2015. The comparative financial statements of the acquiring company Abanka Vipa d.d. for 2014 were adjusted as if the two companies were operating together already in the comparable period. The data of Abanka and the Abanka Group for the 2012–2013 period are calculated as the sum of individual categories on the basis of financial statements of Abanka Vipa d.d. and Banka Celje d.d., while the indicators are calculated based on these categories.

MANAGEMENT

MANAGEMENT BOARD OF THE BANK

Management Board

Aleksander VOZEL Member of the Management Board	**Matej GOLOB MATZELE** Member of the Management Board	**Jože LENIČ** President of the Management Board

Report of the Management Board

Honourable business partners and colleagues of the Abanka Group,

In 2016, by taking into account several one-off events, Abanka generated a net profit of EUR 76.7 million, thereby continuing its story of success, which began on 5 October 2015 through the merger with Banka Celje. Customer confidence has been strengthened, also by providing a considerably expanded range of services. Regardless of the operational merger, the Bank primarily focused on the customers, which was in line with **the vision of becoming the best bank according to the choice of customers, employees and investors.**

In the low interest rate and in a highly competitive environment, Abanka's net interest income was by 1.5% higher compared to 2015, while operating expenses were lower by 7.1%. As at the reporting date, total assets of Abanka amounted to EUR 3.6 billion. The Bank maintains high liquidity and capital strength, as indicated by the total capital ratio of 26.3% as at the 2016 year-end. The latter is also confirmed by the results of supervisory stress tests, in which Abanka was included from March to October 2016 as one of the four European banks.

In 2016, the Bank followed the ***key strategic programmes*** from the medium-term Strategy of Abanka d.d. for the 2016–2019 Period, which included continued integration of both banks, acceleration of digital transformation, loan process optimisation and staff renewal.

Abanka is the leading Slovene bank in custody services for investment funds and the only bank offering administrative services. In addition, the Bank not only holds high market shares in payment services and SEPA direct debits but is also actively engaged in bullion trading. Abanka provides high quality and competitive insurance services in partnership with Zavarovalnica Triglav and sells mutual funds in cooperation with Triglav Skladi. Excellent relationships are developed with all customer segments.

In 2016, the Bank sought solutions for simplifying and accelerating the main processes, which also have an impact on service quality. Optimisation of the organisational structure continued so as to centralise support functions, ensure more efficient customer servicing. In line with the strategic guideline of the Bank, much attention was devoted to the development of modern sales channels. The Abamobi com mobile bank application for corporate customers was upgraded to enable payment transactions and checking of deposit and loan balances, in addition to providing fast, simple and secure banking services. For better communication with corporate customers, the feature of receiving and sending messages to the Bank was added to the mobile bank application. Apart from that, the Abamobi mobile bank application for retail customers was upgraded, further improving user experience. An important element in the digital transformation of Abanka is a state-of-the-art website. User experience was upgraded by observing the latest trends and international standards in user experience design and by adjusting the website for mobile devices through responsive web design.

In the context of cashless operations, the Bank offers its customers a range of card services. The Visa business card was redesigned to bring it closer to the users and cards that allow contactless payment started to be issued. The signing of agreements using a signature pad (ePero application) was made available to customers in order to accelerate the conclusion of agreements and automate the agreement archiving process. In the second half of 2016, the loan process optimisation was launched in order to improve client servicing. As of July, a redesigned application for the sale of credit, guarantee and deposit operations to legal persons has been in use. With many years of experience in trade finance and a high level of professionalism, the Bank is aware of the significance of choosing an appropriate hedging insurance for a particular customer. Therefore, when giving advice focus is on the target choice and preparation of individual hedging instruments tailored to the needs of individual customers.

Abanka actively sold its treasury products, which resulted mainly in higher business volume with regard to the spot purchase and sale of foreign currencies and higher demand for derivatives for hedging against foreign exchange risks and interest rate risk. The Bank was also successful in acquiring customers due to the abolition of registry accounts kept by KDD. The management of the debt securities portfolio included in the banking book demanded the Bank to continue to apply a conservative and prudent investment policy, i.e. investing in investment-grade, highly liquid bonds.

To become a cost-effective and profitable bank, in 2017 Abanka will continue to focus on retail banking, small and medium-sized enterprises and key customers with significant non-interest income. The Bank effectively manages risks, executes the projects aimed at increasing cost-effectiveness and optimisation of the loan process, develops new products and services, and creates a stimulating environment for employees by maintaining a good organisational climate and through employee commitment, which will not only result in profitable, safe and stable operations but also boost the reputation of the Bank in the eyes of investors. In parallel, the Bank strengthens business relationships with customers and upgrades the existing relationships through a personal, individual approach, quality services and quick responsiveness. The Bank's ultimate goal remains a satisfied and loyal customer, who is provided a wide range of banking and insurance products in a simple and modern way. Abanka actively pursues digitisation of banking services as well as upgrades the functionality of the electronic and mobile channels and its website www.abanka.si. Customers will continue to be provided simple, cost-effective and time-saving access to the banking services through e-channels, which may be used anywhere and anytime. The Bank will continue to upgrade and market modern services, such as the Abamobi com mobile bank, Abasms for corporate customers and the Abanet com online bank.

Abanka accomplishes its **mission** of ***"UNITING WITH EXCELLENCE IN FINANCIAL SERVICES"*** through its values and core competencies and/or comparative advantages. The Bank gazed into the past, present and future at the 2016 Abanka Day, where the values governing the Bank's operations were presented in detail. Abanka strives for **excellence** in all segments and builds new value chains by forming **partnerships** with both customers and employees. **Innovation** is key in the development of services, sales channels and processes. In business operations, the focus is on responsible and professional **execution** in accordance with the arrangements. Abanka's relationships are based on **friendliness** to the customers, employees and all other stakeholders.

Our **core competences** are a strong customer-focused culture and awareness of customer importance, economical and prudent approach to costs, innovation, and high willingness of employees to face new challenges, entrepreneurship and expertise based on experience. The Bank is constantly in search of improvements contributing to a better quality of services in all business segments. In 2016, a new way of acquiring innovative ideas was established by organising Abathon, which will be further developed and upgraded.

Abanka is a modern universal commercial bank with a clear vision of the future and the development of advanced banking services. The strong capital base, the continued restructuring of both the Bank and the Group and the implementation of the set strategic objectives will enable safe, reliable and profitable operations of the Bank also in 2017, thereby making the Bank more attractive to investors. Abanka is a bank of friendly people devoted to excellence in business, services and personal relations. Abanka pursues its business objectives in cooperation with you, our loyal business partners, our highly qualified and motivated employees and with the support of our shareholder.

The Management Board thanks all colleagues for their contribution to excellent business results in 2016, to our business partners for good cooperation, to our customers for their trust and to the shareholder for its support. In 2017, Abanka continues to follow its vision of becoming the best bank according to the choice of customers, employees and investors.

Management Board

Matej GOLOB MATZELE	**Aleksander VOZEL**	**Jože LENIČ**
Member of the Management Board	Member of the Management Board	President of the Management Board

SUPERVISORY BOARD

As at 31 December 2016

Marko GARBAJS	• SIJ d.d., Business Analyst • MAG PROJEKTI, svetovanje in financiranje projektov d.o.o., Director
Melita MALGAJ	• Slovenski državni holding d.d., Director of Economy Management Department • Hit d.d., external member of the Investment and Disinvestment Committee
Blaž ŠTERK	• The Interenergo Group (Interenergo, energetski inženiring, d.o.o. Ljubljana, Authorised Officer; Interenergo d.o.o., Zagreb, Director; PLC Interenergo d.o.o., Belgrade, Director; Interenergo d.o.o. – Kosova sh.p.k., Director) • RSG Kapital, upravljanje tveganega kapitala d.o.o., Member of the Supervisory Board
Alenka VRHOVNIK TEŽAK	• VTT d.o.o., Authorised Officer and Financial Adviser • Court Expert in Economics – Finance
Rok PIVK	• Zavarovalnica Triglav d.d., Executive Director of Finance • Salnal d.o.o., Director • Triglav, upravljanje nepremičnin, d.d., Chairman of the Supervisory Board • Skupna pokojninska družba d.d., Member of the Supervisory Board
Vid LESKOVEC	• Leskovec Law Firm, Director

Report of the Supervisory Board

As at 31 December 2016, the Supervisory Board of Abanka was composed of six members. In 2016, the composition of the Supervisory Board changed. In early 2016, the Supervisory Board was composed of Janko Gedrih as its Chairman, Marko Garbajs as its Vice Chairman and Andrej Slapar, Blaž Šterk, Melita Malgaj, Matjaž Trebše and Alenka Vrhovnik Težak as its members. On 9 February 2016, Janko Gedrih, the Chairman of Abanka's Supervisory Board, resigned as a Supervisory Board member. As a result, on 25 February 2016 Marko Garbajs, Vice Chairman of the Supervisory Board, was appointed Chairman of the Supervisory Board, whilst Melita Malgaj, Member of the Supervisory Board, was appointed Vice Chairman of the Supervisory Board of Abanka d.d.

The 33rd General Meeting of Shareholders, held on 13 May 2016, appointed the following Supervisory Board members: Rok Pivk, with a term of office starting on 13 May 2016, and Vid Leskovec, with a term of office starting on 31 May 2016, (on 30 May 2016 the term of office of Andrej Slapar, the Supervisory Board Member expired).

On 8 August 2016, Matjaž Trebše, Member of Abanka's Supervisory Board, resigned as a Supervisory Board Member.

As at the reporting date, the Supervisory Board was composed of Marko Garbajs as the Chairman of the Supervisory Board, Melita Malgaj Vice Chairman and Blaž Šterk, Alenka Vrhovnik Težak, Rok Pivk and Vid Leskovec its members. The Banking Act specifically and in detail stipulates the conditions and requirements for supervisory board members of banks and does not prohibit members who have an economic, personal or other close relationship with bank's major shareholders or their Management Board from serving as Supervisory Board members. In cases when the Supervisory Board discusses issues related to a member of the Supervisory Board and/or persons linked to members of the Supervisory Board, the latter are regularly excluded from the discussion and voting on those issues, with the Chairman of the Supervisory Board paying special attention to the exclusion of these members. In case the Chairman is excluded, the session is chaired by the Vice Chairman. Any such exclusion is entered into the minutes.

The Supervisory Board had four committees:

- As at the reporting date, **the Audit Committee** had the following composition: Blaž Šterk as Chairman, and Melita Malgaj, Rok Pivk and Alenka Vrhovnik Težak as members. As at 31 December 2015, the Committee was composed of: Blaž Šterk as Chairman, and Matjaž Trebše, Marko Garbajs and Melita Malgaj as members. The composition of the Committee changed over the course of the year. In the reporting period, Marko Garbajs was replaced by Rok Pivk as Committee Member. From 1 June 2016 to 8 August 2016, the Audit Committee thus had the following composition: Blaž Šterk as its Chairman and Matjaž Trebše, Melita Malgaj and Rok Pivk as its members. Following the resignation of Matjaž Trebše as the Member of the Supervisory Board on 8 August 2016, the Audit Committee was composed of three members in the period from 9 August 2016 to 24 August 2016. On 25 August 2016, Alenka Vrhovnik Težak became the Audit Committee member. The Audit Committee held eight meetings in and one correspondence meeting in 2016. The main purpose of the Audit Committee is to assist the Supervisory Board in discharging its supervision duties regarding the reliability of financial statements, financial reports and other financial information that the Bank provides to its shareholders and other members of the public concerning the qualifications, effectiveness and independence of the external auditor, the operation of the internal audit function and compliance of the Bank with the applicable legal and regulatory requirements.
- As at the reporting date, **the Human Resource Committee** had the following composition: Marko Garbajs its Chairman and Melita Malgaj and Vid Leskovec its members. As at the 2015 year-end, the Committee was composed of the following members: Janko Gedrih as its Chairman and Andrej Slapar and Melita Malgaj as its members. In 2016, the Committee composition changed. On 9 February 2016, Janko Gedrih resigned as the Supervisory Board Member. Consequently, as from 25 February 2016, the Human Resource Committee was chaired by Marko Garbajs, whilst on 30 May 2016 the term of office of a Supervisory Board Member Andrej Slapar ended. On 31 May 2016, Vid Leskovec thus became the Committee member. In the reporting period, the Committee had six meetings and held one correspondence one. The main purpose of the Human Resource Committee is to support the Supervisory Board in the execution of their supervisory responsibilities with respect to personnel issues involving the Management Board and the Supervisory Board membership.
- As at the reporting date, **the Compensation Committee** had the following composition: Marko Garbajs as its Chairman and Alenka Vrhovnik Težak and Vid Leskovec its members. As at the 2015 year-end, the Committee was composed of the following members: Andrej Slapar served as its Chairman and Alenka Vrhovnik Težak and Matjaž Trebše as its members. In 2016, the Committee composition changed. On 30 May 2016, the term of office of Andrej Slapar as the Supervisory Board Member ended. As a result, on 31 May 2016 Vid Leskovec joined the Committee as a member, while Matjaž Trebše served as its Chairman until his resignation on 8 August 2016. Since 25 August 2016, the Chairman of the Compensation Committee was Marko Garbajs. The Committee held four meetings in 2016. The main purpose of the Compensation Committee is to support the Supervisory Board in the execution of their supervisory responsibilities with respect to taking decisions on remuneration, including those having an impact on the risks and risk management of the Bank.

- As at 31 December 2016, **the Risk Management and Asset Liability Management Committee** had the following composition: Alenka Vrhovnik Težak served as its Chairman and Marko Garbajs, Blaž Šterk and Rok Pivk as its members. As at the 2015 year-end, the Committee was composed of the following members: Marko Garbajs as its Chairman and Janko Gedrih, Alenka Vrhovnik Težak and Blaž Šterk as its members. In 2016, the Committee composition changed. As of 9 February 2016, following the resignation of Janko Gedrih, the Committee had only three members. Since 31 May 2016, the Committee was composed of the following members: Alenka Vrhovnik Težak as its Chairman and Marko Garbajs, Blaž Šterk and Rok Pivk its members. In 2016, the Committee held seven meetings. The main purpose of the Committee is to support the Supervisory Board in the execution of its supervisory responsibilities with respect to taking decisions related to the risk management function, the risk profile and the control of asset liability management in the Bank.

With the exception of the above-stated committees, the Supervisory Board has no other division of duties among its members.

All the members submitted their signed statements of independence to the Supervisory Board in accordance with the Corporate Governance Code, which are published on the official website of the Bank.

The self-assessment results of the Supervisory Board in 2016 were positive and adequate. The assessment of the Supervisory Board's work included the proposed activities for the elimination of any identified deficiencies. The professional qualifications, knowledge and experience of the Supervisory Board members cover a broad spectrum of expertise in finance, audit, supervision, law and other fields. The organisation and functioning of Board members as a team is effective as they facilitate the ongoing monitoring and supervision of the Bank's operations as well as initiatives and guidelines for its development. The Supervisory Board's self-assessment results positively affected and encouraged its work and confirmed that the Board had properly performed its activities.

Review of the Supervisory Board's activities in 2016

The Supervisory Board oversees the management of the Bank's business operations. In accordance with the competencies and obligations defined in the Banking Act, the Companies Act, the Decision on Internal Governance, the Management Body and the Adequate Internal Capital Assessment Procedure for Banks and Savings Banks and the Articles of Association of the Bank, the Supervisory Board operated pursuant to the principles of modern corporate governance and thus, through its supervisory function, contributed to the efficiency and transparency of the Bank's operations. At its sessions, the Supervisory Board regularly took note of the Bank’s financial operations and the risk management activities, focusing mainly on the Bank's capital, credit, liquidity and interest rate risks. At its sessions, the Supervisory Board members actively participated in discussions and initiated debates particularly in relation to the financial operations of Abanka and the Abanka Group, risk management, and the ICAAP and ILAAP processes. The Supervisory Board approved the Annual Plan of Abanka and the Abanka Group for 2017, including the financial plans up to 2019. The Supervisory Board adopted the training programme for Supervisory Board members for 2017.

In 2016, the Supervisory Board held one correspondence session in its initial composition: Janko Gedrih as its Chairman, Marko Garbajs as its Vice Chairman and Andrej Slapar, Blaž Šterk, Melita Malgaj, Matjaž Trebše and Alenka Vrhovnik Težak as its members. After Janko Gedrih resigned as the Chairman of the Supervisory Board, the Supervisory Board held four regular sessions and two correspondence ones in the following composition: Marko Garbajs its Chairman, Melita Malgaj its Vice Chairman and Andrej Slapar, Blaž Šterk, Matjaž Trebše and Alenka Vrhovnik Težak its members. All members of the Management and Supervisory Boards were present at all regular sessions of the Supervisory Board, except for Andrej Slapar, who was not present at the 21st regular session held on 21st April 2016 for legitimate reasons.

In the reporting year, the Supervisory Board held one regular session and two correspondence ones in the following composition: Marko Garbajs as its Chairman, Melita Malgaj as its Vice Chairman and Blaž Šterk, Matjaž Trebše, Alenka Vrhovnik Težak, Rok Pivk and Vid Leskovec as its members. Following the resignation of Matjaž Trebše, the Supervisory Board composed of Marko Garbajs as Chairman, Melita Malgaj as Vice Chairman and Blaž Šterk, Alenka Vrhovnik Težak, Rok Pivk and Vid Leskovec as its members held four sessions. All members of the Management Board were present at all regular sessions of the Supervisory Board.

In line with Abanka’s commitments made to the European Commission *(State aid SA.38522 2014/N Slovenia, Restructuring aid for Banka Celje/Abanka)* by the Republic of Slovenia upon the approval of state aid to the Bank, a representative of KPMG, poslovno svetovanje, d.o.o. regularly attended the Supervisory Board sessions as a Monitoring Trustee.

The Supervisory Board's regular sessions lasted 32 hours and 11 minutes in total, which is 3% less than in 2015 (33:10).

At its sessions in 2016, the Supervisory Board:

- approved and adopted the audited Annual Report of Abanka for 2015, including the auditor’s report by Deloitte Revizija d.o.o., and adopted the Corporate Governance Statement for 2015;

- took note of the resignation letter of Janko Gedrih, the Chairman of Abanka's Supervisory Board, to resign as a Supervisory Board Member of Abanka as at 9 February 2016; appointed Marko Garbajs as the Supervisory Board Chairman and Melita Malgaj its Vice Chairman on 25 February 2016;
- took note of the resignation letter of Matjaž Trebše as a member of the Supervisory Board of the Abanka as at 8 August 2016;
- took note of reports on the implementation of the commitments, made to the European Commission;
- adopted the Strategy of Abanka d.d. for the 2016-2019 period;
- discussed reports on financial operations of Abanka and the Abanka Group in 2015 and 2016;
- took note of and approved the credit limits;
- approved the Abanka Group Recovery Plan;
- took note of and discussed the largest non-performing exposures;
- discussed the ICAAP and ILAAP processes and took note of the findings and results of the ICAAP and ILAAP processes;
- discussed comprehensive reports on the risks of Abanka's and/or the Abanka Group's operations (including the Risk Management Strategy of the Abanka Group);
- regularly took note of the Comprehensive Assessment Project carried out by the European Central Bank in 2016;
- approved the proposed agenda of the 33rd General Meeting of Shareholders of Abanka held on 13 May 2016;
- proposed to the General Meeting of Shareholders to appoint two new members of the Supervisory Board (before the appointment of new Supervisory Board members at the General Meeting of Shareholders held on 13 May 2016, the Bank performed the fit and proper assessment of the candidates for the members of the Supervisory Board in accordance with the Banking Act (ZBan-2));
- gave consent to the appointment of the internal auditor;
- discussed the Annual Internal Audit Report for 2015 and gave its opinion thereto, discussed internal audit reports for the first six months of 2016, approved the Internal Audit Department Work Plan for 2017 and the framework strategic plan for the 2018–2019 period;
- approved the Annual Plan of Abanka and the Abanka Group for 2017, including the financial plans up to 2019;
- on 15 December 2016 took note of the resignation letter of Aleksander Vozel, Member of the Management Board;
- discussed other issues related to the operations of the Bank and the Group.

Based on up-to-date materials prepared by the Management Board, reports made by specialised in-house departments and its own findings, the Supervisory Board responsibly monitored the Bank's operations and the work of the Internal Audit Department, also supervising the management of the Bank. In addition, the Supervisory Board required from the Management Board to take appropriate measures and implement activities aimed at improving the performance of the Bank and reducing the risks. The Supervisory Board considers its cooperation with the Management Board good; the Management Board reported on all relevant circumstances in a timely and complete manner, provided answers to the questions received, and duly discharged the duties imposed by the Supervisory Board. The Supervisory Board concluded that its regular and comprehensive monitoring of Abanka's operations, its guidance towards the best possible decisions in a particular situation, coupled with appropriate supervision of the Bank's governance, contributed to safe and stable operations of the Bank and excellent business results.

Annual Report for 2016

At its session on 13 April 2017, the Supervisory Board discussed the 2016 Annual Report of Abanka, including the audit report by Deloitte Revizija d.o.o. Cooperation with the audit company was of high quality; the auditors responsible took part in the sessions of the Supervisory Board and the Audit Committee and participated in resolving the outstanding issues. The Supervisory Board confirmed that the Annual Report is a true and fair presentation of the Bank's and the Group's position, gives a comprehensive view of operations in 2016 and thus complements the information they received during the financial year. Comparing the Annual Report with the audited financial statements for the 2016 financial year, the Supervisory Board established that the financial results presented in the Annual Report match the audit report. In its opinion, the Supervisory Board, together with the Management Board, fulfilled all their legal requirements for the 2016 financial year.

The Supervisory Board hereby establishes that the certified external auditor, in their report, issued a positive opinion of the financial statements, which present a true and fair view of the Bank's and the Group's financial position in all material aspects. The Supervisory Board has no comments on the audit report by Deloitte Revizija d.o.o. and believes the Bank's and the Group's operations in 2016 were carried out in accordance with the applicable legal requirements. Based on its insights into the Bank's operations during the year and following a careful examination of the audited Annual Report and the positive opinion issued by the certified auditor in their audit report, the Supervisory Board hereby without objections approves and adopts the Annual Report of Abanka for the 2016 financial year.

Marko GARBAJS
Chairman of the Supervisory Board

PRESENTATION OF THE GROUP AND ITS ENVIRONMENT

ABOUT THE BANK

Abanka Vipa d.d. is a bank with a long tradition in the Slovene banking sector. The origins of Abanka date back to 1955, when the bank operated as a branch of the Yugoslav Bank for Foreign Trade. In 1977, the branch was renamed Jugobanka – Temeljna banka Ljubljana. Abanka began using its current name on 1 January 1990, when it was reorganised as a public limited company. On 31 December 2002, Banka Vipa merged with Abanka. Since then, the Bank has operated under the name Abanka Vipa d.d., abbreviated to Abanka d.d. The shares of Abanka were listed on the Ljubljana Stock Exchange from October 2008 to December 2013, when on the basis of the Decision of the Bank of Slovenia on Extraordinary Measures, all qualified liabilities of the Bank on 18 December 2013 ceased in full. On 18 December 2013, the Republic of Slovenia subscribed and fully paid in all 15,000,000 shares newly issued by Abanka, and thereby became the 100% owner of the Bank. On 8 October 2014, the Republic of Slovenia paid in another 100,000 new shares. On 5 October 2015, Banka Celje d.d., established in 1864 when Celje Municipal Savings Bank was founded, was merged with Abanka Vipa d.d. in line with the commitment made to the European Commission. Since that date, the merged bank has operated under the name Abanka d.d. As at 31 December 2016, Abanka's market share in terms of total assets was 9.7%.

Abanka is a universal bank with authorisation to provide all banking and other financial services. Through its extensive network of 58 branches across Slovenia, e-banking, advisory services and a personal approach, the Bank provides integrated financial services, ranging from traditional banking and bancassurance to investment banking. Moreover, Abanka has gained international reputation. In interbank operations, it uses a network of correspondent banks across the globe to provide quality customer services relating to international payment transactions.

The subsidiaries Aleasing d.o.o. and Anepremičnine d.o.o. complement Abanka's offering by providing leasing services and trading in own real property.

9.7%

Abanka's market share as at the 2016 year-end

SERVICES OF THE BANK

As at 31 December 2016 Abanka was authorised to provide the following mutually recognised financial services under Article 5 of the Banking Act (ZBan-2):

SERVICE	LICENCE ISSUED
1. Acceptance of deposits and other repayable funds;	YES
2. Lending including, inter alia: – consumer loans, – mortgage loans, – factoring, with or without recourse, – financing of commercial transactions (including forfeiting);	 YES YES YES YES
3. Financial leasing: leasing of assets for a period which is approximately the same as the life expectancy of the leased assets, where the lessee derives most benefit from the use of the leased assets and assumes total transaction risk;	NO
4. Payment services	YES
5. Issuance and administering of payment instruments (e.g. travellers' cheques and bankers' drafts insofar as this service is not covered by previous point);	YES
6. Issuance of guarantees and other commitments;	YES
7. Trading for own account or for the account of customers in: – money market instruments, – foreign exchange, including currency exchange transactions, – financial futures and options, – exchange and interest-rate instruments, – transferable securities;	YES YES YES YES YES YES
8. Participation in the issuance of securities and services related to such issues;	YES
9. Advice and services related to mergers and acquisitions of undertakings;	YES
10. Money intermediation on inter-bank markets;	NO
11. Advice on portfolio management;	YES
12. Safekeeping of securities and other services related to the safekeeping of securities;	YES
13. Credit reference services: collection, analysis and provision of information on creditworthiness;	YES
14. Renting of safe deposit boxes;	YES
15. Investment services and operations and ancillary investment services in accordance with the Financial Instruments Market Act.	YES

Abanka is also authorised to provide the following other financial services under Article 6 of the Banking Act (ZBan-2):

SERVICE	LICENCE ISSUED
1. Insurance brokerage in accordance with the law governing the insurance business;	YES
2. Payment system management services in accordance with the Payment Transactions Act (ZPlaP);	NO
3. Pension fund management in accordance with the law governing pension and disability insurance;	NO
4. Custodian services provided according to the Investment Funds and Management Companies Act;	YES
5. Credit brokerage in consumer and other loans;	NO
6. Finance leasing brokerage and administrative services for investment funds.	YES

BANK PROFILE

Abanka is entered in the Companies Register kept by the District Court in Ljubljana under registration no. 1/02828/00.

Registered office:	Slovenska cesta 58, 1517 Ljubljana
Transaction account:	SI56 0100 0000 0500 021
SWIFT:	ABANSI2X
Tax number:	68297530
VAT identification number:	SI68297530
Company registration number:	5026024
Share capital:	EUR 151,000,000.00
Telephone:	(+386 1) 47 18 100
Fax:	(+386 1) 43 25 165
Website:	http://www.abanka.si
E-mail:	info@abanka.si

ABOUT THE GROUP

As at 31 December 2016, in addition to Abanka, as the parent company, the Abanka Group included the following:

- **subsidiaries:** Aleasing d.o.o. and Anepremičnine d.o.o. with its subsidiary Anekretnine d.o.o. in Montenegro.

Structure as at 31 December 2016

In April 2016, the subsidiary Posest d.o.o. was merged with Anepremičnine. In 2016, the Bank sold its subsidiary Afaktor d.o.o., whilst the subsidiary Aleasing d.o.o. sold its stake in associated company Agradnja d.o.o. in Bosnia and Herzegovina. In 2016, the equity stakes in the following subsidiaries were impaired: in Anepremičnine d.o.o. by EUR 961 thousand and in Aleasing d.o.o. by EUR 474 thousand. In 2016, the Bank continued activities of the sales procedures of Aleasing d.o.o. in line with the commitments made to the European Commission, which are also included in the Strategy of the Bank. Considering the interest expressed by potential investors, the Bank will decide on further measures in 2017.

The following table shows the activities of the subsidiaries of the Abanka Group, equity stakes and nominal value of the equity stakes of Abanka as at 31 December 2016.

Company	Activity	Equity stake	Nominal value of equity stakes as at 31 December 2016 (in EUR thousand)
Aleasing d.o.o.	leasing	100.0%	640
Anepremičnine Group*	real property management	100.0%	3,843

Note:
*In 2016, Posest d.o.o. was merged with Anepremičnine d.o.o.

In 2016, the nominal value of Abanka's equity stake in Anepremičnine d.o.o. increased from EUR 3,152 thousand as at the 2015 year-end to EUR 3,843 thousand as at 31 December 2016 (as the result of the merger of Posest d.o.o. in 2016 in the amount of EUR 1,652 thousand and an impairment of EUR 961 thousand), whilst in Aleasing d.o.o. it decreased from EUR 1,114 thousand as at the 2015 year-end to EUR 640 thousand as at the reporting date due to the impairment of EUR 474 thousand. In 2016 the Bank sold its subsidiary Afaktor d.o.o. Its book value stood at EUR 106 thousand as at 31 December 2015.

Activities of Subsidiaries

Anepremičnine Group

The company, which was entered in the Companies Register on 31 May 2013, was established by assuming a portion of assets from Aleasing d.o.o. On the day the demerger was entered in the Companies Register, the new company assumed a portion of the assets of the transferring company, Aleasing d.o.o., and as its successor entered all legal relations concerning the demerged assets, previously held by Aleasing d.o.o. Its core business is trading in own real property, with its headquarters in Ljubljana.

At the 2016 year-end, Gregor Živipelj was the Director of Anepremičnine d.o.o. The Supervisory Board was composed of Davorin Leskovar, Chairman and Peter Jančič, member and Dejan Grum, member. On 19 December 2016, Peter Jančič was appointed member of the Supervisory Board to replace Gregor Hudobivnik; furthermore, on 25 January 2017, he was appointed Vice Chairman of the Supervisory Board.

Anepremičnine performs the full range of real property portfolio management activities, which include conducting the sales procedures, leasing and selling real properties, analysing real property development projects, construction and completion of projects, acquiring new real property portfolio in the market or via spin-offs, selling to third parties, optimising real property management and governance of subsidiaries abroad. It has an efficient system of real property sale and lease and actively participates in the brokerage of real property pledged as collateral to the bank. The company sells its non-residential property at public auctions or through invitations to submit binding or non-binding offers (tendering).

An important segment of the company's activities is the provision of support services, particularly real property appraisal both for the Bank and the Bank's customers, supervision of the eligible use of funds, marketability analysis, real property marketing, asset management for the Bank-owned real property and advisory services.

The company was established with an aim to centralise real property management at the Abanka Group level, to optimise the real property portfolio and to manage it more efficiently. The company's main task is to manage the real property portfolio in a more uniform, transparent and predictable manner that will enable value maximisation and adequate profitability. If necessary, it participates in the completion of unfinished projects as an investor.

Anepremičnine is closely involved in the part of the process of real property business of the Abanka Group which relates to commercial transactions. This entails acquisition of real property within the Group, property selling, development, investment, attracting tenants, real property management, divestment and operational marketing of real property. In the reporting year, Anepremičnine either sold or leased many residential and commercial real properties for its own account and provided estate agency services, thereby achieving the key objectives set for 2016.

In April 2016, Anepremičnine acquired **Posest, podjetje za trgovino, inženiring in posredovanje d.o.o.** (hereinafter: Posest), which ceased to exist as an independent legal entity, whilst all its assets and liabilities were transferred to Anepremičnine as its acquiring company. Banka Celje established Posest d.o.o. on 6 September 1991 with its headquarters in Celje. Due to the merger of Banka Celje with Abanka, Posest was 100% owned by Abanka d.d. as at the 2015 year-end. It operated in Slovenia, although in 2015 some appraisals were made abroad, i.e. in Croatia, Serbia and Bosnia and Herzegovina. The core activities of the company until the merger were: marketing of real property owned by the company and the Bank, real property and equipment appraisal, supervision of bank loans extended for special purposes, assistance in collecting the debts of the Bank that are more difficult to recover, real property leasing, engineering of own and other real properties and advisory services related to financing of real property development projects. Until the merger the company was managed by Davorin Zavasnik and the Supervisory Board was composed of Davorin Leskovar as its Chairman, Gregor Živipelj its Vice Chairman and Bojan Zadravec as its member.

The operations of the Anepremičnine Group are geographically limited to Slovenia and Montenegro, where in Podgorica in 2014 Anepremičnine d.o.o. founded its subsidiary Anekretnine d.o.o. As at the reporting date, the subsidiary was managed by Director Slobodan Radović and had no Supervisory Board. According to the forecast of the European Commission[1], economic growth was expected to reach 2.6% in 2016 while general government debt would stand at 65.5% of potential GDP as at the 2016 year-end. Over the next two years, economic growth of Montenegro is projected to slightly increase, i.e. by 3.7% in 2017 and by 3.1% in 2018. According to the European Commission, general government debt of Montenegro will slightly rise as it is expected to reach 70.3% of GDP in 2017 and 73.3% of GDP in 2018.

Aleasing d.o.o.

Aleasing, financiranje, svetovanje, trženje d.o.o. (short company name: Aleasing d.o.o.) started its operations on 11 February 2000 under the name of Eurofin leasing. After Abanka Vipa d.d. became its majority owner, Eurofin leasing was renamed Aleasing on 1 April 2004. The merger by acquisition of Vogo leasing d.o.o. from Šempeter pri Gorici by Aleasing took place on 1 July 2009. Aleasing, as the acquiring company, entered all legal transactions, in which Vogo leasing had been involved, as its legal successor, operating on the Slovene market from 1990.

Currently, it is 100% owned by Abanka with its headquarters in Ljubljana and two business units in Celje and Šempeter pri Gorici. In 2012, the company relocated its headquarters from Celje to Ljubljana. The company had one associated company in Sarajevo in Bosnia and Herzegovina, i.e. a 49% equity stake in Agradnja d.o.o., which was sold in 2016.

The leasing products provided by Aleasing complement the range of products and services provided by the Abanka Group. This company operates in a relatively narrow and highly specialised market niche. The main products are financial leasing of real property and movables and operating leasing of vehicles. Within the framework of its core business, the company is proactive in selling insurance services. Operations of Aleasing were made compliant with the Abanka Group's policies and strategic guidelines and its commitments to the European Commission, which means that in 2016 the company neither borrowed additional money nor increased its total assets.

The company is led by Director Nikolaj Fišer. The three members of the Supervisory Board supervise and manage the company, which had the following composition as at the 2016 year-end: Davorin Leskovar its Chairman, Jure Poljšak and Peter Jančič its members. In 2016, the composition of the Supervisory Board changed as on 20 December 2016 Gregor Hudobivnik, Vice Chairman of the Supervisory Board, was replaced by Peter Jančič, member of the Supervisory Board. Jure Poljšak was appointed Vice Chairman of the Supervisory Board on 24 January 2017. There were no significant changes in the ownership and management of the company.

Due to the limitations on the volume of its operations, Aleasing is unable to utilise its potential and exploit the opportunities resulting from higher demand for financial services due to the winding-up of certain other leasing companies and the revival of the economy. As a result of adjusting the business strategy to a smaller volume of new business, the operations of the company are focused on the financing of vehicles and equipment. Particular attention is paid to deepening cooperation with its strategic business partners and development of services. It offers fleet management services in cooperation with an outsourced provider. Fleet management services are suitable for companies which only want to use company vehicles, without having to care for their maintenance, insurance, registration and the like. Aleasing sells these services to large companies with an extensive vehicle fleet and the highest credit rating.

In order to achieve the set objectives, Aleasing pays great attention to streamlining its business processes, risk management, finding synergies within the Abanka Group and to identifying its comparative advantages. The objectives of the company are aimed at achieving high interest rates on leased funds, safety of investments and cost effectiveness of its operations.

In line with the commitments made to the European Commission, Abanka is carrying out the sales process of Aleasing. Employees of the company are intensively involved in the sales activities in order to ensure credible and transparent information on the operations to the potential buyers. The procedures are being implemented in accordance with the time schedule, according to which the sale will be completed in 2017.

[1] European Economic Forecast Winter 2017, February 2017. Luxembourg: Publications Office of the European Union, 2017.

Agradnja d.o.o.

In October 2016, Aleasing d.o.o. sold its stake in the associated company Agradnja d.o.o. Agradnja d.o.o., an engineering, construction and real property company based in Sarajevo, was established in 2008 with an aim to build a commercial and residential complex in Sarajevo. In the first half of 2013, Agradnja became an associated company of the subsidiary Aleasing. A joint venture agreement was concluded at the same time. Until the sale of the company in October 2016, the ownership structure of the company was as follows: Aleasing d.o.o. (49%) and ASA Finance d.d. (51%). Until the company was sold, it was led by Director Sanin Granov. The company had no supervisory board.

Afaktor d.o.o.

Afaktor, finančna družba za faktoring d.o.o. (hereinafter: Afaktor or Company), established in March 1993, was 100% owned by Abanka until 14 December 2016. The company's registered office is in Ljubljana. RI-NA d.o.o. was established by SKB banka d.d. in 1993. In 1998, it was renamed to SKB faktor, finančna družba za faktoring d.o.o. Ljubljana. Since the beginning of 1999, the company specialised in factoring and was 100% owned by SKB banka d.d. In 2002, Abanka acquired the company and changed its name to Afaktor, finančna družba za faktoring d.o.o., Ljubljana. On 14 December 2016, Abanka concluded an agreement to sell the 100% stake in the said company with the German factoring company A.B.S. Global Factoring AG. After the acquisition, the company changed its name and has been operating under the name A.B.S. Factoring d.o.o.

Until 31 March 2016 the company was managed by Matjaž Kaštrun, whereas since 1 April 2016 the company has been managed by Bojan Šuštar. Until the sale, the company’s Supervisory Board comprised of Davorin Leskovar as its Chairman, Gregor Hudobivnik as its Vice Chairman and Bojan Zadravec as its member.

The core activities of Afaktor d.o.o. were:
- domestic and international factoring, with or without recourse;
- purchase of receivables arising from sales of goods and services;
- financing commercial transactions and lending.

Afaktor was established as a specialised financial company offering factoring services on the Slovene market. Following a capital increase in 2007 and after joining Factors Chain International (FCI), a global network of leading factoring companies, Afaktor started to provide international factoring services alongside the domestic factoring. In line with the strategy of expansion to the markets of South-East Europe, Afaktor founded a subsidiary in Belgrade in 2007 and another one in Zagreb in April 2010. In view of the revised strategy of the Bank in 2012, Afaktor consequently amended its strategy of expansion to the markets of South-East Europe and began to withdraw from the Croatian and Serbian markets. The subsidiary in Croatia stopped operating in 2013 and the subsidiary in Serbia suspended its operations in the first half of 2014. Withdrawal from the markets in Serbia and Croatia was completed with the sale of both subsidiaries by September 2015.

In 2016 the company operated to a limited extent. Due to the commitments made to the European Commission, Abanka was required to sell or wind down the subsidiary. Considering the fact that there were no eligible buyers in the sales process, Abanka adopted the programme of orderly and gradual winding down. During the implementation of the programme and additional activities of the company, the strategic investor (A.B.S. Global Factoring AG) expressed an interest in acquiring a stake in the company. Following successful negotiations, Abanka sold its 100% stake. After the ownership change and under a new name, the company re-established its operations.

ABANKA'S STRATEGY

In 2016, the Bank followed the strategic guidelines as set out in the medium-term Strategy of Abanka d.d. for the 2016–2019 Period, approved by the Supervisory Board on 25 February 2016. The Strategy was drawn up on the basis of the restructuring plan and the information on the economic environment and future forecasts available at that time. It includes the Group's vision, mission, key strategic guidelines and financial projections including the actions required for the achievement of the strategic objectives, honouring the commitments of the European Commission.

Abanka's Mission and Vision

The Abanka's mission is **UNITING WITH EXCELLENCE IN FINANCIAL SERVICES** and is known as **the BANK OF FRIENDLY PEOPLE**. Abanka accomplishes this ***mission*** through its values, core competencies and comparative advantages.

> The Abanka's mission is **UNITING WITH EXCELLENCE IN FINANCIAL SERVICES** and is known as **the BANK OF FRIENDLY PEOPLE**.

Abanka's performs with **excellence** in all segments and forms **partnerships** with internal and external partners, with whom new value chains are built. Special attention is paid to **innovation** in the development of services, sales channels and processes. The focus is on **execution**, which means responsible and consistent performance of tasks in accordance with the agreements. Abanka's relationships are based on **friendliness** to the customers, employees and all other stakeholders.

The key strategic guidelines of the merged bank include:
- making the Bank more attractive to investors and obtaining an adequate credit rating;
- operational merger of both banks and unification of the culture of operation;
- strengthening the retail and SME operations;
- servicing key major customers by providing a comprehensive range of banking products;
- quick and efficient introduction of advanced technological and process solutions;
- becoming the most popular employer in the industry.

The Bank has ***comparative advantages*** in the following key areas:
- a high degree of availability and responsiveness for key customers and natural persons;
- knowing our customers and building long-term relationships;
- the leading position in individual service segments (payment transactions, custodial services, bancassurance, card operations, Abatočka, trade finance, etc.);
- the leading position in the introduction of innovative banking products.

Abanka operates on the Slovene market, which is characterised by extremely fierce banking and non-banking competition. In line with its ***vision*** for 2019, Abanka is committed to become **THE FIRST BANK IN SLOVENIA ACCORDING TO THE CHOICE OF CUSTOMERS, EMPLOYEES AND INVESTORS.**

> **THE FIRST BANK IN SLOVENIA ACCORDING TO THE CHOICE OF CUSTOMERS, EMPLOYEES AND INVESTORS.**

The following main strategic programmes were developed:
- operational merger,
- acceleration of digital transformation,
- loan process optimisation and
- reorganisation of the staffing structure.

Abanka is confident that by continuously searching for the best implementing solutions it will introduce and implement additional strategic programmes, projects and activities by 2019.

FINANCIAL PLAN FOR 2017

The financial plan for 2017 was prepared in autumn 2016 based on macroeconomic forecasts and expectations available at that time, in line with the restrictions arising from the commitments made to the European Commission at the Group level. The Annual Plan of Abanka and the Abanka Group for 2017, including the financial plans up to 2019, were approved by the Supervisory Board in December 2016.

Abanka's main goals in 2017 will again include retail banking, the SME segment and key customers with significant non-interest income. The Bank will focus on improving risk management by strengthening the culture of awareness of all employees about the importance of effective risk management as well as on implementing the projects aimed at increasing cost-effectiveness. Moreover, the Bank will create a stimulating environment for employees by maintaining a good organisational climate and through employee commitment and continue with the loan process optimisation, which will not only enable profitable, safe and stable operations but also enhance the Bank's reputation among investors. In parallel, measures aimed at boosting customer business will be implemented in line with the vision of becoming the best bank according to the choice of customers, employees and investors.

Total assets will decrease in 2017 due to the commitments made to the European Commission, while **operating expenses** will also experience a significant drop. In 2017, both the **Group** and the **Bank** are expected to generate a **profit**.

Total assets will decrease in 2017 due to the commitments made to the European Commission, while operating expenses will also experience a significant drop. In 2017, both the Group and the Bank are expected to generate a profit.

MAJOR BUSINESS EVENTS IN 2016 AND 2017

Major Business Events in 2016

Major business events in 2016 included:

- **The change in the status of Abanka d.d. from a less important bank to an important bank:**
  - The European Central Bank changed the status of Abanka d.d. from a less important bank to an important bank as of 1 January 2016.

- **The change in the status of Abanka d.d. in accordance with the Financial Instruments Market Act (ZTFI):**
  - As of 16 February 2016 Abanka d.d. is no longer a public limited company in accordance with Article 99 of the ZTFI, as the BCE15 bond of Banka Celje fell due on 15 February 2016.

- **A comprehensive assessment of the Bank:**
  - In 2016 Abanka passed the comprehensive assessment, under both the baseline and adverse scenarios.
  - The European Central Bank performed comprehensive assessments also in 2016. The comprehensive assessment in Abanka was conducted from March to October 2016, which consisted of an asset quality review (AQR) and stress tests. The threshold of the Common Equity Tier 1 capital ratio (CET1 ratio) for the baseline scenario was 8.0% and Abanka achieved 23.8%. The threshold of the Common Equity Tier 1 capital ratio (CET1 ratio) for the adverse scenario was 5.5% and Abanka achieved 10.0%.

- **Changes to the Management Board:**
  - In December 2016, Aleksander Vozel resigned as a Management Board Member, who served as a Management Board member until 31 March 2017.

- **Changes to the Supervisory Board:**
  - In early 2016, the Supervisory Board was composed of seven members: Janko Gedrih as its Chairman, Marko Garbajs as its Vice Chairman, and Andrej Slapar, Blaž Šterk, Melita Malgaj, Matjaž Trebše and Alenka Vrhovnik Težak as its members.
  - On 9 February 2016, Janko Gedrih, the Chairman of Abanka's Supervisory Board, resigned as a Supervisory Board Member.
  - On 25 February 2016, Marko Garbajs, Vice Chairman of the Supervisory Board, was appointed Chairman of the Supervisory Board.
  - On 25 February 2016, Melita Malgaj, Member of the Supervisory Board, was appointed Vice Chairman of the Supervisory Board.
  - The 33rd General Meeting of Shareholders, held on 13 May 2016, appointed the following Supervisory Board members: Rok Pivk, with a term of office starting on 13 May 2016, and Vid Leskovec, with a term of office starting on 31 May 2016 (on 30 May 2016 the term of office of Andrej Slapar, a Supervisory Board Member, expired).
  - On 8 August 2016, Matjaž Trebše, Member of Abanka's Supervisory Board, resigned as a Supervisory Board Member.

- **Changes to the Supervisory Board committees:**
  - As at the 2015 year-end, **the Audit Committee** was composed of the following members: Blaž Šterk as Chairman, and Matjaž Trebše, Marko Garbajs and Melita Malgaj as members. The composition of the Committee changed over the course of the year. In the reporting period, Marko Garbajs was replaced by Rok Pivk as Committee Member. From 1 June 2016 to 8 August 2016, the Audit Committee thus had the following composition: Blaž Šterk as its Chairman and Matjaž Trebše, Melita Malgaj and Rok Pivk as its members. Following the resignation of Matjaž Trebše as the Member of the Supervisory Board on 8 August 2016, the Audit Committee was composed of only three members in the period from 9 August 2016 to 24 August 2016. Since 25 August 2016, Alenka Vrhovnik Težak joined the Audit Committee as its member along with Blaž Šterk as the Chairman and Melita Malgaj and Rok Pivk as its members.
  - As at the 2015 year-end, **the Compensation Committee** comprised: Andrej Slapar served as its Chairman and Alenka Vrhovnik Težak and Matjaž Trebše as its members. In 2016, the composition of the Committee changed. On 30 May 2016, the term of office of Andrej Slapar as a Supervisory Board Member ended. As a result, Vid Leskovec joined the Committee as its member on 31 May 2016. Matjaž Trebše served as its Chairman until his resignation on 8 August 2016. Since 25 August 2016 onwards, the Chairman of the Compensation Committee was Marko Garbajs. As at the 2016 year-end, the Compensation Committee comprised: Matjaž Trebše as its Chairman and Alenka Vrhovnik Težak and Vid Leskovec as its members.

- As at the 2015 year-end, **the Human Resource Committee** comprised: Janko Gedrih as its Chairman and Andrej Slapar and Melita Malgaj as its members. In 2016, the Committee composition changed. On 9 February 2016, Janko Gedrih resigned as a Supervisory Board Member. Consequently, as of 25 February 2016, the Human Resource Committee was chaired by Marko Garbajs. On 30 May 2016 the term of office of the Supervisory Board Member Andrej Slapar ended, and on 31 May 2016 Vid Leskovec became the new member of the Human Resource Committee. As at the 2016 year-end, the Committee was composed of the following members: Marko Garbajs as its Chairman and Melita Malgaj and Vid Leskovec as its members.
- As at 31 December 2015, **the Risk Management and Asset Liability Management Committee** had the following composition: Marko Garbajs served as its Chairman and Janko Gedrih, Alenka Vrhovnik Težak and Blaž Šterk as its members. In 2016, the composition of the Committee changed. As of 9 February 2016, following the resignation of Janko Gedrih, the Committee had only three members. Since 31 May 2016, the Committee has been composed of the following members: Alenka Vrhovnik Težak as its Chairman and Marko Garbajs, Blaž Šterk and Rok Pivk as its members.

- **Credit ratings by Moody's Investors Service:**
  - On 10 February 2016, the credit rating agency Moody's Investors Service confirmed Abanka's long term local- and foreign-currency deposit ratings of B3 with a stable outlook, as well as Abanka's BCA (baseline credit assessment) of caa1.
  - On 4 August 2016, the credit rating agency Moody's Investors Service assigned the status "Review for Upgrade" to Abanka's B3 long-term local- and foreign-currency deposit ratings and caa1 BCA (baseline credit assessment).
  - On 25 October 2016, the credit rating agency Moody's Investors Service upgraded Abanka's long term local- and foreign-currency deposit ratings from B3 to Ba3 with a positive outlook, as well as Abanka's BCA (baseline credit assessment) from caa1 to b2.

- **Credit rating by Fitch Ratings:**
  - On 12 May 2016, the international rating agency Fitch Ratings upgraded Abanka's Long-Term Issuer Default Rating from BB– to BB and assigned it a stable outlook. Abanka's Viability Rating was also upgraded from bb– to bb. Other bank ratings remain unchanged: Short-Term IDR at B, Support Rating at 5 and Support Rating Floor at "No Floor". The Agency's higher Long-Term Issuer Default Rating and Viability Rating of the Bank are based on the improved credit portfolio of the Bank, improved capital adequacy ratios, high liquidity reserves and an appropriate structure of sources of funding, in addition to the improved environment in which the Bank operates and further restructuring of the corporate accounts.

- **The activities related to the subsidiaries of the Abanka Group:**
  - In 2016, the merger process of Posest d.o.o. with Anepremičnine d.o.o. began. Based on the Decision of the District Court of Ljubljana dated 18 April 2016, Posest, podjetje za trgovino, inženiring in posredovanje d.o.o. was merged to the acquiring company Anepremičnine trgovanje z lastnimi nepremičninami d.o.o. The merger was executed under the formal status change procedure as a simplified merger. Upon its entry into the Companies Register, Posest d.o.o. ceased to exist as an independent legal entity, whilst all its assets and liabilities were transferred to Anepremičnine d.o.o. as its acquiring company.
  - In 2016, the Bank continued the sales procedures of the subsidiaries Afaktor d.o.o., and Aleasing d.o.o. in line with the commitments made to the European Commission, which are also included in the Strategy of the Bank. In May 2016, Abanka announced the beginning of the sale of Aleasing's equity stake in Agradnja d.o.o. and the sale of receivables from Agradnja, whilst end of June it announced the start of the procedure to find a strategic investor to purchase the 100% stake and the entire lending exposure of its subsidiaries Aleasing d.o.o. and Afaktor d.o.o.
  - In October 2016, the activities relating to the sale of Agradnja d.o.o. in Sarajevo were completed.
  - On 14 December 2016, Abanka completed the sales procedure of its subsidiary Afaktor d.o.o., Ljubljana by selling it to A. B.S. Global Factoring, Germany.

- **The transfer of activities of AIII mutual pension fund to Banka Koper d.d.:**
  - In January 2016, Abanka signed an agreement on the merger of AIII mutual pension fund (hereinafter: AIII VPS) with Banka Koper's Open-ended mutual pension fund (hereinafter: OVPS). On 7 June 2016, AIII VPS was merged with Banka Koper's Open-ended mutual pension fund and the insured of AIII VPS have become the insured of OVPS, while AIII VPS ceased to exist.

Major Business Events after the Date of the Statement of Financial Position

The following business events occurred after the reporting period:

- **Changes to the Supervisory Board:**
  - At the 34th General Meeting of Shareholders held on 28 February 2017, Dejan Kaisersberger was appointed a new Supervisory Board member for a four-year term of office, commencing on 28 February 2017. He also sits on the Audit Committee and the Risk Monitoring and Asset Liability Management Committee as of 13 March 2017.

- **Changes to the Management Board:**
  - On 13 March 2017, the Supervisory Board appointed Matevž Slapničar a new Management Board member, whose term of office will begin after he obtains an authorisation to serve on the Management Board.

THE ECONOMIC AND BANKING ENVIRONMENT IN 2016 AND OUTLOOK FOR 2017

The Economic Environment in 2016

In 2016, the recovery of **global economic activity** gradually continued, albeit relatively slowly at an uneven pace. It is estimated that the world real GDP was 3.0% in 2016. Growth remained relatively stable at a weaker activity in the developed countries and a gradual recovery in individual developing countries exporting commodities. The effects of the reduction in oil prices continued to dampen the overall inflation at a global level. The economic activity in the **euro area** in 2016 increased, resilient domestic demand remained the main driver and exports gradually gained momentum on account of an expected global recovery.[2]

The economic situation in **Slovenia** continues to improve. Export growth in 2016 remained relatively high, while gradual strengthening of domestic demand also strengthened goods import. In 2016, even more than the year before, domestic final consumption strengthened as households further increased the purchases of durable goods, which have been on the rise for a long time. Furthermore, the purchases of semi-durable goods and services began to significantly increase. Consumer confidence is therefore constantly increasing, and this is certainly a reflection of the improved situation on the labour market and the recovery of real disposable income. The growth of the average gross salary in 2016 was the highest in the last five years. In the public sector salary growth was affected by the promotion of public employees and the return of the salary scale, whereas in the private sector it was impacted by the strengthened economic activity. The sentiment in the economy has been improving, confidence in all activities and among consumers was on average in 2016 the highest since the start of the crisis. With the economic growth becoming broad-based, the number of persons employed increased, while stronger hiring led to a further fall in the number of unemployed persons and a steady decline in the unemployment rate. As at the 2016 year-end, the inflation rate in Slovenia was 0.5%, whilst consumer prices were higher primarily as the result of increases in the prices of commodities and services. Higher commodity prices contributed to rises in food prices (especially unprocessed food). Price growth in services was broader-based and strengthened in contrast to previous years. With a further rebound in private consumption and more foreign tourist arrivals, higher prices were recorded, particularly for leisure-related services. The prices of durable and semi-durable goods remained down year on year. Preliminary estimates of the Statistical Office of the Republic of Slovenia indicate that the GDP in real terms grew by 2.5% in 2016. The value of GDP at current prices was EUR 39,769 million, which in nominal terms represents an increase of 3.1% over 2015. As in 2015, external demand continued to be the key driver of economic growth, with exports increasing by 5.9%. Domestic demand also plays an increasingly significant role, rising by 2.4%.[3]

MAJOR MACROECONOMIC INDICATORS

	2012	2013	2014	2015	2016
GDP, EUR million (current prices)	36,002	35,917	37,332	38,570	39,769*
GDP growth (%)	-2.7	-1.1	3.1	2.3	2.5*
GDP per capita, EUR (current prices)	17,504	17,439	18,107	18,693	19,262*
Labour productivity (GDP per employee, %)	-1.8	0.0	2.6	1.2	0.4**
Unemployment (registered, %)	12.0	13.1	13.1	12.3	11.2**
Unemployment (ILO methodology, %)	8.9	10.1	9.7	9.0	8.2**
Inflation, year-end (%)	2.7	0.7	0.2	-0.5	0.5
Inflation, average (%)	2.6	1.8	0.2	-0.5	-0.1

Note: *Estimate of the Statistical Office of the Republic of Slovenia; **IMAD forecast.
Source: Slovenian Economic Mirror, January 2017. Ljubljana: Institute of Macroeconomic Analysis and Development, January 2017, and Statistical Office of the Republic of Slovenia.

[2] Sources: ECB staff macroeconomic projections for the euro area, December 2016. Frankfurt: European Central Bank
European Economic Forecast Autumn 2016, November 2016. Luxembourg: Publications Office of the EU 2016
[3] Sources: Economic and Financial Developments, October 2016. Ljubljana: Bank of Slovenia
Slovenian Economic Mirror, January 2017. Ljubljana: IMAD, January 2017
Statistical Office of the Republic of Slovenia, March 2017, http://www.stat.si/statweb

Banking Environment in 2016

The economic recovery in the **euro area** in 2016 continued. Low interest rates and the effects of the ECB's non-standard monetary policy measures continued to support money and credit dynamics. Banks passed on their favourable funding conditions in the form of lower lending rates and eased credit standards, thereby supporting further increase in loan demand by firms and households. Increasing loan demand was driven by a variety of factors, including the low general level of interest rates, financing needs for mergers and acquisitions and favourable housing market prospects. The saving ratio in the euro area is estimated to have increased since mid-2015, most likely because households saved part of the oil price-related income windfalls. This effect is expected to be temporary, and its unwinding is projected to imply a decline in the saving ratio.[4]

In 2016, total assets continued to decline in the **Slovene** banking sector, with a reduction in external borrowing, which makes up a diminishing proportion of bank funding, and a contraction in credit activity. The credit activity was mostly influenced by the contraction of corporate lending, while household lending slightly strengthened. The banks again decreased liabilities to the rest of the world, which represented a little more than one tenth of total assets (almost 40% before the crisis). Deposits by the non-banking sector are increasing in importance in bank funding. Their volume continued to grow in 2016, while at the same time the contraction of the balance sheet means that their proportion is also increasing. The trend of improvement in the banks' credit portfolio is continuing. The favourable economic situation has also contributed to the improvement in portfolio quality via higher repayment rates on existing debts and a smaller increase in new non-performing claims. The banking system operated at a profit in 2016. The lower level of credit risk, the release of impairments and provisions and the solid increase in non-interest income were the decisive factors in 2016 in the relatively high bank profitability. The banks are nevertheless exposed to relatively strong income pressures in the wake of the sustained contraction in loans and the falls not only in interest rates but also in returns on securities in the low interest rate environment. The banking system's capital adequacy further improved in 2016 and the banks met their capital requirements with the highest-quality capital.[5]

According to the Bank of Slovenia and the Institute for Macroeconomic Analysis and Development of the Republic of Slovenia (hereinafter: IMAD)[6], both demand and supply were the reasons for the low credit activity. The banks' offering was limited primarily as they were very cautious and were not prepared to take additional risks due to the relatively slow reduction in the share of non-performing claims. The banks were cautious in lending to enterprises because it was estimated that their creditworthiness, despite the improvements, was still relatively low. Bank loans remained the most important form of household borrowing. Although the volume is not yet significant, housing loans recorded gentle growth for three years, and in 2016 a recovery in consumer loans was discernible due to the more favourable economic situation. Higher growth in housing loans was affected by the reduced lending interest rates, the continued low indebtedness of households and lower prices of real property.

Outlook for 2017

Global economic activity is expected to continue to strengthen. According to the estimates of international institutions, world real GDP is projected at 3.4% or 3.5% in 2017 and slightly higher in 2018 (3.5–3.7%). The effects of the reduction in oil prices continue to dampen the overall inflation at a global level, but the global inflation is expected to gradually increase. The economic recovery of the **euro area** is expected to continue at a moderate but steady pace. The expected global recovery and resilient domestic demand, supported by the very accommodative monetary policy stance, past progress made in deleveraging across sectors and a continued improvement in the labour market are projected to sustain the recovery. In annual terms, euro area real GDP is expected to grow by 1.7% in 2017 and by 1.6% in 2018 and 2019. Domestic demand in the euro area is projected to continue to strengthen. Corporate profitability should continue to promote a recovery in investment. Sustained employment gains, improved bank lending conditions and still relatively low oil prices are expected to support private consumption. The euro area labour markets continue to recover. In the coming years, inflation in the euro area is projected to significantly increase from 0.2% in 2016 to 1.3% in 2017, 1.5% in 2018 and 1.7% in 2019.[7]

[4] Sources: ECB Economic Bulletin, Issue 6/2016, September 2016. Frankfurt: European Central Bank
ECB staff macroeconomic projections for the euro area, December 2016. Frankfurt: European Central Bank

[5] Sources: Economic and Financial Developments, October 2016. Ljubljana: Bank of Slovenia
Internal calculations of the Bank

[6] Sources: Economic and Financial Developments, October 2016. Ljubljana: Bank of Slovenia
Autumn Forecast of Economic Trends 2016, September 2016, Ljubljana: Institute of Macroeconomic Analysis and Development

[7] Sources: ECB staff macroeconomic projections for the euro area, December 2016. Frankfurt: European Central Bank
European Economic Forecast Autumn 2016, November 2016. Luxembourg: Publications Office of the EU 2016
ECB staff macroeconomic projections for the euro area, September 2016. Frankfurt: European Central Bank

The European Central Bank (hereinafter: the ECB) expects the key interest rates to remain at the current or lower level for an even longer period and much longer than the net purchases of securities will last. Regarding non-standard monetary policy measures, the ECB decided to continue its purchases under the asset purchase programme (APP) at the current monthly pace of EUR 80 billion until the end of March 2017. From April 2017, the net asset purchases are intended to continue at a monthly pace of EUR 60 billion until the end of December 2017 and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim.[8] The ECB estimates that residential investment in the euro area will continue to expand. The projected acceleration of nominal disposable income and very low mortgage rates are expected to support a sustained recovery of residential investment. Moreover, business investment in the euro area is expected to show further growth due to a number of positive factors.[9]

Economic growth forecasts for **Slovenia** remain favourable, as it is expected that economic growth will be stable and above the euro area average in the medium term. According to the forecasts of international and domestic institutions[10], GDP growth in Slovenia is projected to be between 1.8% and 2.9% in 2017 and between 1.6% and 2.6% in 2018. GDP growth dynamics will be marked primarily by government investment related to the absorption of EU funds. Exports will continue to remain the key driver of economic activity. Economic growth is becoming broad-based as the contribution of domestic consumption gradually rises. Household consumption is therefore expected to significantly increase in the future, with a marked improvement in labour market conditions and a high level of consumer confidence. Owing to the continued recovery of the real property market, a steady rebound in housing investment growth and further growth in investment in machinery and equipment are expected. According to IMAD, the corporate sector in Slovenia is expected to rebound; however, despite the fact that the conditions for an increase in bank loans will improve as the banking system continues to remain stable, non-banking and internal sources of funding will play an increasingly important role in financing the economy. Small and medium-sized enterprises, in particular, still find it difficult to obtain funding as they have limited access to non-banking sources of funding. In addition to the further recovery of the economy, higher employer confidence in economic growth and the increased use of flexible forms of employment will also contribute to employment growth. Nominal growth in average salary will gradually rise in the private sector. In addition to strong business performance, salary growth will also be underpinned by a considerable decline in unemployment. Although consumer prices will rise in the 2017–2019 period, inflation will remain relatively low (below 2%). On average, consumer prices remained unchanged, mainly due to the influence of the low oil prices. Given the assumed growth in import prices for oil and commodities over the next two years, rises in energy prices are expected, as well as a slightly higher rate of core inflation owing to a rebound in domestic consumption and a gradual closing of the output gap.[11]

[8] Source: A press release of the European Central Bank, Monetary Policy Decisions, December 2016
https://www.ecb.europa.eu/press/pr/date/2016/html/pr161208.en.html

[9] Source: ECB Economic Bulletin, Issue 6/2016, September 2016. Frankfurt: European Central Bank

[10] Institute of Macroeconomic Analysis and Development (IMAD), Bank of Slovenia (BS), European Commission (EC), International Monetary Fund (IMF), Organisation for Economic Co-operation and Development (OECD)

[11] Sources: Autumn Forecast of Economic Trends 2016, September 2016. Ljubljana: Institute of Macroeconomic Analysis and Development
Macroeconomic Projections for Slovenia, December 2016. Ljubljana: Bank of Slovenia

FINANCIAL RESULTS OF THE GROUP AND THE BANK

The consolidated financial statements of the Abanka Group for 2016 include the subsidiaries Aleasing and the Anepremičnine Group, alongside Abanka as the parent bank.

The consolidated financial statements of the Abanka Group for 2015 include the subsidiaries Afaktor, Aleasing and the Anepremičnine Group, alongside Abanka as the parent bank. Participation in the associate Agradnja of the subsidiary Aleasing was also consolidated under the equity method. With the acquisition of Banka Celje, its subsidiary Posest also became part of the Abanka Group; however, after obtaining an authorisation of the Bank of Slovenia, Posest was excluded from the scope of prudential consolidation due to its negligible importance with respect to prudential supervision goals. The subsidiary Posest d.o.o. was not included in the consolidated financial statements of the Abanka Group, as it did not have a significant impact on a true and fair view of the Group's financial situation. Total assets of Posest in the amount of EUR 13.6 million as at the end of 2015 represented 0.36% of total assets of the Bank, while its business volume has been decreasing since 2012. In 2016, the company was merged with Anepremičnine and ceased to exist as an independent legal entity.

PERFORMANCE AS VIEWED THROUGH THE INCOME STATEMENT

In 2016, **the Abanka Group** posted a **profit before tax** of EUR 83,611 thousand, which was EUR 34,625 thousand more over 2015, whilst **consolidated profit after tax** amounted to EUR 77,514 thousand (2015: EUR 41,722 thousand). In 2016, **Abanka** posted a **profit before tax** of EUR 82,447 thousand, which was reflected in a 14.0% return on equity, having increased by 64.8% over 2015. The Bank generated a **net profit** of EUR 76,656, which represents an increase of EUR 33,881 over 2015. In the reporting period, **return on equity after tax** was 13.0%, while in the corresponding period of the preceding year it was 8.1%.

In 2016, **the Abanka Group** recorded **interest income** of EUR 91,541 thousand, down by 18.2% over the previous year. The **Group's interest expenses** amounted to EUR 12,827 thousand or 63.1% less than in 2015. The **Abanka Group's net interest income** was EUR 78,714 thousand or 2.1% above the amount reported for 2015.

Abanka's interest income in 2016 was EUR 90,404 thousand, having decreased by 18.7% compared to the preceding year, whilst its **interest expenses** equalled EUR 12,831 thousand or 63.1% less compared to 2015. Abanka's **net interest income** amounted to EUR 77,573 thousand, which was 1.5% more than the 2015 level of EUR 76,455 thousand. Both interest income and interest expenses fell due to lower average interest rates and a lower volume of operations; however, an increase in net interest was recorded primarily as the result of a higher drop in interest rates on primary sources of funding. In 2016, Abanka's market share of net interest accounted for 11.6%, whilst the interest margin was 2.05%.

For 2016 the **Abanka Group** posted EUR 38,874 thousand in **net fee and commission income** or 7.2% less than the year before. In 2016, **Abanka** posted EUR 38,948 thousand in **net fee and commission income** or also 7.2% less than in 2015. On contrast, its market share increased from 12.5% in 2015 to 12.6% in 2016. The bulk of net fee and commission income was generated by payment and card transactions.

12.6%

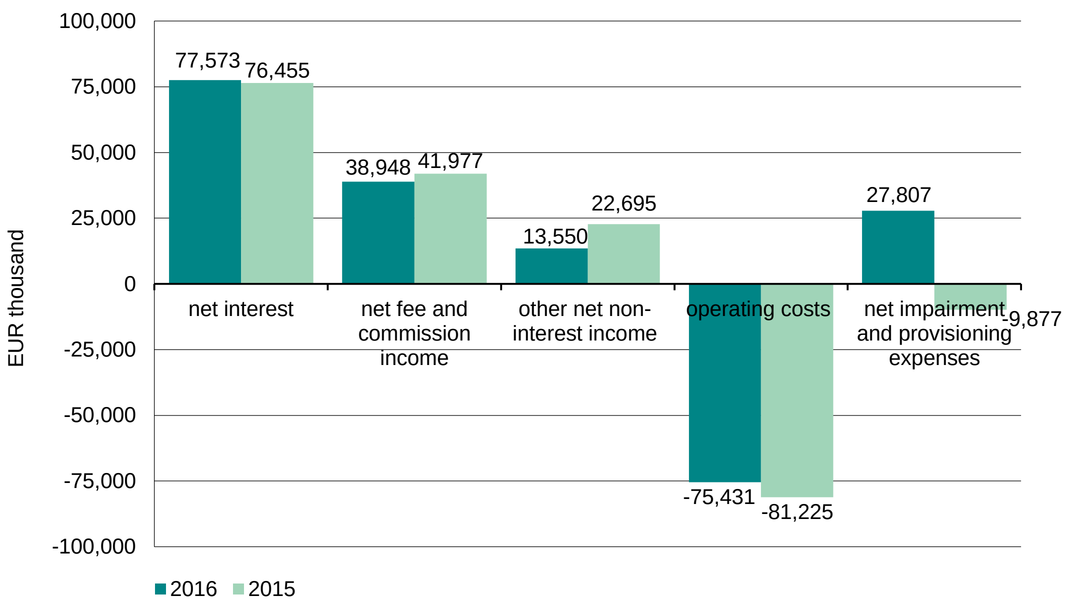
market share of Abanka in net fee and commission income in 2016

Other net non-interest income (excluding net fee and commission income) of the **Abanka Group** in 2016 amounted to EUR 14,893 thousand, whereas in 2015 it equalled EUR 23,763 thousand. **Other net non-interest income** (excluding net fee and commission income) of **Abanka** in 2016 totalled EUR 13,550 thousand, which was 40.3% lower compared to 2015, amounting to EUR 22,695 thousand. A profit generated by the sale of Visa Europe Limited to Visa Inc. accounted for EUR 9,910 thousand of total other non-interest income. In 2015, other net non-interest income was a result of several one-off business events.

The Abanka Group's operating expenses totalled EUR 79,053 thousand in 2016 and were 6.8% lower than in 2015. Labour costs of EUR 40,756 thousand were 2.6% below the 2015 level, whilst general and administrative expenses fell by 9.2% to EUR 29,915 thousand in the reporting year. Depreciation expenses in 2016 amounted to EUR 8,382 thousand and were 16.4% lower than the year before**. Abanka's operating expenses** in 2016 amounted to EUR 75,431 thousand, having decreased by 7.1% compared to 2015. Excluding the restructuring costs, operating expenses were 7.1% lower than in 2015 and totalled EUR 72,632 thousand. In the reporting period, labour costs decreased by 2.1% or by EUR 851 thousand nominally, amounting to EUR 39,626 thousand, mainly as the result of the decrease in the number of employees. Within labour costs, restructuring costs amounted to EUR 130 thousand. General and administrative expenses amounted to EUR 28,620 thousand, having decreased by 9.2% or EUR 2,907 thousand compared to 2015. Costs of materials and services, excluding restructuring costs, amounted to EUR 26,658 thousand. Depreciation expenses amounted EUR 7,185 thousand and were lower by 22.1% compared to the preceding year. The restructuring costs accounted for EUR 708 thousand of depreciation expenses.

In 2016, **the Abanka Group** recorded EUR 30,183 thousand of **net provisioning and impairment income** (in the same period of last year net impairment and provisioning expenses amounted to EUR 8,980 thousand), of which **net provisioning income** totalled EUR 3,955 thousand (in the same period of 2015, they totalled EUR 32,548 thousand), while **net impairment income** amounted to EUR 26,228 thousand (in the corresponding period of 2015 net provisioning expenses amounted to EUR 41,528 thousand). In the reporting period, **Abanka's net impairments and provisions cancelled** amounted to EUR 27,807 thousand, whilst net impairments and provisions in 2015 were formed in the amount EUR 9,877 thousand. In the reporting period, the Bank cancelled impairments of EUR 23,825 thousand (cancelled impairments of loans and other financial assets in the amount of EUR 25,260 thousand and formed provisions of equity investments in subsidiaries of EUR 1,435 thousand) and provisions in the amount of EUR 3,982 thousand (provisions of EUR 4,207 thousand were cancelled for off-balance-sheet liabilities, whilst the Bank allocated EUR 225 thousand to provisions for other liabilities). A significant portion of income from the cancelled provisions for off-balance-sheet liabilities related to the service guarantees that were wither collected or repaid or the guarantees whose validity expired in 2016; the reversal of impairments for loans to non-bank customer is primarily the result of the improved financial position of the companies which have been in the process of restructuring, regular loan repayment and income from debt collection. In 2015, the Bank created impairments of EUR 42,449 thousand and reversed provisions in the amount of EUR 32,572 thousand (provisions in the amount of EUR 21,472 thousand for off-balance sheet liabilities were cancelled, whilst provisions for other liabilities were reversed in the amount of EUR 11,100 thousand).

NET INTEREST, NET FEE AND COMMISSION INCOME, OTHER NET NON-INTEREST INCOME, OPERATING COSTS, NET IMPAIRMENT AND PROVISIONING EXPENSES OF ABANKA IN 2016 COMPARED TO 2015



PERFORMANCE AS VIEWED THROUGH THE STATEMENT OF FINANCIAL POSITION

Consolidated total assets as at 31 December 2016 amounted to EUR 3,614,833 thousand, having dropped by EUR 215,394 thousand or 5.6% below the level posted at the end of 2016. The combined balance sheet assets of consolidated subsidiaries amounted to EUR 64,873 thousand (compared to EUR 74,383 thousand as at the 2015 year-end) and accounted for 1.8% of consolidated total assets (vs. 1.9% as at the 2015 year-end). After the elimination of inter-company transactions, the consolidated total assets of the Abanka Group were higher by EUR 2,471 thousand nominally compared to Abanka's total assets. **Total assets of Abanka** as at the end of 2016 amounted to EUR 3,612,362 thousand, which was EUR 216,101 thousand or 5.6% below the level posted at the end of 2015. As at 31 December 2016, Abanka's market share stood at 9.7%.

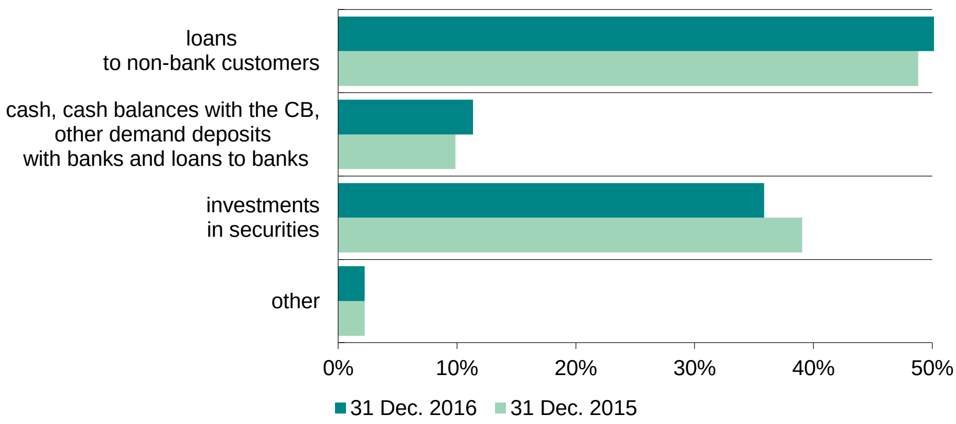
In **consolidated balance sheet assets, loans to non-bank customers** amounted to EUR 1,806,473 thousand as at the 2016 year-end, representing 50.0% of the total consolidated amount. Compared to 2015, they decreased by 2.4%. As at the 2016 year-end, **loans to non-bank customers of Abanka** stood at EUR 1,826,524 thousand and were 2.3% or EUR 42,811 thousand lower than as at the 2016 year-end. In total balance sheet assets, they increased from 48.8% to 50.6%. As at the 2016 year-end, in the structure of loans to the non-banking sector, retail loans of 44.6% accounted for the bulk, followed by loans to large companies with 27.2% and loans to SMEs with 15.3%.

In the reporting period, **the Abanka Group's cash, cash balances with the central bank, other demand deposits with banks and loans to banks** totalled EUR 409,748 thousand and represented 11.3% of consolidated balance sheet assets, having increased by 8.3% as at the reporting date. The above-mentioned **Abanka's** balance sheet items as at the reporting date stood at EUR 409,730 thousand and were higher by 8.5% or EUR 31,950 thousand nominally over the 2015 year-end. Their share in total assets of the Bank was 11.3% compared to 9.9% as at 31 December 2015. The increase was primarily the result of the higher balance on the settlement account. In the same period, loans to banks declined from EUR 96,513 thousand as at the end of 2015 to EUR 65,489 thousand as at the 2016 year-end.

As at the end of 2016, **the Abanka Group's investments in securities** amounted to EUR 1,295,232 thousand and equalled **those of Abanka**, as the subsidiaries did not disclose securities operations in their balance sheets. As at 31 December 2016, investments by the Abanka in securities dropped by 13.4% or EUR 200,506 thousand. Their share in balance sheet assets fell from 39.1% as at the end of 2015 to 35.9% one year later. Equity securities of EUR 45,003 thousand represented 3.5% of total securities held by the Bank. They experienced a year-on-year decrease of 17.7% or EUR 9,668 thousand in nominal terms. Debt securities amounted to EUR 1,250,229 thousand and were 13.2% or EUR 190,838 thousand lower in comparison to the preceding year.

Abanka's equity investments in subsidiaries as at the end of 2016 totalled EUR 4,483 thousand and accounted for 0.1% of total assets.

ASSET STRUCTURE AS AT 31 DEC. 2016 AND 31 DEC. 2015



As at 31 December 2016, **consolidated balance sheet liabilities** were composed of EUR 2,998,005 thousand of total liabilities and EUR 616,828 thousand of total equity, accounting for a 17.1% share in the consolidated balance sheet liabilities. As at the reporting date, the **Bank's balance sheet liabilities** were lower by EUR 2,471 thousand compared to the consolidated balance sheet liabilities. They consisted of EUR 2,997,911 thousand of liabilities and EUR 614,451 thousand of equity, accounting for a 17.0% share of the total.

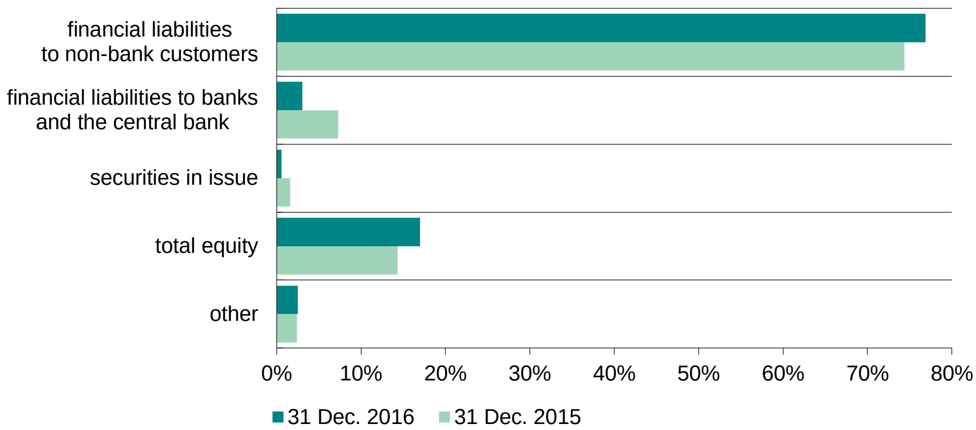
The Abanka Group's deposits from non-bank customers accounted for the bulk of the Group's total liabilities and reached EUR 2,774,878 thousand as at the reporting date. Together with **loans from customers** of EUR 521 thousand they amounted to EUR 2,775,399 thousand as at the 2016 year-end. In 2016, deposits from non-bank customers went down by 2.5% or EUR 70,006 thousand nominally. As at the reporting date**, deposits from non-bank customers in Abanka** amounted to EUR 2,776,019 thousand. Together with **loans from customers** of EUR 564 thousand they reached EUR 2,776,583 thousand. In 2016, deposits from non-bank customers dropped by 2.5% or EUR 70,870 thousand nominally. They accounted for 76.8% of total liabilities. Deposits from corporate customers fell by 16.0% or EUR 161,408 thousand nominally, whilst deposits from retail customers grew by 4.9% or EUR 90,538 thousand. In deposits from corporate customers, the increase of 7.3% was recorded in deposits from SMEs, whilst deposits from other segments went down. The highest decrease was seen in deposits from the government, which dropped from EUR 122,897 thousand to EUR 46,521 thousand. Over the reporting year loans from customers decreased by EUR 63 thousand.

The Abanka Group's financial liabilities to banks, including financial liabilities to the central bank, totalled EUR 109,364 thousand as at 31 December 2016 and equalled **those of Abanka.** Financial liabilities to banks were 60.8% lower compared to the 2015 year-end. Their share in total liabilities dropped from 7.3% as at the 2015 year-end to 3.0% as at the reporting date. As at the reporting date, there were no financial liabilities to the central bank, whilst as at 31 December 2015 they totalled EUR 100,158 thousand. The ECB's targeted longer-term refinancing operation (TLTRO) of EUR 100 million from 2014, falling due on 26 September 2018, was early repaid by the Bank in June 2016. In 2016, loans from commercial banks were down from EUR 163,153 thousand to EUR 89,658 thousand, predominantly due to regular maturity and early repayments to SID banka.

Securities in issue of the Abanka Group equalled **those of Abanka.** As at the reporting date, they amounted to EUR 21,047 thousand, having decreased by 66.0% or EUR 40,813 thousand in nominal terms. As at the reporting date, securities in issue of Abanka dropped from 1.6% as at the 2015 year-end to 0.6% of total liabilities as at the 2016 year-end. As at the 2016 year-end, the Bank did not have any liabilities arising from ordinary bonds in issue as the bonds of the 15th issue of Banka Celje fell due in February 2016. Certificates of deposit totalled EUR 20,999 thousand as at the reporting date, having decreased by 19.2% due to regular maturity. As at the reporting date, the Bank held other issued securities worth EUR 48 thousand.

The total **equity capital of the Abanka Group** as at the reporting date equalled EUR 616,828 thousand, up by 12.1% compared to the year before. It was EUR 2,377 thousand higher than that of Abanka. **The total equity capital of Abanka** as at the reporting date equalled EUR 614,451 thousand, having increased by 12.0% or EUR 65,986 thousand over the 2015 year-end. This increase mainly resulted from the net profit of EUR 76,656 thousand generated in 2016. See Section Total equity and ownership structure for more details.

STRUCTURE OF LIABILITIES AS AT 31 DEC. 2016 AND 31 DEC. 2015



Corporate Banking

Business operations in 2016 were marked by a distinct trend of declining interest rates as the result of the ECB measures and the improved liquidity situation in Slovenia. The latter had a significant impact on the reduction of lending and deposit interest rates. It should be pointed out that in 2016 the deleveraging trend of the economy continued, which also affected the demand structure. The current situation is particularly reflected in excess liquidity and the relatively high available assets of enterprises in the short-term and highly liquid investments. Based on the measures taken, the Bank is in a better position to support the economy in terms of long-term funding of projects. Exporters continue to be at the forefront of the more active customer segments. Companies continue to demand primarily working capital financing; however, an increasing number of cases was recorded where customers sought funding for investments, which they either already realised (especially in the last quarter) or planned for 2017.

In addition to the aforementioned specific liquidity situation, the reporting year was marked by considerable commitment of employees to retain customers and ensure an effective migration of customers from Banka Celje to Abanka. Customer migration was successfully completed within the planned timeframe, as the Bank managed to retain the vast majority of customers despite the tight competitive situation. The realisation in 2016 is a good starting point for further activities. Therefore, the Bank will continue to strengthen business relationships with customers and upgrade the existing relationships through a personal, individual approach, placing greater emphasis on quality services and quick responsiveness. The ultimate goal remains a satisfied and loyal customer.

A special focus is placed on the credit rating of customers so as to increase the volume of business of customers with the A and B credit ratings, particularly by providing new project funding for the previously mentioned customers, carefully monitoring the existing portfolio and gradually reducing the exposure of customers with a poor credit rating.

Additional attention is paid to mutual cooperation. The number of products per customer has been and will continue to be increased as this is further increasing non-interest income. Targeted marketing is directed at increasing the volume of payment transactions, documentary operations and the number of points of sale equipped with Abanka's POS terminals (ACQ), the issue of new business cards and marketing of online and mobile banking.

The SME segment continues to remain the strategic segment of the Bank. To this end, the Bank adapted its activities and set the following goals reflecting its values:

- recruitment of additional staff to ensure quality monitoring of the customer portfolio and further strengthen the individual approach to finding a solution;
- ongoing training so as to provide top-quality services;
- retaining the existing and acquiring new customers;
- improved portfolio quality;
- integrated customer management and increased number of products per customer.

Abanka looks optimistically towards 2017. The loan portfolio of the SME segment is planned to grow with the help of the redesigned loan process and additional staff, focusing on the acquisition of new customers. Cooperation with the existing customers will be reviewed on an individual basis and further strengthened.

Economic growth and greater export-orientation of Slovene companies also affected customer demand for trade finance. In this respect, the customers do not limit themselves only to transactions with the existing business partners. In an effort to enter into transactions with new business partners, the scope of business is expanded to include more distant and demanding markets, where the use of trade finance instruments for hedging is particularly important. With many years of experience in trade finance and a high level of professionalism, the Bank is aware of the significance of choosing an appropriate hedging insurance for a particular customer. Therefore, when giving advice focus is on the target choice and preparation of individual hedging instruments tailored to the needs of individual customers. In view of the positive responses to the presentation of trade finance last year, this form of cooperation with customers was actively continued throughout 2016. Presentations were organised for both the existing and new customers, while special attention was devoted to individual presentations with an emphasis on specific cases, which customers face in the course of their business. On the basis of the positive experience of customers who conduct business with import letters of credit via the Abacom e-channel, which allows not only an easy and quick exchange of data but also monitoring of execution of a transaction, this distribution channel was effectively marketed in the reporting period.

The Bank will continue to upgrade and market modern services, such as the Abamobi com mobile bank, Abasms for corporate customers and the Abanet com online bank. Customers will continue to be provided simple, cost-effective and time-saving access to the banking services through e-channels, which may be used anywhere and anytime. In order to improve the existing functionality of applications, the development of the products launched in 2016 (Abanet com and Abamobi com) continued throughout 2017.

In 2016, an event on the topic of current innovations (digitisation and blockchain technology) was organised. Furthermore, a new way of acquiring innovative ideas was established by organising Abathon, which will be further developed and upgraded.

Card operations are considered one of the important services of the Bank. Thus, in the first half of 2016, the Visa business card was redesigned so as to set up the same manner of settlement of liabilities as MasterCard. Other products are adapted in accordance with market demand and the offering of competitors. The main focus of marketing was on technical assistance, advice, appropriate technological solutions and customer support. Special attention was paid to the existing customers, while rapidly focusing the marketing activities on new customers who represent additional potential, not only in card operations but also in other products (cross-selling).

Special attention was paid to the existing customers, while rapidly focusing the marketing activities on new customers who represent additional potential, not only in card operations but also in other products.

As at the reporting date, **loans to corporate customers and sole proprietors of the Abanka Group** reached EUR 971,450 thousand after decreasing by 5.8% in 2016. **Abanka's loans to corporate customers and sole proprietors** amounted to EUR 1,011,425 thousand as at the end of 2015, after having dropped by EUR 56,614 thousand or 5.3% since the end of the previous year. Compared to the 2015 year-end, the volume of loans to corporate customers decreased in the reporting period, mainly as a result of regular loan repayment and accelerated dynamics of corporate deleveraging. The market share of loans to corporate customers fell from 8.6% as at the 2015 year-end to 8.3% as at the 2016 year-end. In total balance sheet, the share of loans to corporate customers remained almost the same at 28.0% as at the reporting date, while at the end of the preceding year it was 27.9%.

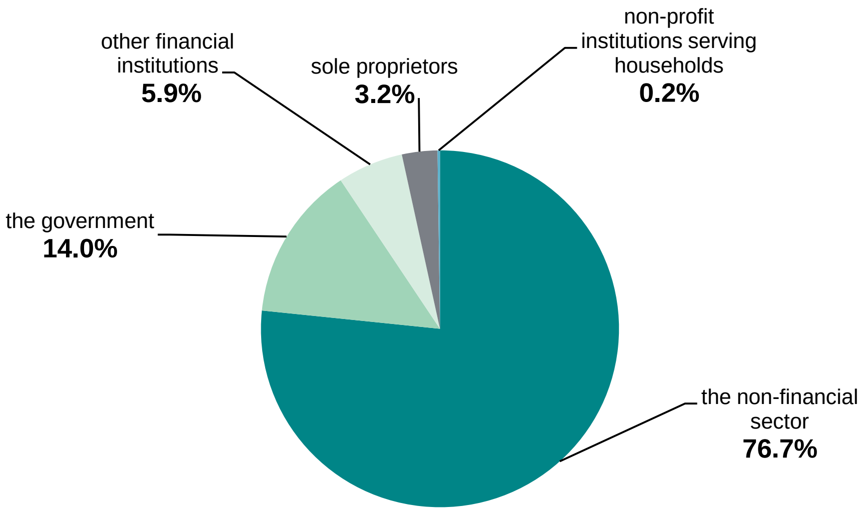
8.3%

market share of Abanka in loans to corporate customers as at the end of 2016

The largest share of loans to corporate customers was represented by loans to the non-financial sector amounting to EUR 775,860 thousand, i.e. 76.7%, of which loans to large companies accounted for EUR 495,983 thousand and loans to SMEs for EUR 279,877 thousand. In terms of volume, loans to the non-financial sector were followed by loans to the government in the amount of EUR 141,857 thousand and loans to other financial institutions of EUR 59,080 thousand as at the 2016 year-end. A 3.2% share was accounted for by loans to sole proprietors, whilst loans to non-profit institutions serving households represented 0.2% of total loans to corporate customers. In 2016 loans to the government grew by EUR 13,753 thousand, whereas other segments experienced a decrease; the highest drop was recorded in loans to the non-financial sector.

The structure of loans to corporate customers as at 31 December 2016 is presented in greater detail in the graph on the following page.

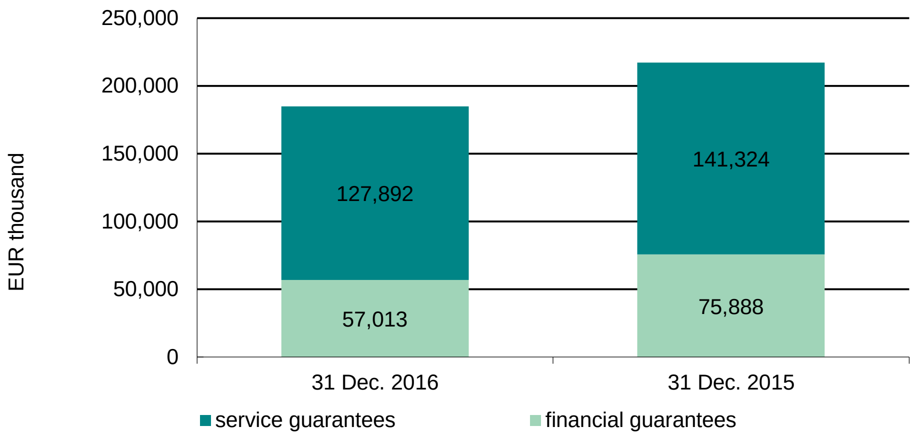
LOANS OF ABANKA TO CORPORATE CUSTOMERS AND SOLE PROPRIETORS



Despite the decrease in the volume of guarantee operations in 2016, guarantees continue to represent an important instrument of documentary operations, which customers may use to hedge against various risks to which they are exposed in their day-to-day operations. The decrease was affected by the changes in public procurement regulations, both in Slovenia and abroad, which was already observed in 2015. A further decrease in the volume of guarantee operations was the result of a lower demand for financial guarantees because of the changes to the regulations on customs and excise bonds. As a counterbalance to the observed decrease in the volume of guarantee operations in 2016, an increase in the volume of other products of documentary operations was seen, which also provide an appropriate type of collateral to customers in their dealings with domestic and foreign business partners.

Guarantees issued by Abanka stood at EUR 184,905 thousand at the 2016 year-end and were 14.9% below the amount reported as at 31 December 2015. Service guarantees accounted for 69.2% of total guarantees as at the 2016 year-end and 65.1% as at the 2015 year-end.

ABANKA'S GUARANTEES



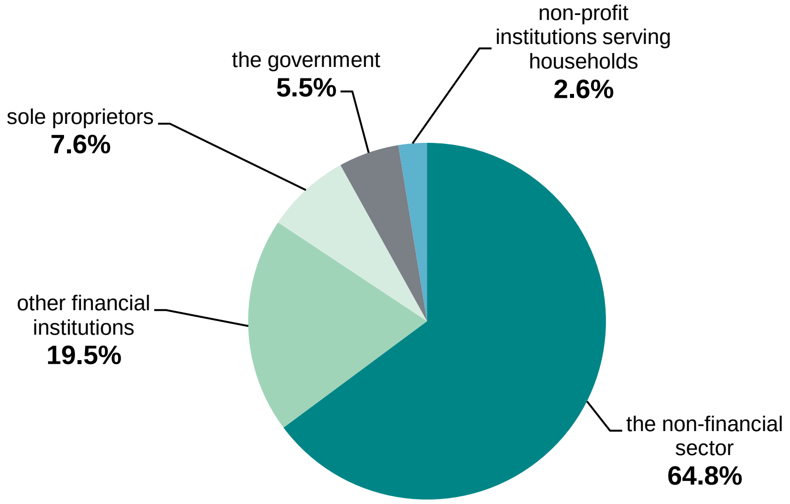
As at the reporting date, **deposits and loans from corporate customers and sole proprietors in the Abanka Group** totalled EUR 849,600 thousand, down by 15.9% in 2016. **Deposits and loans from corporate customers and sole proprietors in Abanka** amounted to EUR 850,784 thousand as at the end of 2016, after having dropped by EUR 161,471 thousand or 16.0% in 2016. The highest decrease was recorded in deposits from the government, which fell by 62.1% or EUR 76,376 thousand to EUR 46,521 thousand. Deposits from the non-financial sector dropped by EUR 53,544 thousand or 8.9%, among them deposits from large companies by EUR 79,649 thousand to EUR 166,537 thousand, whilst deposits from SMEs went up by EUR 26,105 thousand to EUR 384,895 thousand. Deposits from other financial institutions reached EUR 165,766 thousand as at the 2016 year-end, having decreased by EUR 25,455 thousand. The market share of deposits from corporate customers was 9.1% as at the reporting date, compared to 10.3% as at the 2016 year-end. Over the reporting year loans from customers decreased by EUR 63 thousand.

9.1%

market share of Abanka in deposits from corporate customers as at the end of 2016

The share of deposits from corporate customers in total liabilities decreased from 26.4% as at the 2015 year-end to 23.5% as at the end of the reporting year. The largest share was accounted for by the non-financial sector (64.8%), followed by deposits from other financial institutions (19.5%) and deposits from sole proprietors (7.6%), whilst the smallest share was represented by deposits from the government (5.5%) and deposits from non-profit institutions serving households (2.6%). The data are also presented in the figure below.

ABANKA'S DEPOSITS BY CORPORATE CLIENTS AND SOLE PROPRIETORS



Retail Banking

Retail banking performed well in 2016. Although a large part of the activities focused on the migration of customers from the IT support of Banka Celje to the IT support of Abanka, the Bank managed to achieve the set sales targets. The Bank was particularly successful in the sale of the electronic and mobile bank, also obtaining a number of new customers. Good results were attained in the conclusion of retail loan agreements, thus recording an increase compared to December 2015. Abanka attracted a number of new customers.

Several procedures and processes were optimised with the purpose of streamlining the operations. In doing so, support activities were redirected to sales activities, enabling employees to devote more time to the existing customers and acquiring new ones.

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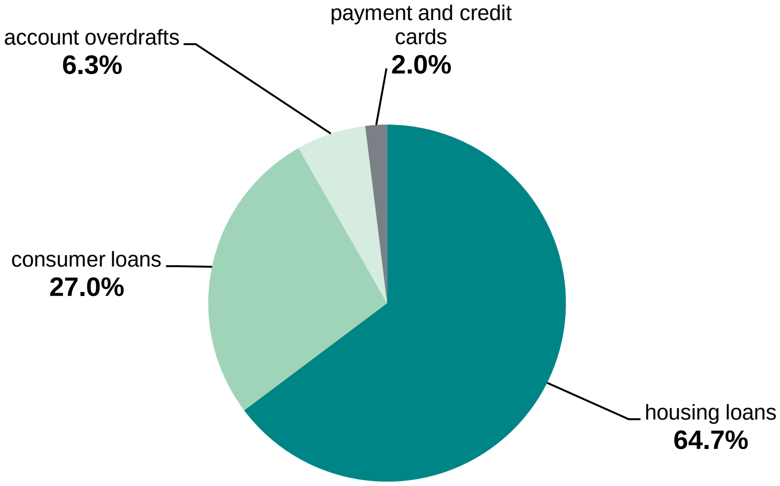
Loans to retail customers in the Abanka Group as at 31 December 2016 reached EUR 835,023 thousand and climbed by 1.9% in 2016. **Loans to retail customers by Abanka** amounted to EUR 815,099 thousand as at the 2016 year-end. In 2016, retail loans increased by 1.7% or EUR 13,803 thousand nominally, whilst their share in total balance sheet assets increased from 20.9% as at 31 December 2015 to 22.6% as at the 2016 year-end. The market share of retail loans stood at 9.8%, whilst at the 2015 year-end it was 10.1%.

9.8%

market share of Abanka's loans
to retail customers as at the end of 2016

In total retail loans, housing loans accounted for the bulk (64.7%), followed by consumer loans (27.0%), whilst account overdrafts (6.3%) and payment and credit cards (2.0%) accounted for small shares.

ABANKA'S LOANS TO RETAIL CLIENTS



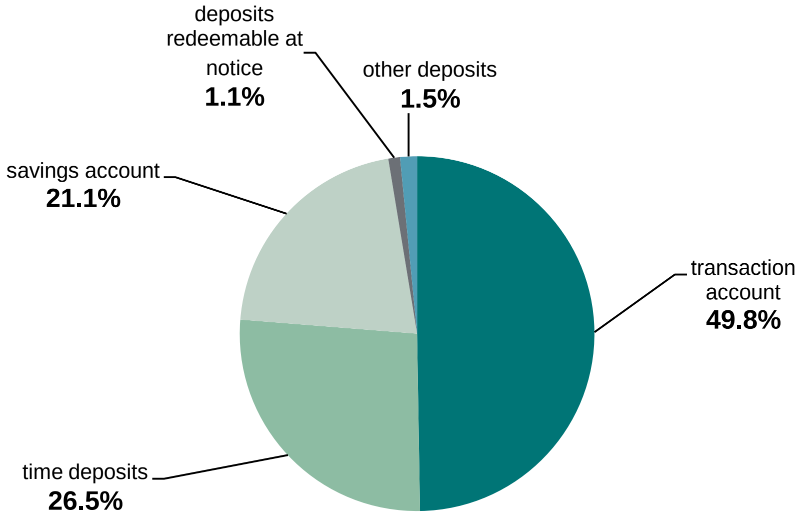
As at the reporting date, **deposits from retail customers in the Abanka Group equalled those of Abanka**, amounting to EUR 1,925,799 thousand. In 2016, they experienced an increase of 4.9% or EUR 90,538 thousand in nominal terms. The market share of deposits from retail customers fell from 12.0% as at the 2015-year end to 11.8% as at the end of 2016. Deposits from retail customers increased from 47.9% of total balance sheet liabilities as at the 2015 year-end to 53.3% as at the 2016 year-end.

11.8%

market share of Abanka in deposits from
retail customers at the 2016 year-end

In total deposits from retail customers, the largest shares were accounted for by funds on transaction accounts (49.8%) and time deposits (26.5%), followed by funds on savings accounts (21.1%) and call deposits (1.1%). Other deposits (annuity savings, dedicated savings, non-interest and the National Housing Savings Scheme) accounted for 1.5% of total retail deposits.

ABANKA'S DEPOSITS BY RETAIL CLIENTS



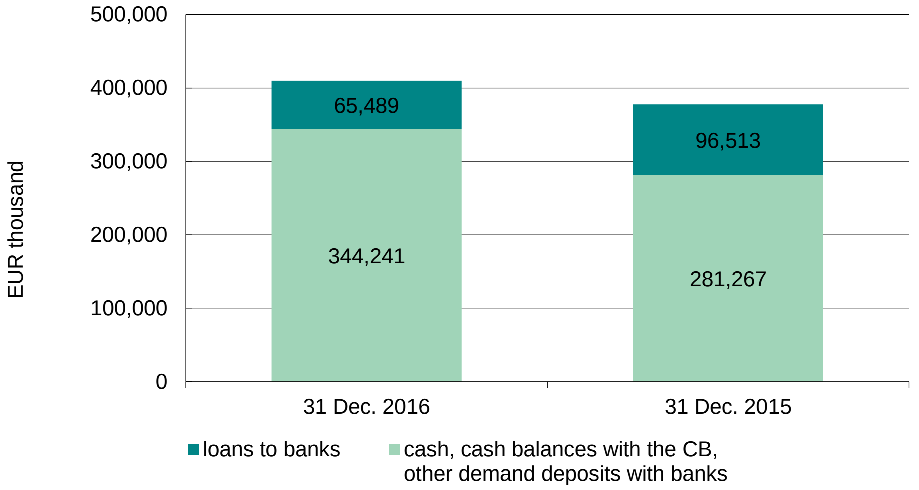
Operations with Other Banks

Despite the numerous challenges in 2016, the macroeconomic environment in the euro area recovered mainly as a result of German growth, which still fuels most European economies. In 2016 the European Central Bank purchased securities, thereby injecting liquidity into financial markets. The buying of government securities, covered bonds and ABS instruments should contribute to curbing the deflationary pressure in the euro area and establishing a target inflation rate at around 2%. Towards the end of 2016, inflationary expectations in Europe grew significantly stronger, leading to an increase in long-term interest rates.

In the reporting year, Slovenia took advantage of the favourable situation in financial markets and achieved the lowest interest rates on long-term borrowing through new issues.

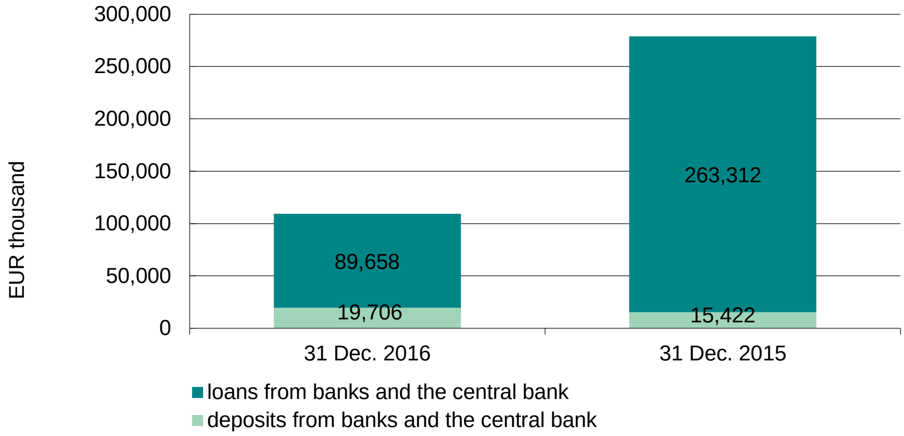
Cash, cash balances with the central bank, other demand deposits with banks and loans to banks of the Abanka Group totalled EUR 409,748 thousand as at 31 December 2016. **Cash, cash balances with the central bank, other demand deposits with banks and loans to banks of Abanka** as at the reporting date amounted to EUR 409,730 thousand, which represented an 8.5% increase compared to the preceding year. Cash, cash balances with the central bank, other demand deposits with banks increased by 22.4% or EUR 62,974 thousand to EUR 344,241 thousand nominally as at the reporting date. In 2016, loans to banks decreased by 32.1% or EUR 31,024 thousand and reached EUR 65,489 thousand. Cash, cash balances with the central bank and other demand deposits with banks increased, primarily as the result of excess liquidity in the system and the shortage in alternative investments (negative interest rates on the monetary market).

ABANKA'S CASH, CASH BALANCES WITH THE CENTRAL BANK, OTHER DEMAND DEPOSITS WITH BANKS AND LOANS TO BANKS



The Abanka Group's financial liabilities to banks amounted to EUR 109,364 thousand as at the reporting date, which equalled **those of Abanka**. They decreased by 60.8% or EUR 169,370 thousand compared to the end of 2015. In total balance sheet liabilities, the share of financial liabilities to banks dropped from 7.3% to 3.0% as at the reporting date. Deposits from banks grew by 27.8% or EUR 4,284 thousand, amounting to EUR 19,706 thousand as at 31 December 2016, while loans from banks and the central bank went down by 65.9% or EUR 173,654 thousand, totalling EUR 89,658 thousand as at the reporting date.

ABANKA'S FINANCIAL LIABILITIES TO BANKS



Securities

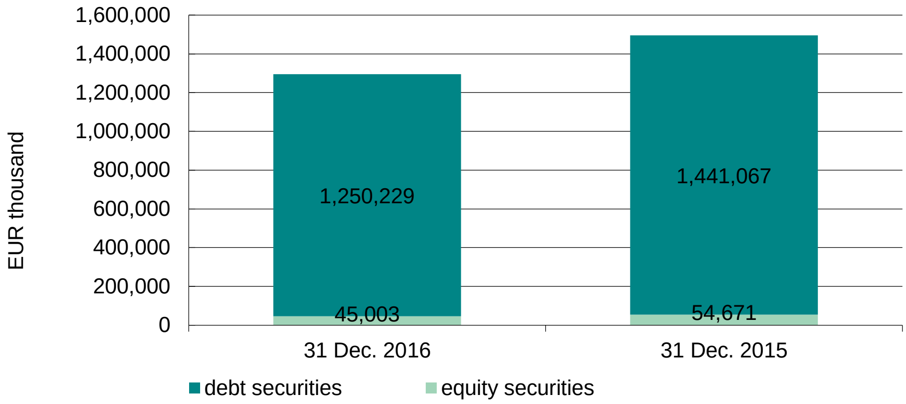
The management of the debt securities portfolio included in the banking book demanded the Bank to continue to apply a conservative and prudent investment policy, i.e. investing in investment-grade, highly liquid bonds.

Abanka remains an important primary dealer in Slovene government bond issues and is still actively participating as a "market maker" in MTS Slovenija and as an official liquidity provider. Abanka participated as a co-organiser in two Slovene Government bonds issue in international markets and was one of the most active banks in offering bonds to local investors.

As at the 2016 year-end, the value of **the Abanka Group's investments in securities** was at the same level as those of **Abanka**. Compared to the 2015 year-end, they dropped by 13.4% or EUR 200,506 thousand, equalling EUR 1,295,232 thousand. The securities portfolio included both equity and debt securities.

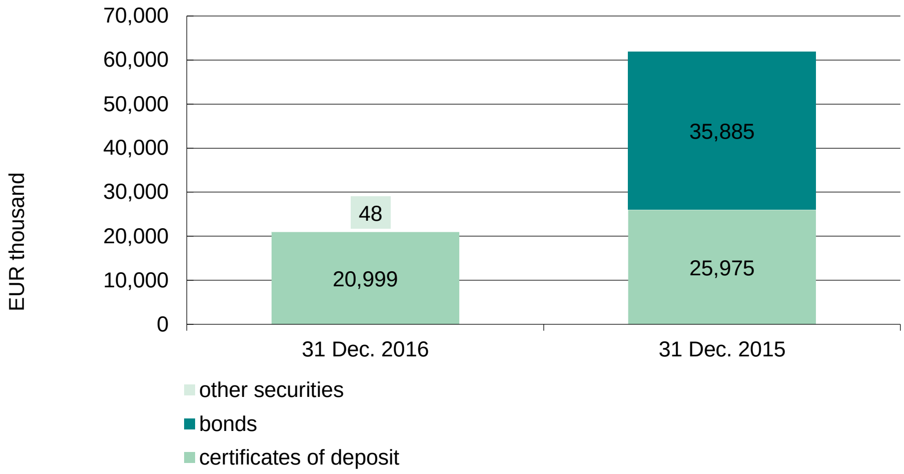
As at the 2016 year-end, **the equities portfolio of Abanka** amounted to EUR 45,003 thousand, down by 17.7% or EUR 9,668 thousand compared to the 2015 year-end. The equities portfolio includes EUR 24,765 thousand paid into the Bank Resolution Fund. The **debt securities portfolio of Abanka** as at the end of the reporting year totalled EUR 1,250,229 thousand and accounted for 96.5% of total securities held by the Bank. The portfolio was reduced mainly because the debt securities fell due.

ABANKA'S INVESTMENTS IN SECURITIES



As at the reporting date, **securities in issue of the Abanka Group** equalled **those of Abanka**. As at the reporting date, total securities in issue amounted to EUR 21,047 thousand, which was 66.0% or nominally EUR 40,813 thousand less compared to the 2015 year-end. In total balance sheet liabilities, their share decreased from 1.6% as at the 2015 year-end to 0.6% as at the reporting date. As at the reporting date, certificates of deposit amounted to EUR 20,999 thousand, having decreased by 12.9% or EUR 4,976 thousand. Certificates of deposit were down because they fell due. Debt securities in issue also included other securities totalling EUR 48 thousand as at the reporting date. In February 2016, the bond of Banka Celje fell due in the amount of EUR 35,885 thousand as at 31 December 2015.

ABANKA'S SECURITIES IN ISSUE



Equity Investments

Long-term equity investments in subsidiaries as at 31 December 2016 amounted to EUR 4,483 thousand and were EUR 1,541 thousand lower compared to the 2015 year-end. In 2016, impairments were made for equity investments in the subsidiaries Anepremičnine (EUR 961 thousand) and Aleasing (EUR 474 thousand). In 2016 Abanka sold its subsidiary Afaktor d.o.o., of which book value amounted to EUR 106 thousand as at the 2015 year-end. Furthermore, the subsidiary Posest was merged with the subsidiary Anepremičnine.

Equity Investments (in EUR thousand)	31 Dec. 2016	31 Dec. 2015	Index 16/15
Subsidiaries	4,483	6,024	74.4
Total Equiy Investments	**4,483**	**6,024**	**74.4**

Payment Transactions

As regards domestic and cross-border payment transactions in 2016, Abanka processed 24.7 million orders through the Target payment systems and the small-value payment system (SIMP) in the total value of EUR 54,708,105 thousand. In terms of the number of orders, domestic and cross-border payments increased by 1.2% compared to 2015, while in terms of value they fell by 31.3%, primarily as the result of payments via the Target system. In the domestic payment system, the Bank maintained a high 15.8% market share.

Abanka is an important operator in the direct debit scheme (SEPA DD). In 2016, Abanka processed 7.6 million transactions worth EUR 329,621 thousand through this payment system, accounting for a 27.1% market share.

Card and ATM Operations

By 31 December 2016, 441,635 cards were issued, i.e. 0.4% more than as at the 2015 year-end. The bulk was accounted for by BA Maestro (62.8%), which functions as a personal account card. In 2016, 27.9 million transactions were recorded with the cards issued by Abanka, i.e. 19.2% more than in the previous year. These nominally amounted to EUR 1,414,568 thousand and were 35.3% above the level reported for 2015.

Abanka has an extensive network of points of sale for all types of card products, which enable transactions via Abanka-held POS terminals or through terminals of other banks. On the basis of vendor agreements, 28.2 million transactions with all types of cards were recorded in 2016, up 4% compared to 2015. These nominally amounted to EUR 1,117,079 thousand and exceeded the 2015 figure by 6%.

Abanka has an extensive network of points of sale for all types of card products, which enable transactions via Abanka-held POS terminals or through terminals of other banks.

One of Abanka's current distribution channels is its extensive ATM network. As at the reporting date, Abanka operated 307 ATMs. Its ATM network was again ranked the second largest despite the fact that the number of bank-owned ATMs fell by 25 and its market share was 18.5%. Abanka's ATMs processed 9.8 million transactions of cash withdrawal worth EUR 1,014.1 million. The number of ATM withdrawal transactions remained at the 2015 level, while the value of withdrawals went up by 0.7%.

307

ATMs owned by Abanka as at the end of 2016

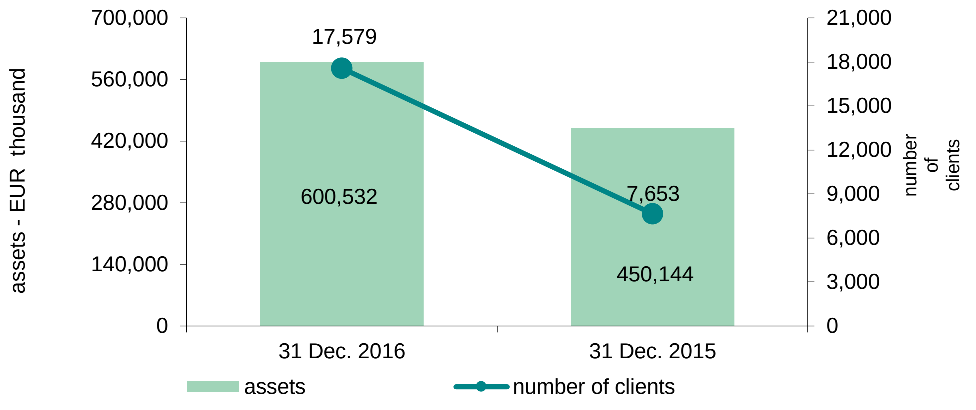
Investment Brokerage and Precious Metals

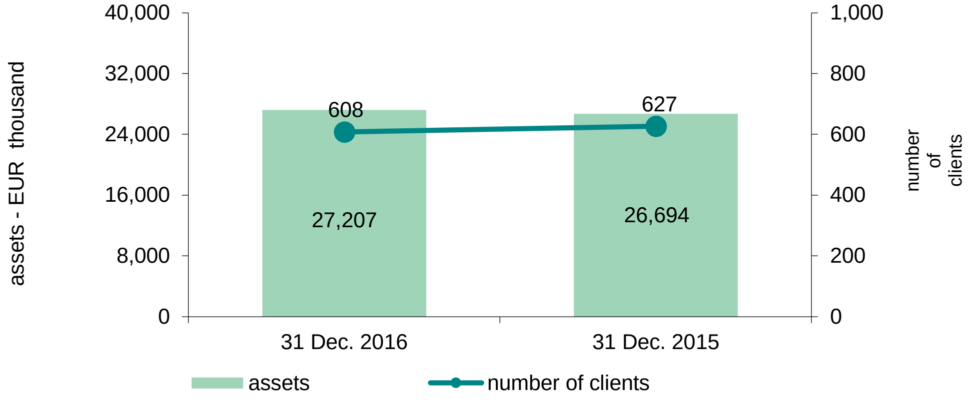
The total volume of trading generated by members of the Ljubljana Stock Exchange in 2016 was EUR 667,350 thousand. Abanka contributed EUR 18,031 thousand to total trading, thereby achieving a 2.7% market share among stock exchange members and ranking 9th. Total trading of Abanka in foreign markets amounted to EUR 12,940 thousand.

As at the end of 2016, the Bank had 17,579 customers using brokerage services in the domestic market, while in foreign markets brokerage services were provided to 608 domestic corporate and retail customers. The increase in the number of customers on the domestic market is primarily the result of successful acquisition of customers due to the abolition of registry accounts kept by KDD. Customers' assets in domestic and foreign capital markets as at the end of 2016 amounted to EUR 600,532 thousand and EUR 27,207 thousand respectively.

In the reporting year, 110.3 kg in gold bars and coins were sold at the headquarters and 19 branches of Abanka for EUR 4,145 thousand.

INVESTMENT BROKERAGE ON THE DOMESTIC MARKET





AIII Mutual Pension Fund

In June 2016, the management of Abanka's AIII mutual pension fund (hereinafter: AIII VPS) was transferred to Banka Koper d.d. On 7 June 2016, AIII VPS was merged with Banka Koper's Open-ended mutual pension fund (hereinafter: OVPS) as at the accounting date of 31 May 2016. As of 7 June 2016, the insured of AIII VPS have become the insured of OVPS, while AIII VPS ceased to exist.

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Custody and Administrative Services

Abanka was able to keep the leading market share in 2016 in the segment of custody services for investment and pension funds. In 2016, Abanka's leading position as the only provider of administrative services was strengthened in line with the Investment Funds and Management Companies Act (ZISDU-3), the Pension and Disability Insurance Act (ZPIZ-2) and the Alternative Investment Fund Managers Act (ZUAIS), as well as its role as the provider of management support services in line with the Financial Instruments Market Act (ZTFI).

Active cooperation with institutions continues in drafting new implementing regulations on the operation of investment and pension funds. Moreover, the Bank plans to adapt its operations to current market conditions. Apart from that, preparations are underway to ensure compliance with the amended ZISDU-3 based on the Commission delegated Regulation (EU) 2016/438 with regard to obligations of depositaries, which focuses on the role and the implementation of custody services.

Abanka remains the leading bank in custody services for investment funds and the only bank offering administrative services.

Bancassurance

Abanka provides bancassurance services in partnership with Zavarovalnica Triglav by designing an integrated range of financial services according to the one-stop shop concept. Bancassurance is one of the more important strategies of financial institutions in the last decade.

Abanka provides bancassurance services in partnership with Zavarovalnica Triglav by designing an integrated range of financial services according to the one-stop shop concept.

Abanka has acted as a broker in the insurance market since November 2003. In conjunction with Zavarovalnica Triglav, it offers the following bancassurance products:

- **accident insurance** as a supplementary facility for holders of Aračun accounts, Premium personal accounts and Akeš personal accounts (the first bancassurance product);
- **endowment life insurance**, a type of insurance where the investment risk is carried by the insurer;
- **unit-linked life insurance**, which combines life insurance and investment linked to the unit prices of selected mutual funds and the investment fund of Zavarovalnica Triglav;
- **single premium unit-linked life insurance**, which combines life insurance and investment elements, linked to the unit prices of selected mutual funds, with the insurance premium being paid in a lump sum when the policy is taken out;
- **supplemental health insurance**, which is a type of voluntary health insurance available to holders of personal and savings accounts with Abanka who are covered by compulsory health insurance and obliged to make supplementary payments;
- **various types of risk life insurance** without investment elements; throughout the duration of the insurance policy, the sum insured remains the same;
- **mortgage life insurance**, which is taken out in combination with a mortgage, housing or consumer loan (with a term above 2 years) and provides a diminishing pay-out in the event of death, with the pay-out reaching zero when the policy expires;
- **ABAFLEKS investment insurance – ABAFLEKS investment insurance for adults and FLEKS investment insurance for young people**; these products are a combination of life insurance and investment linked to investment funds; the policyholders assume the investment risk but at the same time have a choice among different investment strategies (financial objectives strategy related to funds);
- **ABC life insurance**, which is in essence similar to all unit-linked life insurance products, but offers lower premiums and an open-ended term of insurance;
- **supplementary loss of employment insurance** for borrowers taking a mortgage, housing or consumer loan;
- **card insurance** of personal account holders is designed for the holders of ordinary or Premium personal accounts with Abanka and their authorised signatories;
- **Triglav package home insurance**, which is a type of property insurance;
- **Triglav zaščita life insurance**, which is a type of insurance against death, full and permanent incapacity for work in serious conditions due to an accident or illness.

Total Equity and Ownership Structure

As at 31 December 2016, the **total equity capital of the Abanka Group** amounted to EUR 616,828 thousand, whilst **that of Abanka** equalled EUR 614,451 thousand. In 2016, the total equity capital of Abanka experienced a year-on-year increase of 12.0% or EUR 65,986 thousand in nominal terms. This increase resulted from a net profit of EUR 76,656 thousand less other comprehensive income after tax of EUR 10,658 thousand and actuarial recalculations of provisions for post-employment benefits of EUR 12 thousand. As at the reporting date, the Bank's total equity capital accounted for 17.0% of total balance sheet liabilities, while in 2015 it was lower at 14.3%.

At the 33rd regular General Meeting of Shareholders held on 13 May 2016, the shareholder was informed that the accumulated profit for 2015 totalled EUR 22,099,974.59, consisting of the remaining net profit for 2015 of EUR 19,248,861.18 and profit brought forward from previous business years in the amount of EUR 2,851,113.41. The General Meeting of Shareholders concluded that the accumulated profit in the amount EUR 22,099,974.59 will remain undistributed until further notice as retained earnings.

As at the reporting date, Abanka's **accumulated other comprehensive income** amounted to EUR 42,466 thousand (a decrease of EUR 10,658 thousand compared to 2015), **reserves from profit** equalled EUR 47,448 thousand (an increase of EUR 26,915 thousand) and **retained profit** totalled EUR 91,078 thousand (an increase of net profit of EUR 76,656 thousand, a decrease of EUR 19,249 thousand for the allocation of retained profit to reserves from profit, a decrease of EUR 7,666 thousand for the allocation of net profit to reserves from profit and a decrease of EUR 12 thousand for the allocation to actuarial recalculations of provisions for post-employment benefits).

The audited share book value was EUR 40.69 as at 31 December 2016, based on 15,100,000 shares (31 December 2015: EUR 36.32). It was calculated as the ratio of all capital components, including net profit for the reporting period, to the number of shares subscribed as at the reporting date.

The Bank's share capital amounted to EUR 151,000 thousand as at the reporting date. On 18 December 2013, the Republic of Slovenia subscribed and fully paid up all 15,000,000 shares (ABKS) newly issued by Abanka, and thereby became its 100% owner, holding 15,000,000 ordinary registered no-par value shares with voting rights attached. On 25 September 2014, based on a relevant decision of the European Commission, the Government of the Republic of Slovenia was able to finally adopt its decision on measures for strengthening the stability of Abanka, which also included the second round of the capital increase of EUR 243,000 thousand. On 3 October 2014, the General Meeting of Shareholders of Abanka passed a resolution to increase the share capital through the in-kind contribution of the Republic of Slovenia in bonds totalling EUR 242,999,943.49 and through the cash contribution of EUR 56.51. In accordance with the resolution passed by the 29th General Meeting of Shareholders of Abanka on 8 October 2014, the Republic of Slovenia paid in 100,000 new shares amounting to EUR 243,000 thousand. The share capital increase of EUR 1,000,000.00 was entered in the Companies Register on 10 October 2014. The share capital of Abanka amounts to EUR 151,000,000.00 and is divided into 15,100,000 ordinary no-par value registered shares wholly owned by the Republic of Slovenia. On 5 October 2015, Banka Celje d.d., established in 1864 when Celje Municipal Savings Bank was founded, was merged with Abanka Vipa d.d. in line with the commitment made to the European Commission. After the merger of Banka Celje, the **share capital of Abanka** remained unchanged in the amount of EUR 151,000 thousand, while the share capital of Banka Celje was transferred to the **share premium of Abanka**, amounting to EUR 282,459 thousand as at the 2015 year-end, which remained unchanged in 2016. The corresponding amount per no-par value share in the share capital was EUR 10.00 as at the end of 2016.

On 16 December 2014, Banka Celje received the Decision on Extraordinary Measures of the Bank of Slovenia, based on which additional capital was provided to the Bank. The existing **share capital of Banka Celje** in the amount of EUR 16,980 thousand was therefore first reduced to EUR 0 on 16 December 2014, after which it was increased by EUR 190 million. All qualified liabilities of the bank incurred up to the issue date of the Decision and consisting of share capital and subordinated financial instruments ceased in full. After reducing it to EUR 0, the share capital was increased by EUR 50 million and share premium by EUR 140 million, while the Republic of Slovenia became the sole owner of the bank. The share capital of the bank, which amounted to EUR 50 million after the increase, was divided into 5 million new ordinary no-par value shares. The corresponding amount per no-par value share was EUR 10 and the issue value per share was EUR 38. One half of the capital increase was realised through cash contributions and the other half through the bonds of the Republic of Slovenia.

THE SHAREHOLDER OF THE BANK

	31 Dec. 2016			31 Dec. 2015	
	Number of shares	Holding in %		Number of shares	Holding in %
The Republic of Slovenia	15,100,000	100.0	The Republic of Slovenia	15,100,000	100.0

With regard to **transparency of financial relations between public authorities and bodies of self-governing local communities and public undertakings**, Abanka is not required to settle the operating loss and ensure the capital because in 2016 the Bank generated a profit of EUR 76,656 thousand.

Issue of shares and capital increase - Abanka

Prior to the enforcement of the 1999 Book Entry Securities Act, three issues of 3,162,362 bonds were placed amounting to EUR 13,196,302.79. Thereafter, the following capital increase operation ensued (excluding the capital increase in 2002 with 536,038 shares following the merger by acquisition of Banka Vipa d.d.): in 2001 with 337,638 shares amounting to EUR 5,752,695.52; in 2003 with 763,962 shares totalling EUR 15,206,554.58; in 2005 with 700,000 shares amounting to EUR 26,289,434.15; and in 2008 with 1,700,000 shares totalling EUR 102,000,000.00.

At the 26th General Meeting of Shareholders held on 8 April 2013, reduction of the Bank's share capital was approved, so that the share capital of the Bank, which on 8 April 2013 amounted to EUR 30,045,067.60 and was divided into 7,200,000 ordinary registered no-par value shares, was reduced through a simplified procedure by EUR 22,845,067.60; after reduction the share capital amounted to EUR 7,200,000.00. This reduction was carried out in order to cover part of the loss for 2012 in the amount of EUR 22,845,067.60 charged to the Bank's share capital. The simplified reduction of the Bank's share capital was entered in the Companies Register on 21 May 2013.

Before 17 December 2013 (i.e. the date when the Bank of Slovenia issued the relevant decision), the share capital of Abanka totalled EUR 7,200,000.00 and was divided into 7,200,000 ordinary, freely transferable, no-par value shares with the ABKN ticker symbol, of which 7,198,874 were in dematerialised (book entry) form and 1,126 in materialised form, the latter not yet submitted to KDD. The voting rights were attached to 4,676,340 shares. In January 2011, the voting rights attached to 2,513,321 shares owned by Zavarovalnica Triglav d.d., HIT d.d., SOD d.d. and Mobitel d.d. were suspended in accordance with the decision issued by the Securities Market Agency. The share issue was fully paid up.

According to the Decision of the Bank of Slovenia on Extraordinary Measures, dated 17 December 2013, as of 18 December 2013 all qualified liabilities of Abanka Vipa d.d. fully ceased, including the share capital comprising all the shares of Abanka Vipa d.d. with the ABKN ticker symbol. On the same day, respective entries were made in the Companies Register and, as a result, the above-mentioned shares were stricken off the Central Securities Depository of securities issued in dematerialised form and kept by KDD.

Simultaneously with the reduction of the share capital of Abanka Vipa d.d. to zero, on 18 December 2013, in accordance with the Decision of the Bank of Slovenia on Extraordinary Measures, dated 17 December 2013, and the Decision of the Bank of Slovenia Approving the Share Capital Increase of Abanka Vipa d.d., dated 18 December 2013, the Bank's capital share was increased to EUR 150,000,000 through the issue of 15,000,000 new ordinary registered no-par value voting shares. On the same day, respective entries were made in the Companies Register and, as a result, the above-mentioned shares were entered in the Central Securities Depository of securities issued in dematerialised form. After 18 December 2013, the share capital of Abanka Vipa d.d. was divided into 15,000,000 new shares with voting rights attached. After the subscription of new ABKS shares, the Republic of Slovenia held 15,000,000 ABKS shares, which was 100% of all issued shares of Abanka Vipa d.d. In accordance with the resolution passed by the 29th General Meeting of Shareholders on 3 October 2014, the Republic of Slovenia paid in 100,000 new shares amounting to EUR 243,000 thousand on 8 October 2014. The share capital increase of EUR 1,000,000.00 was entered in the Companies Register on 10 October 2014. After the increase, **the share capital of Abanka** amounted to EUR 151,000,000.00 and was divided into 15,100,000 ordinary no-par value registered shares wholly owned by the Republic of Slovenia.

Issue of shares and capital increase – Banka Celje

Before the capital increase in 2008, the share capital of the bank consisted of 422,123 no-par value registered shares issued in dematerialised form and entered in the Central Securities Depository of securities issued in dematerialised form. The shares included 80% ordinary shares with voting rights attached and 20% preference shares.

At the 23rd regular General Meeting of Shareholders held on 22 May 2008, the Management Board of the bank was granted the authorisation to increase the share capital by issuing new shares within the next five years. As the amount of the authorised capital may not exceed half of the share capital at the time when authorisation is given, this represented 211,061 shares. The new shares can only be issued with the approval of the Supervisory Board of the bank. In October 2008, the share capital of the bank was increased from the authorised capital by selling 86,506 shares at the total issue value of EUR 35 million. The bank sold 69,205 ordinary shares at a price of EUR 413 per share and 17,301 preference shares at a price of EUR 371 per share. After the capital increase, the share capital of the bank was divided into 508,629 no-par value shares.

No new shares were issued from the authorised capital in the following years. At the General Meeting of Shareholders held in October 2012, a resolution was passed, revoking the preferential rights of all issued preference shares and converting them into ordinary shares.

Following the capital increase through state aid on 16 December 2014, the share capital of the bank was divided into 5,000,000 ordinary registered no-par value shares issued in dematerialised form. All the shares that represented a qualified liability of the first order prior to the capital increase, i.e. all 508,629 ordinary no-par value shares, were cancelled as of the date of the capital increase. Through the capital increase the Republic of Slovenia became the sole owner of the bank.

THE BANK'S DEVELOPMENT

DEVELOPMENT AND MARKETING COMMUNICATIONS IN 2016

Corporate banking

In line with the strategic guideline of the Bank, much attention was devoted to the development of modern sales channels. The Abamobi com mobile bank application was upgraded to enable payment transactions and an overview of deposits and loans, in addition to the existing, well-established functionalities (overview of transactions, remote signing). For better communication with corporate customers, the function “Sporočila” (“Messages” – receiving and sending of messages to the Bank) was added to the mobile bank application. In March, Abasms com, a new service for business users, was introduced. By sending a text message, the service notifies the user of any changes on their business account and business cards, both at home and abroad.

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In the first half of 2016, the Visa business card was redesigned to bring it closer to its users. In June, the Bank began to issue payment cards that allow contactless payment.

In 2016, the Bank has continued to seek solutions for simplifying and accelerating the main processes, which also have an impact on service quality. In the second half of 2016, the loan process optimisation was launched. As of July, a redesigned application for the sale of credit, guarantee and deposit operations to legal persons has been in use.

A diverse range of banking services is provided not only by creating own special offerings but also through special offers provided in cooperation with business partners (SID Bank, municipalities and others). In 2016, Abanka introduced the overdraft facility without a maturity date and a liquidity loan for large and medium-sized enterprises – “hot money". For all new customers, a welcome package (a business package for legal entities and a business package for sole proprietors) was prepared.

The first six months of 2016 were also marked by activities related to the merger of Banka Celje with Abanka. Business accounts were renumbered and the corresponding products were replaced with Abanka’s products (business cards, online banking, etc.). The contact centre provided to the customers of the former Banka Celje information in relation to the Bank’s products and technical assistance in using the new online banking service.

In 2016, nine business events primarily for micro-enterprises were organised throughout Slovenia. In autumn 2016, the main event for all corporate customers was held in Ljubljana. The current banking content was well presented at a number of other business events organised for legal entities by other organisations across Slovenia (Family Entrepreneurship, many regional and local events held by Regional Chambers of Craft and Small Business, MOS (International Trade and Business Fair), etc.).

Marketing for corporate customers was implemented through various forms of direct marketing, focusing on electronic marketing, telemarketing and web marketing. To this end, the content of Abanka’s electronic bulletin for corporate customers *(eBilten)* was very helpful, with three editions published in 2016.

Retail Banking

In 2016, the Abamobi mobile bank service for retail customers was upgraded so as to further improve the user experience. In doing so, Google Analytics was added, the “Scan and Pay” component was upgraded, the indicator for rejected tasks was introduced, and the options to open an authorisation in the review of orders in PDF format and to enter and review contact information were added.

For the purpose of cashless operations, the Bank offers its customers a range of card services. The signing of agreements via a signature pad (the *ePero* application) was enabled in order to accelerate the conclusion of agreements and automate the agreement archiving process. In June 2016, the Bank began to issue the first payment cards that allow contactless payment.

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Apart from that, alternative forms of saving were offered to savers. In the reporting period, Abanka continued to sell insurance services in cooperation with Zavarovalnica Triglav so as to provide high quality and competitive insurance services and with Triglav Skladi d.o.o. in the sale of mutual funds. A special bundled product continued to be provided – an undedicated deposit and an investment in a selected mutual fund.

In September, in order to meet the regulatory requirements, the Bank introduced a basic account designed for users who do not have or are in the phase of closing their personal account and for the recipients of financial social assistance who do not have an account opened with Abanka.

Across all channels, in the online and mobile banking services and in the application for counter operations, automatic input of the BIC code was enabled based on the entered IBAN code for cross-border payments. The retail loan application continued to be developed and the option to create an annex to an agreement was added.

A welcome package was prepared for new customers, Račun users, retired persons, small businesses and entrepreneurs, enabling them more favourable banking operations. The range of favourable housing and consumer loans was maintained. The package of benefits Apaket Podjetnik (Apaket Entrepreneur) was designed for entrepreneurs and sole proprietors.

In 2016, the activities related to the operational merger of Banka Celje with Abanka continued. The operational merger of systems for personal accounts, including the corresponding products, was completed. The contact centre provided to the customers of the former Banka Celje information in relation to the Bank’s products and technical assistance in using the new online banking service.

Through effective and modern marketing communications in 2016, the activities continued which were aimed at consolidating the position of Abanka as a modern, innovative and technologically advanced bank. Moreover, the visibility of Abanka service brands was enhanced and Abanka was ranked among the top three banks. Particular attention was paid to effective marketing of card operations and Abamobi mobile banking. The same customer segment was the target audience of the pre-summer marketing campaign, when before the summer holidays the focus was on the key banking services, which come handy during a vacation and should be taken care of before the departure. Abanka's main e-news (eNovice) was intended especially for these customers.

Marketing activities were targeted at different target groups. Pre-school children continued to be addressed primarily by the hedgehog mascot *Abanka Ježek*, elementary school children and their parents were the target group of the Akeš junior brand, while students were effectively targeted through Akeš, the brand for young people. The youngest children were entertained by the hedgehog mascot Ježek at a number of family events organised across Slovenia. In 2016, through puppet shows shown in kindergartens, more than 1,300 children and their teachers were educated about basic banking. For the third consecutive year, Abanka sponsored *Cici vesela šola* for pre-school children and *Vesela šola* for elementary school children.

For the acquisition of elementary school personal accounts, two effective marketing campaigns were carried out in 2016. The activities relating to the national competition in logic, which is also sponsored by Abanka, were intended for elementary school children.

In 2016, two comprehensive marketing activities were targeted at pupils and students, inviting them to open a personal account for young people. In the youth segment Abanka's Facebook profile remained most popular. In addition, direct communication with young people was carried out through the most favourite communication channels – e-mail and text messages. Apart from Abanka's own marketing activities, the Akeš brand and Abanka are brought closer to young people via participation in selected events, e.g. competitions in logic for secondary school pupils, Fanfara – the main marketing event for students. In the youth segment, Abanka maintained the highest net promoter score (NPS).

Part of the marketing activities was also devoted to the most loyal, more mature population by presenting the benefits of Aračun senior personal account for pensioners at the Festival for the Third Life Period and in a couple of publications in key printed media.

Through an individual customer approach and premium private banking, the segment of more demanding customers was targeted by more direct, personal, discrete marketing activities, which resulted in higher customer satisfaction generated by gratitude and rewarding customer loyalty.

In all of the before marketing activities in 2016, all the available internal communication channels were also used.

As of December 2016, up-to-date information is available to customers at Abanka's fully redesigned website, on the two active Facebook profiles (Abanka and Akeš) and Abanka's LinkedIn profile.

Financial Markets

In 2016, in terms of liquidity management, the Treasury Division:

- continued with the centralised operational liquidity management process and upgraded the software for monitoring the planned and realised cash flows;
- continued the management of secondary liquidity reserves and provided for an adequate level and structure of the banking book.

In operations with customers, all treasury products were proactively marketed in 2016. A significant increase in business volume was recorded with regard to the spot purchase and sale of foreign currencies. The increased volatility of exchange rates also resulted in higher demand for derivatives for hedging against foreign exchange risks. A growing number of customers is opting for flexible forward transactions, since they allow for simple management of foreign currency cash flows while also providing efficient protection from foreign exchange risk.

As a result of extremely low euro interest rates in 2016, the demand for derivatives for hedging against interest rate risk was slightly revived. The Bank expanded the range of customers involved in the purchase and sale of debt securities; it was also actively engaged in the new issue of treasury bills and bonds of the Republic of Slovenia in domestic and international markets. In 2016, Abanka acquired new customers, maintained good business relations with existing customers and consolidated the visibility of its treasury products. This was confirmed by the good attendance of corporate customers at the 9th traditional treasury event held in October in Ljubljana.

Abanka remains an important primary dealer in Slovene government bonds and treasury bills. In both the domestic and foreign markets, it operates as the official market maker for MTS Slovenia together with 15 large foreign banks, dealing in 14 government bonds of the Republic of Slovenia. In the most recent international bond issue and the domestic issue of treasury bills, Abanka played an active role as a co-organiser and achieved a high market share in the local market.

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In 2016, the abolishment of the registry accounts kept by KDD took place. To this end, the Bank created a special offer, which was recognised as such by approximately 10,000 new customers of brokerage services.

DEVELOPMENT, AND MARKETING COMMUNICATIONS IN 2017

In 2017, product development will follow both the development of new technologies and systems and the strategic guidelines of the Bank. Particular emphasis will be on the development of digital channels – online and mobile banking. The Bank will continue to seek possibilities for process optimisation.

In 2017, product development will follow both the development of new technologies and systems and the strategic guidelines of the Bank. Particular emphasis will be on the development of digital channels – online and mobile banking. The Bank will continue to seek possibilities for process optimisation.

In 2017, the existing good practices will continue to be implemented, while adding even more modern and efficient marketing techniques. The Bank will further consolidate the visibility of product brands and promote the sale of these services in order to contribute to higher satisfaction of both retail and corporate customers in all segments. The marketing activities will be aimed at promoting services among the existing customers as well as at acquiring new customers.

A number of marketing and advertising campaigns will be prepared and implemented. Apart from that, new banking products and services will be presented not only at the events organised by Abanka but also at other events.

In 2017, the Bank will maintain its presence on key social media, striving for the highest possible net promoter score. The main web portal will be kept up-to-date and both electronic bulletins for customers will continue to be published.

CORPORATE GOVERNANCE STATEMENT

To achieve a high level of transparency in governance, Abanka d.d. includes a corporate governance statement in its business report in accordance with the fifth paragraph of Article 70 of the Companies Act.

Abanka d.d. implements its internal governance arrangements, including corporate governance, in accordance with the applicable legislation of the Republic of Slovenia, particularly the provisions of the Banking Act (ZBan-2) on internal governance arrangements in Section 3.4 (Governance System of a Bank) and Section 6 (Internal Governance Arrangements and Internal Capital Adequacy), the latter in the part relating to the requirements which apply to a bank or to the members of the management body, in addition to taking into account the regulations referred to in the second paragraph of Article 9 of the Banking Act (ZBan-2). Apart from that, the Bank adheres to the Decision on Internal Governance, the Management Body and the Adequate Internal Capital Assessment Procedure for Banks and Savings Banks and the relevant EBA guidelines on the assessment of the suitability of members of the management body and key function holders as well as the guidelines on remuneration policies and practices. Furthermore, the Bank seeks to follow non-mandatory recommendations from the letter of the Bank of Slovenia (ref. 38.20-0288/15-TR of 23 October 2015) to the maximum possible extent.

Abanka d.d. is a state-owned company and not a public company within the meaning of the Financial Instruments Market Act. In 2016, the Bank complied with the legal requirements on the governance of a bank, including the reference codes and recommendations set out in the Statement of Compliance with the Corporate Governance Code.

Statement of Compliance with the Corporate Governance Codes

The Management and Supervisory Boards declare that in its work and operations in 2016 Abanka d.d. observed the corporate governance recommendations as set out in:

- **Corporate Governance Code** adopted by the Ljubljana Stock Exchange d.d., Ljubljana, the Association of Supervisory Board Members of Slovenia and the Managers' Association of Slovenia on 8 December 2009. The Code is available on the website of the Ljubljana Stock Exchange at http://www.ljse.si in Slovene and English;
- **Corporate Governance Code for Companies with Capital Assets of the State** adopted by Slovenski državni holding d.d. on 19 December 2014 and revised on 2 March 2016 and the **Recommendations and Expectations** of the Slovenian Sovereign Holding (Slovenski državni holding d.d.) adopted in February 2016. Both codes are published on the website www.sdh.si.

Individual deviations from the provisions of the codes and recommendations, including a statement of reasons and presentation of appropriate alternative practices, are disclosed below. The reasons for a different practice lie primarily in specific characteristics related to the ownership structure and industry or activities of the company.

a) <u>Corporate Governance Code</u>

Code provision 4.2: Abanka is of the view that providing information to the public via its sole shareholder – the Republic of Slovenia about their investment policy is primarily at the shareholder's discretion, in line with the regulations governing capital assets of the State. No encouragement by Abanka can specifically influence its shareholder's decision to inform the public.

Code provision 20.4: Considering the fact that the Bank was a public company only until February 2016 and is 100% owned by one shareholder, it ensured transparency of its operations to the investor in such a way that it timely and appropriately informed the investor about accounting, financial and non-financial information, enabling it to assess the situation and the impact of a particular business event on the price of the security.

b) <u>Corporate Governance Code for Companies with Capital Assets of the State</u>

Code provision 6.1: The Supervisory Board performs its function of supervision of the Bank's operations and its management in compliance with the law and the Articles of Association. In 2016, the Bank began to draw up the documents relevant for the preparation of a timely and effective succession plan for the members of the management bodies. In January 2017, the Supervisory Board adopted the abovementioned documents.

Code provision 10.2.1: Corporate integrity system
The Bank's guiding principle is lawful, professional, ethical, safe and diligent business, which it implements by complying with the applicable regulations, standards, codes, best practices and other rules of the financial and banking sector. In order to ensure a stable governance arrangement, the management body adopted the Code of Business Ethics. The Code not only sets the standard of Abanka's corporate culture based on its corporate values but also defines the conduct of the members of the management body and other employees in business or personal relations with the customers, co-workers, shareholders, business partners and the natural and social environment (the stakeholders).
The corporate integrity system consists of the rules of conduct, arising from the Code and defining the management of various types of risks such as the risk of unlawful operations, conduct contrary to the interests at all levels of decision-making and operation, the different types of fraud, employee harassment and mobbing, money laundering and terrorist financing, abuse of all kinds of confidential information, non-transparent and inappropriate selection of outsourcers, improper handling of consumers, market abuse, inadequate information about the performance and other.
The compliance function is integrated into the corporate integrity system so as to develop and implement the compliance programme, including the provision of advisory services and training and the identification, monitoring and assessment of risks in this area. On the basis of the self-assessment, the general annual assessment on the state of corporate integrity was made.
All employees are familiar with the Code of Business Ethics; it is published on the intranet portal and on the website of the Bank. Employees can report any detected violations to their superiors or using the internal electronic reporting system (to report infringement, loss events or incidents). The Bank ensures any employee submitting such a report that no retaliatory measures will be taken against them as a result.

c) Recommendations and Expectations of the Slovenian Sovereign Holding

Recommendation No. 5: Attainment of quality and excellence in the operations of companies/groups
The Bank performs a range of activities to determine, assess, manage and monitor the quality of its operations in various segments. The Code of Ethics constitutes the basis for improving the corporate culture of the Bank, thereby achieving business excellence and quality. The activities aimed at improving the quality of operations include verification of customer satisfaction (analyses on the basis of received complaints, loss events and other incidents, checking the service level among organisational units) and care for employee satisfaction (measurement of the organisational climate, management staff assessment, a Family-Friendly Enterprise certificate, concern for employee safety and health, monitoring of staff turnover, monitoring of reported infringements and irregularities, promotion and rewarding of promoters of the Bank's values and innovative ideas), professional training and acquisition of leadership skills. By ensuring adequate staffing in IT area, the quality and security of information systems is properly managed. Moreover, qualified internal control functions contribute to higher quality of the Bank's operations through their activities.

The governance policy and practices of Abanka are publicly accessible on its website at http://www.abanka.si/.

Main characteristics of the internal control and risk management systems in financial reporting

The Bank manages all types of material risks in accordance with the adopted Risk Management Strategy and in line with the risk management policies by risk type. The Bank's internal control system encompasses regular internal controls, including control policies and procedures implemented by the front office, middle office and back office, and independent internal control functions (risk management, compliance, internal audit).

The main objective of internal controls in the management of risks arising from financial reporting is to ensure reliability or credibility, accuracy, integrity, completeness and timeliness of accounting data, appropriate separation of powers and duties in accounting procedures, professional and efficient performance of tasks, operations in accordance with the applicable regulations and internal rules and fair disclosure of accounting data in internal and external reports.

Monitoring the effectiveness of risk hedging methods arising from accounting reporting and risk reduction is a process based on an internal control system consisting of internal controls (particularly the work procedures, granting and exercise of powers and responsibilities, and reporting). The activities of the Internal Audit Department and compliance activities are also part of the system.

Information required under items 3, 4, 6, 8 and 9 of paragraph 6 of Article 70 of the Companies Act

- **The structure of the company's share capital, including all securities, as defined by the act governing takeovers**
  As at the reporting date, the share capital of Abanka amounted to EUR 151,000,000.00 and was divided into 15,100,000 ordinary no-par value registered shares wholly owned by the Republic of Slovenia. Abanka has only one class of shares without any restrictions on their transferability. Each ordinary share carries one vote at the General Meeting of Shareholders unless stipulated otherwise by the Articles of Association or the law (no voting right).

- **Significant direct or indirect ownership of securities in terms of achieving a qualifying holding as defined by the act governing takeovers**
  As at the reporting date, the Republic of Slovenia was the 100% owner of all the Bank's shares.

- **Special controlling rights**
  None of the Bank's shareholders have special controlling rights.

- **Voting right restrictions**
  According to the Articles of Association, voting rights are not restricted to a certain holding or to a minimum number of shares. Detailed information on the exercise of voting rights is contained in Section *Functioning of the General Meeting of Shareholders, its key competencies, description of shareholders' voting rights and the manner in which they are exercised*, which is part of this statement.
  The Bank is unaware of any agreements according to which the financial rights attached to securities are through the involvement of the Bank separated from the rights attached to the holding of such securities.

- **Rules on the appointment or replacement of members of the management or supervisory bodies and amendments to the Articles of Association**
  The rules on the appointment or replacement of members of the management or supervisory bodies are presented in the section "Composition and functioning of management or supervisory bodies and their committees", which is part of this statement.
  The rules regarding amendments to the Articles of Association are disclosed in the section "Functioning of the General Meeting of Shareholders, its key competencies, description of shareholders' voting rights and the manner in which they are exercised", which is part of this statement.

- **Authorisations of the management, especially share purchase and share issuing options**
  The Management Board of the Bank is not authorised to issue or purchase shares or issue authorised capital.

Functioning of the General Meeting of Shareholders, its key competencies, description of shareholders' voting rights and the manner in which they are exercised

The General Meeting of Shareholders consists of the Bank's shareholders. The General Meeting of Shareholders decides on the following matters: distribution of the accumulated profit on the proposal of the Management and Supervisory Boards; approval of the Annual Report should the Supervisory Board fail to approve the Annual Report or should the Management and Supervisory Boards leave it to the General Meeting of Shareholders to decide on the approval of the Annual Report; the Annual Internal Audit Report, including the opinion of the Supervisory Board; adoption of and amendments to the Articles of Association; measures to increase or decrease the share capital, excluding those which, in line with the Articles of Association, fall within the competence of the Management Board; the winding-up of the Bank and status-related changes; appointment and dismissal of Supervisory Board members; a vote of no confidence in the Management Board; granting discharge to members of the Management and Supervisory Boards; appointment of the auditor; the Rules of Procedure of the General Meeting of Shareholders and other matters determined by the Articles of Association and by the law.

The General Meeting of Shareholders is convened at least once a year by the Management Board. It can also be convened by the Supervisory Board. In addition, shareholders holding a total of one-twentieth of the share capital may require that a General Meeting of Shareholders be convened.
The Management Board convenes the General Meeting of Shareholders at least thirty days prior to the General Meeting of Shareholders by publishing the notice convening the General Meeting, its agenda and draft resolutions in the manner provided by the law and the Articles of Association. The material necessary for making decisions at the General Meeting, including draft resolutions, must be available to the shareholders at the Bank's premises from the publication of the notice convening the General Meeting.
In 2016, the Articles of Association were amended by adding the provision that if all shareholders of the Bank are present or represented at the General Meeting of Shareholders, the General Meeting of the Shareholders may take decisions without prejudice to the provisions of the law or the Articles of Association concerning the content, date and publication of the notice convening the General Meeting, the provisions relating to the deadlines and publication of amendments to the agenda of the General Meeting and the provisions on the majority required for the Management Board of the Bank to take a decision on the convocation of the General Meeting of Shareholders.

Only the shareholders holding ordinary shares who were entered in the Share Register no later than by the end of the fourth day before the date of the General Meeting of Shareholders and who announced their attendance to the Management Board no later than by the end of the fourth day prior to the date of the General Meeting are entitled to participate in and vote at the General Meeting of Shareholders. Shareholders may exercise their rights at the General Meeting of Shareholders in person or through a proxy.

Each ordinary share carries one vote at the General Meeting of Shareholders unless stipulated otherwise by the Articles of Association or the law (no voting right). The Bank has not issued any shares with restricted voting rights. The General Meeting of Shareholders adopts decisions by the majority of votes cast, unless otherwise stipulated by the Articles of Association or by the law. A three-quarters majority of the represented share capital is required for the General Meeting of Shareholders to adopt decisions on increasing or decreasing the capital, amendments to the Articles of Association, the denial of pre-emption rights to purchase shares in increasing the share capital, the winding-up of the Bank, status-related changes of the Bank, the dismissal of a Supervisory Board member and a vote of no confidence in the Management Board.

At the 33rd regular General Meeting of Shareholders held on 13 May 2016, the shareholder took note of the Annual Report of Abanka for 2015 and the remuneration of the Management and Supervisory Board members for 2015. Moreover, the shareholder was informed that the accumulated profit for 2015 totalled EUR 22,099,974.59, consisting of the remaining net profit for 2015 of EUR 19,248,861.18 and profit brought forward from previous business years in the amount of EUR 2,851,113.41. The General Meeting of Shareholders concluded that the accumulated profit in the amount EUR 22,099,974.59 will remain undistributed until further notice as retained earnings. The General Meeting granted a discharge to the Management and Supervisory Board members and adopted the Annual Internal Audit Report of Abanka d.d. for 2015, including the opinion of the Supervisory Board. The General Meeting of Shareholders took note of the resignation of Janko Gedrih as of 9 February 2016, and consequently the termination of his term of office as a member and Chairman of the Supervisory Board. The General Meeting further took note that on 30 May 2016 the term of office of Andrej Slapar as a member of the Supervisory Board would expire. The General Meeting appointed Rok Pivk a member of the Supervisory Board of Abanka d.d. for a four-year term, beginning on 13 May 2016, and Vid Leskovec a member of the Supervisory Board of Abanka d.d. for a four-year term, beginning on 31 May 2016. Moreover, the General Meeting of Shareholders adopted the following amendments to the Articles of Association of Abanka d.d.: (i) Article 25 was amended with the provisions on the admissibility of decisions made by the General Meeting of Shareholders without prejudice to the provisions of the law and the Articles of Association regarding the convocation of the General Meeting if all shareholders are present or represented at the General Meeting of Shareholders; (ii) Article 33 was amended with the provisions on the notice period of a member of the Supervisory Board who resigns from the function and on the resignation of a member of the Supervisory Board without a notice period in the case of objectively justified reasons; (iii) the sixth indent of Article 35 was amended to stipulate that the Supervisory Board shall give the Management Board its approval to defining the annual work plan of the Internal Audit Department; (iv) the provision in Article 44.a was amended to read that a member of the Management Board shall immediately inform the Supervisory Board of the circumstances due to which a potential conflict of interest may arise; (v) the first paragraph of Article 48 was amended with the provision that the Supervisory Board shall decide on the rights and obligations included in the agreement of a Management Board member; (vi) the existing second paragraph of Article 48 was deleted; the existing third paragraph became the second paragraph, which as of now stipulates that the members of the Management Board may be entitled to profit-sharing in the amount set by the General Meeting of Shareholders if so provided by the management body remuneration policy adopted by the Supervisory Board, which informs the General Meeting of Shareholders thereof, or by the General Meeting of Shareholders; (vii) in Article 53 the phrase “in accordance with the annual programme” was replaced by “in accordance with the annual work plan”.

Composition and functioning of management or supervisory bodies and their committees/commissions

Abanka uses a two-tier management system. The Bank is run by the Management Board, whose work is supervised by the Supervisory Board. The governance of the Bank is based on the applicable legal regulations, the Articles of Association, internal documents, generally accepted business practices, the Corporate Governance Code and the Corporate Governance Code for Companies with Capital Assets of the State and the Recommendations and Expectations of the Slovenian Sovereign Holding (with certain exceptions and differences disclosed in the Statement of Compliance with the Corporate Governance Code).

Management Board

The Management Board runs the Bank's operations independently, for which it is fully responsible. In legal transactions, the Bank is always jointly represented by two members of the Management Board who are entitled to sign on its behalf. The Management Board is appointed and dismissed by the Supervisory Board. The Management Board has at least two and no more than five members, of whom one acts as its President. The number of Management Board members is determined by the Supervisory Board. The President and members of the Management Board are appointed for a five-year term with the possibility of reappointment. The Management Board reports to the Supervisory Board in accordance with the applicable regulations.

Each member of the Management Board has one vote. The decisions of the Management Board are adopted by a majority vote of all members. Where a vote is equal, the President holds the deciding vote. By a special decision adopted unanimously, the Management Board may authorise each of the Management Board members to take decisions on individual matters and transactions relating to the Bank’s current operations at their own discretion.

If a member of the Management Board is appointed director or if their function in other companies and organisations has ended, they are required to immediately inform in writing the Bank, the Supervisory Board and the Bank of Slovenia or the European Central Bank.
A member of the Management Board is obligated to notify the Supervisory Board of the circumstances due to which a potential conflict of interest may arise with respect to the performance of the function of a Management Board member and of other circumstances that could affect the fulfilment of the conditions for the appointment as a Management Board member in line with the Banking Act, including any significant change which affects or could affect the Bank's assessment as to their suitability as a Management Board member.

In 2016, the Management Board was composed of Jože Lenič as its President and Aleksander Vozel and Matej Golob Matzele as its members.

The Management Board is responsible for the establishment and implementation of such an internal governance arrangement of the Bank, which will enable efficient and prudent management of the Bank based on clearly defined powers and duties as well as policies and measures for the prevention of conflicts of interest. The Management Board is fully responsible for the operations of the Bank and its risk management, including (i) the approval of strategic objectives of the Bank, adoption and regular review of the risk appetite and management strategy and internal governance arrangement; (ii) ensuring the integrity of the accounting and financial reporting systems, including financial and operational control as well as compliance with the applicable regulations and standards; (iii) monitoring of information disclosure procedures and procedures for notification of competent authorities and other stakeholders; and (iv) effective supervision of senior management. Furthermore, the Management Board regularly monitors and assesses the effectiveness of the internal governance arrangement, takes appropriate measures to eliminate any identified deficiencies, and informs and reports to the Supervisory Board.

A member of the Management Board must satisfy the statutory conditions for performing the function of a Management Board member throughout their entire term of office as well as (i) act with due skill and care and in particular ensure that the Management Board acts in line with the Banking Act; (ii) act honestly, fairly and independently so as to effectively evaluate and assess senior management decisions related to the management of the Bank; (iii) act in accordance with the highest ethical standards of governance, including the prevention of conflicts of interests; and (iv) devote sufficient time to effectively perform the function of a Management Board member.

Apart from that, a member of the Management Board has to ensure that the Bank operates in accordance with the general rules and regulations governing the performance of services and transactions provided by the Bank as well as any regulations issued on the basis thereof.

The Rules of Procedure of the Management Board stipulate the methods of its work, and distribute the areas of work and tasks among its members. The Management Board assigns individual organisational units of the Bank to its members and makes them responsible for their management and co-ordination.

The Management Board may transfer certain decision-making rights to **collective decision-making bodies**. The number and type of bodies is determined in the Rules on organisation, while the scope of authorisations is defined by the Management Board in a decision. The following bodies assist the Management Board in its work:

- **Assets and Liabilities Management Committee**
  The Committee manages the Bank's liquidity, currency and interest risks, capital and capital adequacy, sets internal transfer rates, approves special terms and conditions for certain customers, as well as sets interest rates and a tariff charge system applicable to customers. As a rule, the Committee meets once a month. As at the end of 2016, the Committee had eight members. The Management Board appoints the Chairman, Vice Chairman and members of the Committee. The Committee members are appointed from among the Bank's employees with special authorisations.

- **Assets and Liabilities Management Commission**
  This Commission decides on special terms and conditions for certain customers and sets interest rates and a tariff charge system for customers. As a rule, the Commission has regular meetings once a week. The Management Board appoints the Chairman, Vice Chairman and members of the Commission. The Commission members are appointed from among the Bank's employees with special authorisations. At the end of 2016, the Commission had seven members.

- **The Bank's Credit Committee**
  With regard to investment management, the Credit Committee decides on borrowings to customers, credit limits for transactions with derivatives and repo transactions, decides on accepting syndicated loan agent services, project financing and other financial services, discusses financial restructuring plans or loan restructuring proposals and risk management reports, monitors how individual decision-making authorisations are exercised by the employees with special authorisations

and other employees as set out in the Management Board decisions regarding individual authorisations, monitors the implementation and realisation of internal resolutions of the body, decides on other matters and discusses other reports.
The Credit Committee is authorised to decide on the abovementioned investments if they have not been decided on in the framework of individual or Credit Commission authorisations or the Loan Watch Committee, within exposure limits to individuals or groups of related parties and other exposure limits set by the Bank, taking into account statutory limitations and the commitments made to the European Commission within the framework of the Bank's restructuring plan. Regular meetings of the Committee are convened once a week, whereas extraordinary meetings are held when necessary. The meetings can be held by correspondence. The composition of the Committee is determined by the Management Board. As at the end of 2016, the Committee had five members.

- **Liquidity Commission**
The Commission designs the current liquidity, exchange and interest policies of the Bank. Regular meetings of the Commission are usually convened daily, whereas extraordinary meetings are held when necessary. The meetings can be held by correspondence. The Bank's Management Board adopts a decision on the Commission's composition, appointing its members and substitutes. As at the 2016 year-end, the Commission had ten members.

- **Risk Management Committee and Operational Risk Commission**
The Risk Management Committee monitors, steers and controls risk management of the Bank. Furthermore, the Committee assesses the appropriateness of the Risk Management Strategy, its related policies and methodologies and the recovery plan, monitors exposure to credit, market and operational risks, takes appropriate measures, manages other risks, discusses and approves the limit systems and the limits, monitors the implementation of restrictions designed to manage liquidity, currency, interest rate and market risks as well as exposure to foreign countries, individual activities and banks, monitors capital requirements, discusses the results of calculations of internal assessment of the capital requirements, the capital level and the related ratios, and takes appropriate measures. The Committee checks the adequacy of the selected risk indicators and risk-bearing capacity indicators and confirms them, defines the importance of business activities for the needs of the Bank's risk profile assessment, adopts measures to modify the risk profile and to increase the risk-bearing capacity, and performs other activities in the context of the ICAAP process and risk management in general. Regular meetings of the Committee are convened once a month, whereas extraordinary meetings are held when necessary. The meetings can be held by correspondence. The composition of the Committee is determined by the Management Board. As at the end of 2016, the Committee had ten members.

The Operational Risk Commission is a working body of the Risk Management Committee. It is responsible for the development of the operational risk management system, it monitors the implementation of the operational risk management policy, it discusses reports on loss events and incidents as well as all the elements of operational risk, it reports to the Committee on important findings and proposes measures to eliminate the causes of their occurrence, it monitors the implementation of measures and reports to the Committee thereon.

- **Loan Watch Committee**
The Committee decides on the Bank's investments classified as non-performing, investments whose trustee is the Investments Under Scrutiny Department and investments determined by the Credit Committee. Furthermore, the Committee decides on borrowings to customers (including bilateral and syndicated loans) and accepting syndicated loan agent services, project financing and other financial services, discusses financial restructuring plans, recovery plans, loan restructuring proposals, proposals to initiate insolvency proceedings and the reports of the Investments Under Scrutiny Department, monitors the implementation and realisation of internal decisions, decides on other matters and discusses other reports. Regular meetings of the Committee are convened once a week, whereas extraordinary meetings are held when necessary. The meetings can be held by correspondence. The composition of the Committee is determined by the Management Board. As at the end of 2016, the Committee had five members.

- **Development Committee**
The Committee is a collective decision-making body in charge of directing and supervising the management of development activities aimed at achieving the strategic objectives of the Bank. The Development Committee holds regular monthly meetings. The composition of the Committee is determined by the Management Board. As at the end of 2016, the Committee had eleven members.

- **Commission for the Treatment of High-Risk Customers in Terms of Money Laundering and Terrorist Financing Prevention**
The Commission for the Treatment of High-Risk Customers in Terms of Money Laundering and Terrorist Financing Prevention discusses cases of high-risk customers in order to take appropriate measures to ensure their conduct is in compliance with the applicable laws and to adopt measures for a comprehensive management of all types of risks to which the Bank is exposed or

would be exposed when dealing with such customers. The composition of the Commission is determined by the Management Board. The Committee's meetings are held when necessary. As at the 2016 year-end, the Commission had six members.

- **Purchasing Commission**
  The Purchasing Commission is responsible for transparent conclusion of transactions related to the procurement of goods and services based on previously set and appropriately balanced selection criteria as well as on the basis of obtained comparable offers, which is the responsibility of the relevant departments of the Bank. The composition of the Commission is determined by the Management Board. At the end of 2016, the Commission had three members.

Supervisory Board

The Supervisory Board oversees the management of the Bank's business operations. It consists of seven members, who are appointed and dismissed by the General Meeting of Shareholders. Two thirds of the Supervisory Board members must be independent experts. Independent persons are those who are not or have not been employed by the Slovene Government within the last 24 months since their appointment to the Supervisory Board, or who have not performed a senior or managerial function in any Slovene political party within the last 24 months. Any natural person fulfilling the relevant requirements and for whom no restrictions were stipulated in the act regulating banking, the act regulating companies and other applicable regulations may be appointed to the Supervisory Board. The members of the Supervisory Board are appointed for a four-year term with the possibility of reappointment.

The Supervisory Board is responsible for the following: deciding on the appointment and dismissal of Management Board members and their remuneration; deciding on granting loans to Management Board members, authorised officers and other persons stipulated by law; approving the agreements between Supervisory Board members and the Bank; adopting and monitoring the implementation of general remuneration policy principles; deciding on granting loans to Supervisory Board members; reviewing and providing a written opinion on the Annual Report, including the auditor's report, and the profit distribution to the General Meeting of Shareholders in accordance with the second paragraph of Article 282 of the Companies Act (ZGD-1); approving the Annual Report; reviewing and providing opinions on financial and other reports by the Management Board; supervising the adequacy of internal control procedures and the effectiveness of the internal audit department; proposing nominees for the Supervisory Board to the General Meeting of Shareholders; submitting proposals to the General Meeting of Shareholders for the appointment of an auditor; proposing profit distribution to the General Meeting of Shareholders together with the Management Board; providing an opinion on the annual internal audit report to the General Meeting of Shareholders; reporting on the annual audit and auditing costs of the Bank to the General Meeting of Shareholders; discussing the findings of the Bank of Slovenia or the European Central Bank (ECB) if the ECB exercises the powers and duties of the supervision over the Bank in line with the EU regulations governing banking, as well as findings of other supervisory bodies in the bank supervision procedure; tax supervisory findings and other supervisory bodies in the bank supervision procedure; approving the operations of the Bank if such approval is required in the Articles of Association; deciding on amendments to the Articles of Association but only to the extent so as to adjust the wording of the Articles of Association to validly adopted decisions; adopting its own Rules of Procedure; and other competencies determined by the law or the Articles of Association.

The Supervisory Board gives its approval to the Management Board's long-term capital investments in other legal entities exceeding 1% of the bank capital, which is the sum of Tier 1 and Tier 2 capital in accordance with the applicable regulations; strategic business alliances; the Bank's corporate policy; the Bank's financial plan; organisation of an internal control system; the annual work plan of the Internal Audit Department; rules of the Internal Audit Department; conclusion of any legal transaction that, in consideration of the overall exposure of the Bank, would result in the Bank's large exposure to an individual customer; conclusion of any legal transaction due to which a large exposure of the Bank to an individual customer would equal or exceed 10% or every further 5% eligible capital of the Bank in line with the act regulating banking, which is the sum of Tier 1 and Tier 2 capital in accordance with the applicable regulations; conclusion of any legal transaction which would result in the Bank's exposure to the members of the Management Board and/or the Supervisory Board, authorised officers of the Bank and parties related to these persons; conclusion of any transactions with persons in a special relationship with the Bank in line with the act regulating banking; dismissal of the head of the risk management department; appointment and dismissal of the head of the internal audit department; write-off of receivables over EUR 1 million a year to an individual person or persons who are considered a group of related persons in line with the act regulating banking; raising loans; issuing bonds or subordinated debt instruments for every such assumed liability exceeding 25% of the book-value capital as well as to other matters stipulated by the law or the Articles of Association.

The Supervisory Board adopts resolutions at its sessions. The work of the Supervisory Board is performed in accordance with the Rules of Procedure of the Supervisory Board. The quorum of the Supervisory Board is constituted if a majority of members is present at a session. Decisions are adopted according to the majority of votes cast. Where a vote is equal, the Chairman shall hold the deciding vote.

As at 31 December 2016, the Supervisory Board of Abanka d.d. was made up of the following members:
- Marko Garbajs, Chairman, term starting on 4 October 2014;
- Melita Malgaj, Vice Chairman, term starting on 2 October 2015;
- Blaž Šterk, Member, term starting on 4 October 2014;
- Alenka Vrhovnik Težak, Member, term starting on 8 October 2015;
- Rok Pivk, Member, term starting on 13 May 2016;
- Vid Leskovec, Member, term starting on 31 May 2016.

In 2016, the terms of office of the following members ended: Janko Gedrih (resignation), Andrej Slapar (expiry) and Matjaž Trebše (resignation).

In the reporting year, the Supervisory Board held nine sessions and five correspondence sessions.

Supervisory Board Committees

The Supervisory Board forms committees as its consultative bodies. In line with the act regulating banking, the Bank set up four committees consisting of only the members of the Supervisory Board, whilst their manner of organisation and operation is governed by the applicable rules of procedure.

- In 2016, **the Audit Committee** was composed of the following members:
  - from 1 January to 31 May 2016: Blaž Šterk as its Chairman, and Marko Garbajs, Matjaž Trebše and Melita Malgaj as its members;
  - from 1 June to 8 August 2016: Blaž Šterk as its Chairman, and Matjaž Trebše, Melita Malgaj and Rok Pivk as its members;
  - from 9 August to 24 August 2016: Blaž Šterk as its Chairman, and Melita Malgaj and Rok Pivk as its members;
  - from 25 August 2016 onwards: Blaž Šterk as its Chairman, and Melita Malgaj, Rok Pivk and Alenka Vrhovnik Težak as its members.

The main purpose of the Audit Committee is to support the Supervisory Board in the execution of their supervisory duties related to the supervision of the organisation and efficiency of operations, putting emphasis on the quality and appropriateness of the risk management system and the internal control system with respect to financial reporting, compliance with the regulations and internal documents of the Bank, compliance of internal auditing, and adherence to the Code of Business Ethics and to the procedures for assessing the external auditor's independence. The Committee promotes transparent reporting and an efficient governance system of the banking group and creates added value by giving independent and impartial assurances to the Supervisory Board. The Committee held eight meetings and one correspondence meeting in 2016.

- In 2016, **the Compensation Committee** had the following composition:
  - from 1 January to 30 May 2016: Andrej Slapar as its Chairman and Alenka Vrhovnik Težak and Matjaž Trebše as its members;
  - from 31 May to 8 August 2016: Matjaž Trebše was as its Chairman and Alenka Vrhovnik Težak and Vid Leskovec were its members;
  - from 9 August to 24 August 2016: Alenka Vrhovnik Težak and Vid Leskovec as its members;
  - from 25 August 2016 onwards: Marko Garbajs as its Chairman and Alenka Vrhovnik Težak and Vid Leskovec as its members.

The main purpose of the Compensation Committee is to support the Supervisory Board in the execution of their supervisory duties in relation to preparing decisions on remuneration, including those having an impact on the risks and risk management of the Bank. The Committee held four meetings in 2016.

- In 2016**, the Human Resource Committee** had the following composition:
  - from 1 January to 9 February 2016: Janko Gedrih as its Chairman, and Andrej Slapar and Melita Malgaj as its members;
  - from 10 February to 25 February 2016: Andrej Slapar and Melita Malgaj as its members;
  - from 25 February to 30 May 2016: Marko Garbajs as its Chairman, and Andrej Slapar and Melita Malgaj as its members;
  - from 31 May 2016 onwards: Marko Garbajs as its Chairman, and Melita Malgaj and Vid Leskovec as its members.

The main purpose of the Committee is to support the Supervisory Board in the execution of their supervisory duties with respect to staffing issues involving the Management Board and the Supervisory Board membership. The Committee held six meetings and one correspondence meeting in 2016.

- In the reporting period, **the Risk Monitoring and Asset Liability Management Committee** had the following composition:
  - from 1 January to 9 February 2016: Marko Garbajs as its Chairman, and Janko Gedrih, Alenka Vrhovnik Težak and Blaž Šterk as its members;
  - from 10 February to 30 May 2016: Marko Garbajs as its Chairman and Alenka Vrhovnik Težak and Blaž Šterk as its members;
  - from 31 May 2016 onwards: Alenka Vrhovnik Težak as its Chairman, and Marko Garbajs, Blaž Šterk and Rok Pivk as its members.

The main purpose of the Committee is to support the Supervisory Board in the execution of its supervisory duties with respect to taking decisions related to the risk management function, the risk profile and the control of asset liability management in the Bank. In 2016, the Committee met seven times.

Abanka d.d. is committed to further strengthen its corporate governance and raise the corporate culture.

Ljubljana, 23 February 2017

Management Board

Jože LENIČ
President of the Management Board

Aleksander VOZEL
Member of the Management Board

Matej GOLOB MATZELE
Member of the Management Board

Supervisory Board

Marko GARBAJS
Chairman of the Supervisory Board

RISK MANAGEMENT

The operations of Abanka in 2016 were directed towards the implementation of further activities relating to the merger with Banka Celje and the improvement of the risk management process. Abanka upgraded the rating system for corporate customer classification, the group loss assessment methodology and the limit system, the rating methodology for banks and debt securities issued by institutions, the methodology for calculating the upper exposure limit for banks, the ICAAP process and the Recovery Plan. The central project during the reporting period was the performance of the activities necessary in the context of the projects “AQR and stress tests” and “IFRS 9” as well as continued activities for the implementation of the Bank of Slovenia guidelines on the calculation of default and loss rates. Apart from that, the early warning system for increased credit risk and upgraded IT support for collateral management were introduced.

Abanka was identified as a systemically important bank and was included in a comprehensive assessment performed by the ECB. The Bank passed the comprehensive assessment, under both the baseline and adverse scenarios.

In 2016, the Risk Management Strategy was revised to take into account the guidelines included in the Restructuring Plan of the Bank, the Business Plan of the Bank for the 2017–2019 Period and the commitments made to the European Commission regarding risk management.

In terms of risk management, the Abanka Group set clear objectives, which are achieved by establishing appropriate procedures through key processes and a clear segregation of duties and powers. The Risk Management Strategy objectives are as follows:

- to ensure an effective risk management process while implementing the set business policy and financial plan;
- to define the risk appetite of the Group;
- to identify and appropriately manage all major risks;
- to define clear lines of duties and responsibilities throughout the risk management process within the Group;
- to optimise the risk and return ratio;
- risk management that allows achieving financial objectives even in adverse operating conditions.

In order to achieve the set objectives, the Abanka Group adopted the following risk management principles:

- building the risk management culture and continually improving risk management processes as the key business elements,
- defining clear lines of duties and responsibilities throughout the risk management process,
- ensuring efficient risk management infrastructure to support business growth and development plans.

In the Risk Management Strategy, special attention was paid to the risk appetite and the risk management culture. The Bank is aware that business decisions have to be aimed at ensuring long-term sustainable and profitable operations and maintaining an adequate capital level with regard to the level of assumed risk. This means that bank divisions need to be able to realise their ambitions without going against the interests of investors, customers, employees and the public at large. In line with the Risk Management Strategy, the Bank makes a risk profile assessment and a risk-bearing capacity assessment at least twice a year. The testing of the impact of extraordinary circumstances at the Group level is an important part of strategic planning of the risk-bearing capacity, as it provides information on whether the financial position of the Group could withstand the impact of extraordinary, but likely events.

With its active risk management and an adequate capital level, Abanka’s strategic objective is to obtain and retain the credit rating in an investment grade.

With its active risk management and an adequate capital level, Abanka’s strategic objective is to obtain and retain the credit rating in an investment grade.

The Risk Management Department, an organisational unit independent from the front office, is in charge of the risk management function. The Risk Management Department is responsible for the development and use of risk management techniques (identification, measurement/assessment, control and monitoring/reporting) at the Group level in the most reliable, integrated, systemic, transparent and comprehensible manner. It is also responsible for raising awareness about the importance of risk management for the long-term stability and safety of the Group's operations within the scope of the key risk-bearing capacity indicators as set in the risk management strategy.

The activities of the Risk Management Division in 2016 and the achieved results are presented in detail below. In 2017, the activities of the Division will primarily focus on upgrading the internal rating system related to credit risk (stand-alone risk) and the operational risk management system. Special attention will be paid to model risk and conduct risk, while taking into account the precautionary principle and diversification of the portfolio of financial instruments. Moreover, the internal capital adequacy assessment process (ICAAP) and stress testing will be upgraded. Furthermore, the Bank will redesign the processes and methodologies relating to the disclosure of financial instruments and the calculation of credit risk losses as the result of the transition to IFRS 9, which will enter into force on 1 January 2018.

CREDIT RISK

Credit risk is the most important risk in the Abanka Group and represents a risk that a debtor or counterparty will cause a loss to the Group by failing to discharge an obligation. Apart from default risk, it includes concentration risk, the risk of less effective credit protection (residual risk), country risk, dilution risk, foreign currency lending risk, ownership interest risk, downgrade risk and shadow banking risk. The Group identified the following risks as material risks: default risk or counterparty default risk, concentration risk and residual risk.

The main objective of credit risk management in the Abanka Group is to achieve and maintain such quality and diversification of the credit portfolio, which provides for stable and sound operations, while achieving the target returns and capital adequacy, as set out in the Risk Management Strategy. To achieve this objective, procedures for credit risk exposure monitoring and loss prevention were set up.

The main objective of credit risk management in the Abanka Group is to achieve and maintain such quality and diversification of the credit portfolio, which provides for stable and sound operations, while achieving the target returns and capital adequacy, as set out in the Risk Management Strategy.

The Abanka Group established the credit risk management process, which includes: credit risk identification, measurement/assessment, monitoring, management and reporting procedures. In credit risk management, various credit risk mitigation tools are used, such as: the limit system, credit collateral, master netting agreements, financial covenants and other contractual provisions in credit agreements.

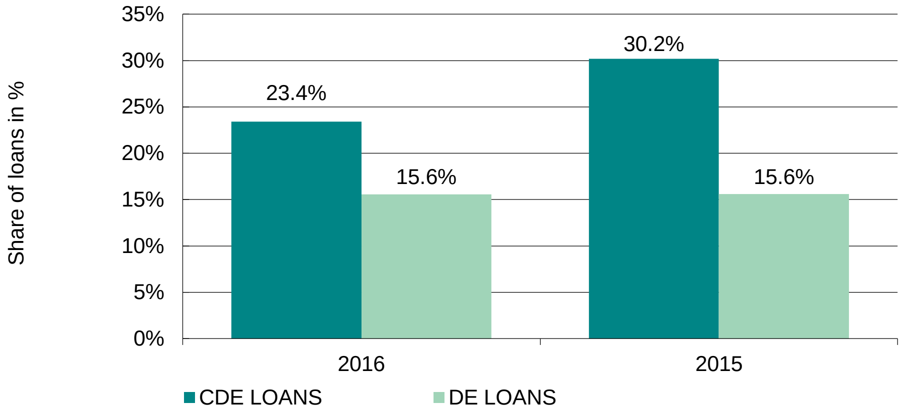
Exposure to credit risk depends on the following three credit risk components:
- a debtor's default probability reflected in their credit rating,
- the loss or recovery ratio on defaulted obligations,
- the amount of exposure in the case of a default.

The Group uses the expected loss as a measure of credit risk. When calculating the expected loss, the credit portfolio risk assessment, amount and quality of collateral and exposure maturity are taken into account as well as the risk characteristics of various types of exposure. In credit risk assessment, the volume and concentration of assets are taken into account in addition to asset quality.

In 2016, the shares of C, D and E loans in the Group's credit portfolio, excluding exposures to banks, decreased compared to the previous year. The reasons for the decrease are continued activities related to the collection of non-performing loans, the restructuring of corporate loans which have a business model and a sufficient cash flow for future loan repayment, the implementation of activities connected to the early warning system (EWS) for increased credit risk and a selective approach in the approval of new loans to companies for financing their ordinary course of business or investments.

Trends in the shares of CDE and DE loans in the Group's credit portfolio, excluding exposures to banks, are presented in the graph on the following page.

TRENDS IN THE SHARES OF CDE LOANS, AND DE LOANS (EXCLUDING BANKS)



The volume and share of non-performing loans are discussed in greater detail in Risk Management, Section 2.1.4.e) of Financial Report.

In 2016, the Group continued upgrading its risk management processes and developing the necessary software applications. Among others, the Abanka Group:

- implemented the upgraded CEZ+ application – Central Collateral Records;
- implemented the early warning system (EWS) for increased credit risk;
- upgraded the probability of default assessment model for corporate customers;
- upgraded the credit rating classification methodology for corporate customers (an increased number of grades);
- upgraded the methodology for assessing group losses arising from credit risk for corporate and retail customers;
- upgraded the methodology for the calculation of debt limits for enterprises and banks as well as regional and sectoral limits.

In the reporting period, the Group continued the activities related to the merger with Banka Celje, including standardisation and optimisation of technological support for all customer segments and products of the Bank. Special emphasis was put on improving the credit risk management process, especially the recovery process and loan collateral management.

From March to October 2016, a comprehensive assessment (CA) of the Bank was performed, which consisted of an asset quality review (AQR) and stress tests. Both components represented the basis for assessing the Bank's capital required to cover the risks. The Bank passed the stress tests, disclosing adequate capital ratios.

In the context of redesigning the loan approval process, the Group upgraded the computerised expert credit-scoring model for corporate customers and sole proprietors. To this end, the number of grades was increased, thereby achieving a higher fragmentation of the credit portfolio with regard to credit quality and, consequently, more accurate measurement or assessment of credit risk losses. Apart from that, the Group upgraded the probability of default assessment model for corporate customers and began with the technological upgrade of the data warehouse for the purpose of calculating the credit risk parameters (probability of default – PD, loss given default – LGD, credit conversion factor – CCF and exposure at default – EAD).

The Abanka Group also launched the IFRS 9 project in order to ensure smooth transition and compliance of the Bank's accounting with the provisions of the new international accounting standard for classification, measurement and impairment of financial instruments and general hedging against the risks (IFRS 9), which will enter into force on 1 January 2018. Within the framework of the IFRS 9 project, the Group will revise its system of assessment of credit risk losses as well as upgrade the probability of default (PD) assessment model and the loss given default (LGD) assessment model.

Furthermore, the Group updated its Recovery Plan (an obligatory document for all banks in the EU), which contains the definition of critical functions and the measures envisaged in the event of identified capital or liquidity weakness. To manage the latter, the Bank regularly monitors the relevant recovery indicators (for the operating segments significant for the Bank and the Group) and established the notification, action and communication process in the event of identifying a risk in one of the observed areas.

In 2017, the Group will continue with the activities on the IFRS 9 project, the implementation of the Bank of Slovenia guidelines on the calculation of default and loss rates and the upgrading of the EWS process. The focus will be on credit portfolio optimisation, including the acceptance of adequate forms of collateral, which should not only optimise the capital requirements but also improve the collectability of due receivables.

Great attention will be devoted to the implementation of the probability of default assessment model, the establishment of IT support and internal processes that will allow the collection of data required to calculate credit parameters (PD and LGD), the updating of the methodology for assessing group percentage losses arising from credit risk, the redesign of the loan approval process, the upgrade of individual limit systems as well as to the improvement of the credit portfolio monitoring information system and the credit risk reporting system.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. The definition additionally includes model risk, conduct risk and outsourcing risk, but excludes strategic risk and reputational risk. However, the realisation of operational risk may, as a consequence, impair the Bank's reputation.

The Group regularly identifies and assesses the operational risk exposure, while also taking stock of preventive and corrective measures in case of potential loss events. The system of reporting the occurrence of loss events and other incidents in the Abanka Group involves the entire staff and enables a quick reaction in the event of problems, as the Management Board and senior management are involved in such reporting if necessary. The occurrence and frequency of loss events – financial, non-financial and contingent, which are in the broadest sense called incidents – are quarterly discussed by both the Operational Risk Committee, responsible for the development of the operational risk management system, and the Risk Management Committee, which is a collective decision-making body responsible for monitoring, directing and controlling operational risk management. The Risk Management Committee is promptly informed of all significant operational risks and major losses. It monitors the operational risk exposure and takes the necessary risk management measures, monitors their implementation and discusses operational risk profiles (assessed, realised, targeted).

In 2016, the Abanka Group upgraded the management system of loss events and other incidents. An analysis of loss events occurred in 2016 indicated that the human factor was the main source of losses arising from operational risk, followed by the losses arising from external environmental factors. Action plans were prepared for all significant types of loss events, aimed at their prevention or reducing the likelihood of their occurrence, including the persons in charge and the deadlines. Implementation of measures is regularly monitored.

In 2016, the Group assessed the potential exposure to operational risk, both excluding and including the control environment assessment.

Abanka has prepared business continuity plans and disaster recovery plans, which are regularly updated and tested.

Abanka has prepared business continuity plans and disaster recovery plans, which are regularly updated and tested.

In 2017, the Group will actively continue to upgrade the operational risk management system, placing emphasis on quick risk identification, prevention of the most recent outstanding risks, fraud risk management and extraordinary events that might jeopardise the business continuity of the Bank. Special attention will be paid to model risk and conduct risk. In the future, risk analyses will be prepared using new software support, which will improve the efficiency of operational risk management.

MARKET RISK

Market risk is the risk of loss due to the unfavourable movement of market prices. It is caused by an adverse movement of risk factors, including interest rates, exchange rates, credit spreads, the prices of shares, commodity/gold prices and other important factors. The Group separately monitors its market risk exposure to financial instruments according to its trading and banking books. Market risk primarily arises from the activities performed in the Treasury Department and the Investment Banking Department.

The main purpose of market risk management is to achieve a balance between the return and the acceptable risk level, taking into account the Group's risk appetite and risk-bearing capacity, macroeconomic environment factors, abiding by legal restrictions and the corporate policy in force. In the Group, trading units generating risk are operationally and organisationally separated from the Risk Management Department, the middle office and the back office. The Management Board authorised the Risk Management Committee to approve market risk exposure limits.

Market risk is regularly measured and assessed by means of stress testing and sensitivity analyses, which enable estimating the likelihood of a potential event's occurrence and the level of its consequences. The Management Board, senior management and the Supervisory Board are regularly informed of the market risk analyses results.

In 2016, the Group continued its policy of limited trading in financial instruments. Trading in equity financial instruments was banned, whilst trading in debt financial instruments for own account was mainly limited to primary dealing in the government bonds of the Republic of Slovenia and active maintenance of this bond market. Trading in derivatives was limited to foreign exchange and interest rate financial instruments requested by customers (mostly corporates) for the purpose of hedging against interest rate and currency risks.

The banking book portfolio includes both equity and debt securities, which are not held for trading. The banking book equity portfolio includes only the strategic positions of the Bank and positions obtained from collateral foreclosure or debt-to-equity swaps. The size of the debt securities portfolio of the banking book, serving as an asset and liability management tool, decreased in 2016 by EUR 191 million, amounting to EUR 1,250 million as at the 2016 year-end.

To measure market risks, the Group applies Value at Risk (VaR): a quantitative measure used for assessing potential loss in the value of a position caused by adverse risk factor changes over a given future period at a given level of confidence in normal market conditions. The Group calculates VaR for debt financial instruments based on a historical simulation at a 95% to 99% confidence level and with a 10-day holding period. At a 99% confidence level, with a 10-day holding period and under the assumption of normal market conditions, the Group could not have incurred more than EUR 28 thousand of loss from trading in debt financial instruments as at the 2016 year-end.

A limit system is the basic tool for effective market risk management, which arises from the Group's appetite to bear market risk. The Group has established a limit system, including credit and position limits, stop loss limits, market rate compliance limits, VaR limits and limits per single authorised person. In setting limits in the trading and banking books of financial instruments, the Abanka Group follows the principles of prudence and increased portfolio diversification to minimise the exposure to credit and market risks.

A limit system is the basic tool for effective market risk management, which arises from the Group's appetite to bear market risk.

In 2016, the limit systems restricting the Bank's market risk exposure remained unchanged. Trading in derivatives was based on the back-to-back trading policy. Trading in derivatives with other companies was mostly performed only to hedge positions against interest and currency risks. Trading in more complex derivatives was not allowed.

The Group plans to maintain a low appetite for market risk in the future through restrictive limit systems for high liquidity of the Bank's trading portfolio, debt financial instruments of high credit quality and effective portfolio diversification. A potential threat is the possibility that portfolios will deteriorate and expand due to the possible realisation of collaterals in lending operations or due to potential debt-to-equity swaps, which will increase the market risk exposure. A potential increased exposure of the Group to market risk can also be caused by a counterparty's failure to meet its obligations from transactions in derivatives, which the Group is closing with high-street European banks.

INTEREST RATE RISK

Interest rate risk is the risk arising from the exposure to unfavourable changes in levels of market interest rates. Fluctuations in the levels of prevailing market interest rates have an impact on the value of financial instruments and the future cash flows. As a consequence of these changes, interest margins and profits change as well.

For interest rate risk management, an effective interest rate risk management process is in place, which keeps risks at an acceptable level. Interest rate risk is identified, measured, managed, controlled and monitored in line with the interest rate risk management policy. In terms of organisation, interest rate risk limitation and control are separated from operational interest rate risk management and the fulfilment of requirements.

For interest rate risk management, an effective interest rate risk management process is in place, which keeps risks at an acceptable level.

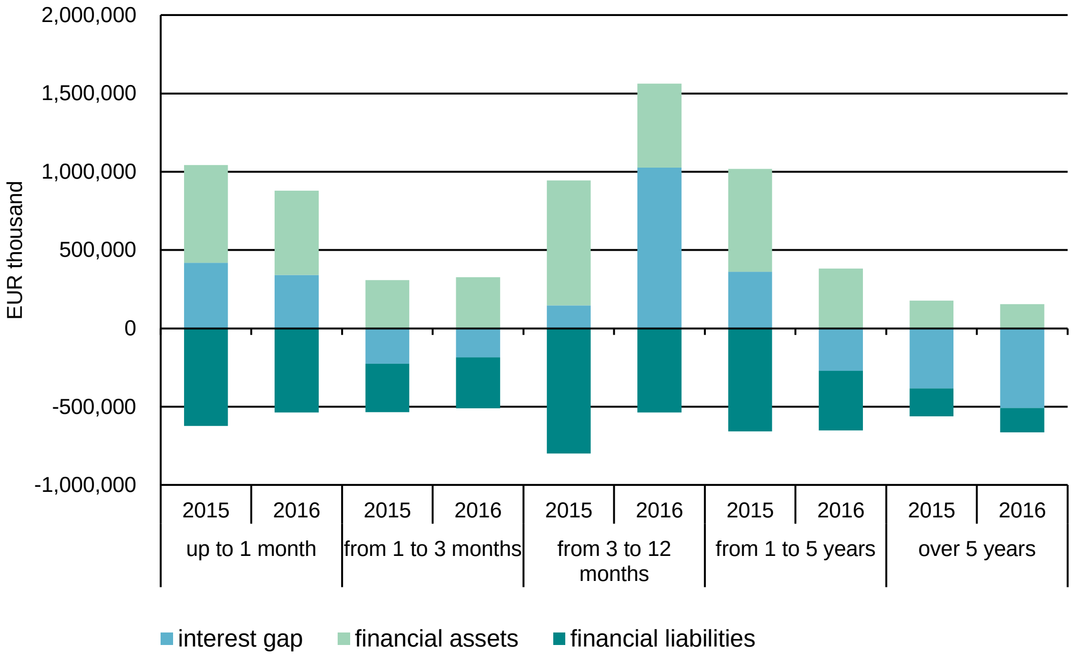
The interest rate risk arising from trading is monitored within the framework of monitoring market risks. The interest rate risk arising from the banking book is measured through interest rate gaps and regular balance sheet interest rate sensitivity analyses. Interest gaps indicate the difference between the cash flows of interest rate sensitive assets and interest rate sensitive liabilities by an individual time bucket, whereas interest rate sensitivity analyses, taking into account various scenarios and forecasts, measure the impact of potential changes in interest rates and other factors on the economic value of the capital and the net interest income of the Bank. The extent of interest rate risk is restricted by a limit system and different scenarios are given for measuring the impact of yield curve changes on interest rate risk. The basis risk, arising from various types of reference interest rates, is also taken into account when interest rate risk is measured. Stress tests are regularly performed.

In 2016, the euro area continued to record moderate economic growth, however the decision of Great Britain to leave the EU caused further uncertainty. The situation in the labour market has been improving, but euro area growth is expected to remain only moderate. The ECB continued to implement the non-standard measures within the quantitative easing programme. The purchases under the APP are expected to continue at the monthly pace of EUR 80 billion until the end of March 2017, whereas from April 2017 onwards the monthly purchases will again be EUR 60 billion. The programme is intended to last until the end of December 2017, or until the ECB sees a sustained adjustment in the path of inflation consistent with its inflation aim. With respect to the monetary policy, the ECB reduced the interest rate on the main refinancing operations to 0.00% and the deposit facility rate to –0.40%. Moreover, the ECB introduced negative interest rates on the targeted longer-term refinancing operations (TLTRO). Interest rates are expected to remain at such low levels for quite some time, which for banks represents new risks in finding an adequate return. In 2016 the reference interest rates further decreased, remaining in negative territory even for a prolonged period of time.

The Abanka Group continuously adjusted its interest rate policy to the conditions in domestic and international markets as well as balanced its interest rate position. In the current year, the interest rate risk exposure of the Abanka Group was regularly monitored, however the existing market situation requires detailed monitoring and control of the interest rate risk.

The graph on the following page shows interest gaps by time bucket at the end of 2016 in comparison to the 2015 year-end.

INTEREST RATE GAPS



In the framework of the banking book interest rate management, in 2017 the Bank will continue to strive for a balance of interest gaps by time bucket, paying more attention to longer maturity time buckets, and consequently, for lower sensitivity of the economic value of capital. In addition, special focus will be on balancing the net interest income sensitivity. The methodology for interest rate risk identification and measurement will be further upgraded.

LIQUIDITY RISK AND THE ILAAP PROCESS

Liquidity risk is the risk of loss that includes the risk of failing to provide liquidity sources, market liquidity risk and asset encumbrance risk. The risk of failing to provide liquidity sources is the risk that the Bank might not be able to meet its payment obligations when due and/or that as a consequence of its inability to provide sufficient funding to meet payment obligations by the due date it might be forced to provide the required funding at costs significantly above the average market costs. Market liquidity risk is the risk of loss arising from the impossibility to sell or replace positions (in financial instruments) in a short period of time without this bearing a significant impact on the market price, due to insufficient market depth, market imbalances or other reasons. Liquidity risk also includes asset encumbrance risk, which arises from the encumbrance of the bank's assets and means an increase in the risk of providing liquidity sources and market liquidity risk due to fewer possibilities of providing liquidity sources and disposing of assets.

The Abanka Group has developed its own methodology for identifying, measuring, managing and monitoring liquidity, which enables it to match the actual and potential sources of liquidity with the actual and potential uses of such liquid assets over certain time periods.

The Group implements the internal liquidity adequacy assessment process (hereinafter: ILAAP), which includes the assessment of liquidity requirements and the assessment of available liquidity. The Group regularly checks its liquidity adequacy, both within the framework of the ordinary course of business and in the context of the business plan for the future planning period. The verification of liquidity adequacy includes liquidity stress testing, which is also carried out within the framework of the ordinary course of business and in the context of the business plan for the future planning period. The Group discloses its liquidity adequacy by using appropriate ratios, whose values are properly calibrated, both in the risk management strategy and in other documents of the Bank, such as the business plan, the recovery plan, the plan to restore sufficient liquidity and others. Moreover, the ILAAP process includes the assessment of adequate funding of the Bank and the adequacy of the liquidity risk management system. The assessment of adequate funding is particularly significant in planning procedures, where the funding policy for the current planning period is created. Apart from that, adequate funding is disclosed in the current operations, in the context of which decisions on the sources of funding are adopted, both in terms of the actual circumstances and potential corrective measures to achieve the planned status. In the ILAAP process, the Group revises methodologies, particularly in relation to stress testing, and establishes an effective liquidity adequacy planning system, both in the context of regular planning and as part of verifying the impact of business decisions on current and future liquidity adequacy.

The liquidity risk management process consists of:

- planning and monitoring future cash flows, which include day-to-day funding to ensure that requirements are met, as well as structural assets and liabilities management;
- maintaining an adequate liquidity buffer that can be easily liquidated as protection against any unforeseen cash flow trends;
- monitoring and calculating balance sheet liquidity ratios and indicators against the Group's internal and regulatory requirements;
- monitoring the diversity of sources of funding and the profile of debt maturities;
- execution of liquidity management scenarios based on the normal course of operations and the liquidity stress situation (stress scenarios).

For the purpose of liquidity risk hedging and its mitigation, the Group established an internal limit system, which includes quantitatively measurable risks and material liquidity risk factors. The Group also uses other tools to reduce exposure to liquidity risk, which are of a qualitative nature. In setting the limits, the Group takes into account the regulatory requirements and the results of internal stress scenarios. The limit setting and liquidity risk monitoring are, in terms of organisation, separated from daily operational liquidity management.

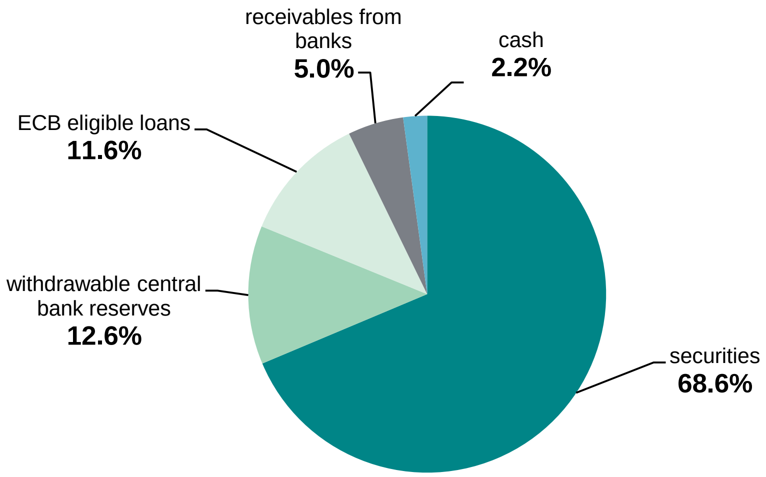
For the purpose of liquidity risk hedging and its mitigation, the Group established an internal limit system, which includes quantitatively measurable risks and material liquidity risk factors.

Different stress scenarios are prepared by the Group for the purpose of liquidity management both taking into account different levels of stress situation and various time periods of severe liquidity situation. A scenario of particular relevance is the combined scenario, which takes into account a bank-specific liquidity crisis (the idiosyncratic scenario) and a general liquidity crisis in financial and capital markets (the market scenario). Moreover, in order to hedge liquidity risk, the Group established procedures for the early identification of a liquidity shortage by monitoring liquidity ratios and other indicators, based on which the Group is able to identify any liquidity problems in due time, assess the situation and define the actions to be taken in the event of a liquidity shortage, with the aim of restoring a normal liquidity position.

In 2016, liquidity conditions remained favourable. The risks arising from the persisting environment of low or negative interest rates remained in the foreground. The slow and uncertain economic recovery in the euro area, accompanied by the low inflation rate, raised the uncertainty of maintaining low interest rates and caused a further increase in demand deposits in the structure of sources of funding, thereby increasing liquidity risk. In contrast, conditions in the markets generated excess liquidity, while the Group held a high proportion of free assets eligible as collateral for central bank operations and thus a potential source of liquidity at the ECB. In addition to the above, the declining dependence on wholesale funding and a proper emphasis on ensuring a sufficient level of secondary liquidity ensured appropriate liquidity risk management.

The liquidity buffer structure is shown below.

LIQUIDITY BUFFER STRUCTURE



In 2017, the continued uncertainty in financial markets is expected as the unconventional measures of the ECB may cause overheating of individual market segments and consequently result in adverse effects in the form of higher credit and investment risks. Through prudent asset liability management in line with the latest market conditions, the Group will maintain an appropriate liquidity position and an adequate liquidity buffer as well as ensure compliance with all regulatory requirements on liquidity risk management. Prudent management of secondary liquidity position will continue.

THE ICAAP PROCESS

The Bank has been carrying out the internal capital adequacy assessment process (ICAAP) for several years by defining the risk profile assessment, which is shown in the risk profile matrix. In 2016, this process was applied to identify the material risks that arise from the Group's core business and to set up controls with the purpose of risk mitigation. Risk profile monitoring over time allows timely identification of key movements in the risk profile and provides the basis for taking necessary measures. The Bank compares its risk profile with its risk-bearing capacity assessment and, based on the results of analysis, takes appropriate measures, which enable the Group to assume risks within its risk-bearing capacity.

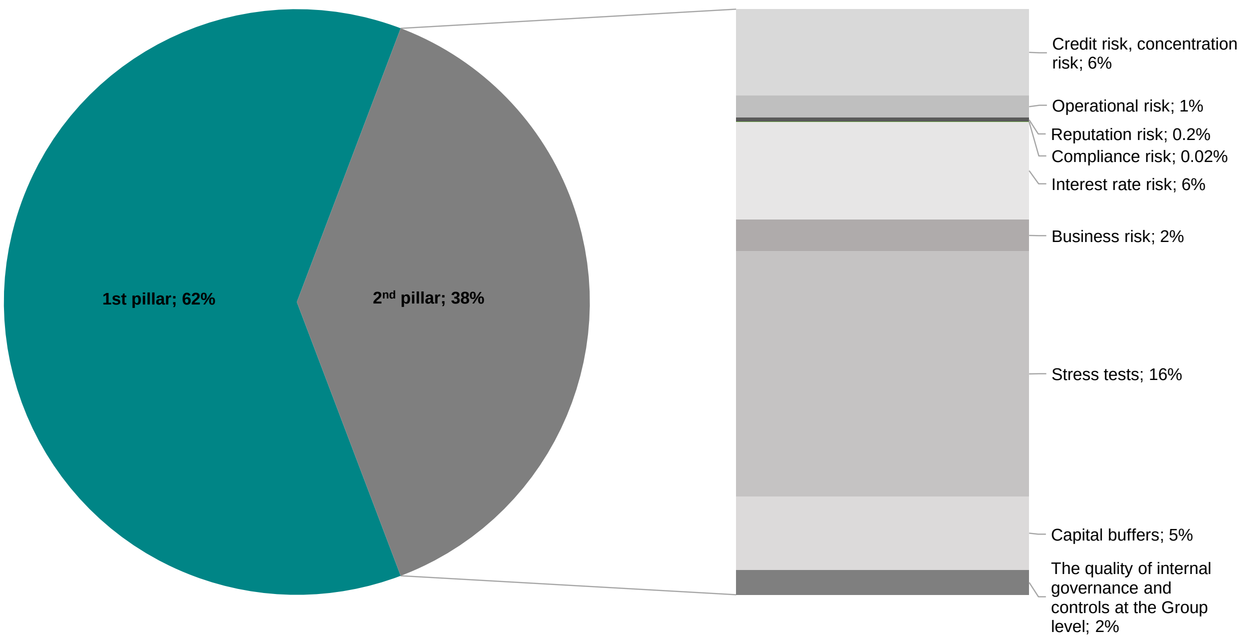
At least on a quarterly basis, the Group evaluates the adequacy of its capital level and quality in relation to its risk profile by calculating internal capital requirements. This calculation not only takes into account the capital requirements for credit, market and operational risks (calculated according to the applicable rules set out in Pillar 1 of the Basel II banking accord), but also identifies internal capital requirements (under Pillar 2) for all other risks not fully or not at all included in Pillar 1 (e.g. interest rate risk, concentration risk, operational risk, etc.).

In light of the uncertainty in financial markets, in the ICAAP process the Bank places more emphasis on regular stress testing, which is performed to identify the vulnerability of the Bank in the event of less likely, but still possible, changes regarding various risk factors. The results of the stress tests are included in the calculation of internal capital requirements.

The internal capital adequacy assessment process is defined by two variables. The first variable is the risks to which the Group is exposed, going beyond the first pillar of capital requirements; the second variable is the capital held by the Group for covering risks and potential losses arising from such risks. A comparison of the assessed internal capital requirements and the assessed internal capital indicates the Group's ability to cover all the risks to which it is exposed.

As at the 2016 year-end, the internal assessment of capital requirements was structured as follows:

INTERNAL ASSESSMENT OF CAPITAL REQUIREMENTS



STATEMENT OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD ON THE ADEQUACY OF RISK MANAGEMENT IN ABANKA AND THE ABANKA GROUP

The Management Board is responsible to set up an appropriate risk management system and a financial and internal control system in Abanka and the Abanka Group.

The Supervisory Board together with the Audit Committee, the Risk Management and Asset Liability Management Committee and the Compensation Committee monitors the implementation of the Risk Management Strategy. Through its supervision, it contributes to the establishment and implementation of not only an adequate and stable risk management system but also an appropriate internal control system in Abanka and the Abanka Group.

Both the Management Board and the Supervisory Board assess that based on their risk profile and the adopted business strategy Abanka and the Abanka Group have an appropriate risk management system, which enables the implementation of the adopted Risk Management Strategy.

Ljubljana, 23 February 2017

Management Board

Jože LENIČ
President of the Management Board

Aleksander VOZEL
Member of the Management Board

Matej GOLOB MATZELE
Member of the Management Board

Supervisory Board

Marko GARBAJS
Chairman of the Supervisory Board

STATEMENT OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD ON THE RISKS OF ABANKA AND THE ABANKA GROUP

Abanka and the Abanka Group achieve strategic objectives based on the pre-defined risk appetite. The aim of the risk appetite is to manage the acceptable level of profitability and the capital and liquidity adequacy of Abanka and the Abanka Group within the limits laid down by the Supervisory Board, which are in line with the commitments made to the European Commission.

The risk appetite is limited so as to ensure that Abanka and the Abanka Group are operating at a satisfactory profit and maintain adequate capital and liquidity levels also in extraordinary circumstances. Setting the risk appetite limits represents an important part of the decision-making process. The ongoing risk monitoring and reporting process in Abanka and the Abanka Group enables to take timely action at pre-set limits before reaching the upper tolerance limit. Risk management involves the entire senior management, who participates in all relevant meetings and committees where decisions on risk management are taken. Within the framework of the Supervisory Board, the Risk Monitoring and Asset Liability Management Committee was setup, whose work particularly focuses on risk management.

Abanka and the Abanka Group monitor and assess all the risks on the basis of a risk matrix (part of the Risk Management Strategy), which includes the definitions, scope, persons in charge and designation of (im)materiality. Special emphasis is put on careful management of all material risks, including: credit risk, liquidity risk, interest rate risk, capital risk, currency risk, market risk, profitability risk and operational risk.

The Management Board set and the Supervisory Board approved the risk appetite, defined by key indicators determining the acceptable risk by a particular risk category. The credit risk appetite of Abanka and the Abanka Group is moderate, which means that a more conservative credit risk management policy will be followed in the context of a prudent credit process.

In line with the above, the following guidelines will be observed:
- focusing on the domestic market;
- strengthening the retail and SME business;
- investing in less risky debtors (defined by the internal credit rating scale) and limiting the exposures associated with a very high risk;
- ensuring credit portfolio diversification at the exposure level of individual borrowers, groups of related parties and industries;
- strong emphasis on an appropriate form, size and quality of collateral;
- maintaining an adequate level of liquidity reserves and liquidity ratios as defined in the applicable risk management strategy.

Monitoring of the risk profile of both the Bank and the Group is based on twelve key ratios (indicators), of which the main five, including their thresholds, are presented below:
- Common Equity Tier 1 (CET1) ratio – over 18%
- the share of non-performing loans (NPLs) – under 15%
- net interest margin (NIM) – over 1.8%
- liquidity coverage ratio (LCR) – over 150%
- loan-to-deposit ratio (LTD) – under 90%.

To provide a comprehensive presentation of the Bank's risk profile, the values of the ratios are presented in the business part (Section *Financial Highlights and Performance Indicators*) and the accounting part of the Annual Report of Abanka (Sections *Risk Management* and *Capital Management*).

Abanka and the Abanka Group have clearly defined risk appetite limits through the limit systems (regional and sectoral limits, individual credit limits, limits for trading and transactions with financial instruments of the banking book, limits for liquidity, currency and interest rate risk management). In line with the implementation of the Group's Strategy and the commitments made to the European Commission, risk-adjusted pricing is used for corporate loans.

Risk assessment is conducted in the context of both the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP). The assessment of the required capital and liquidity levels is performed on a quarterly basis and is regularly presented to the Bank's bodies (the Risk Management Committee, the ALCO, the Management Board, the Supervisory Board and its Committee).

The risk management systems in Abanka and the Abanka Group are appropriate and consistent with both the Business Strategy and the Risk Management Strategy, which is based on the defined key risk management indicators.

Ljubljana, 23 February 2017

Management Board

Jože LENIČ
President of the Management Boarc

Aleksander VOZEL
Member of the Management Board

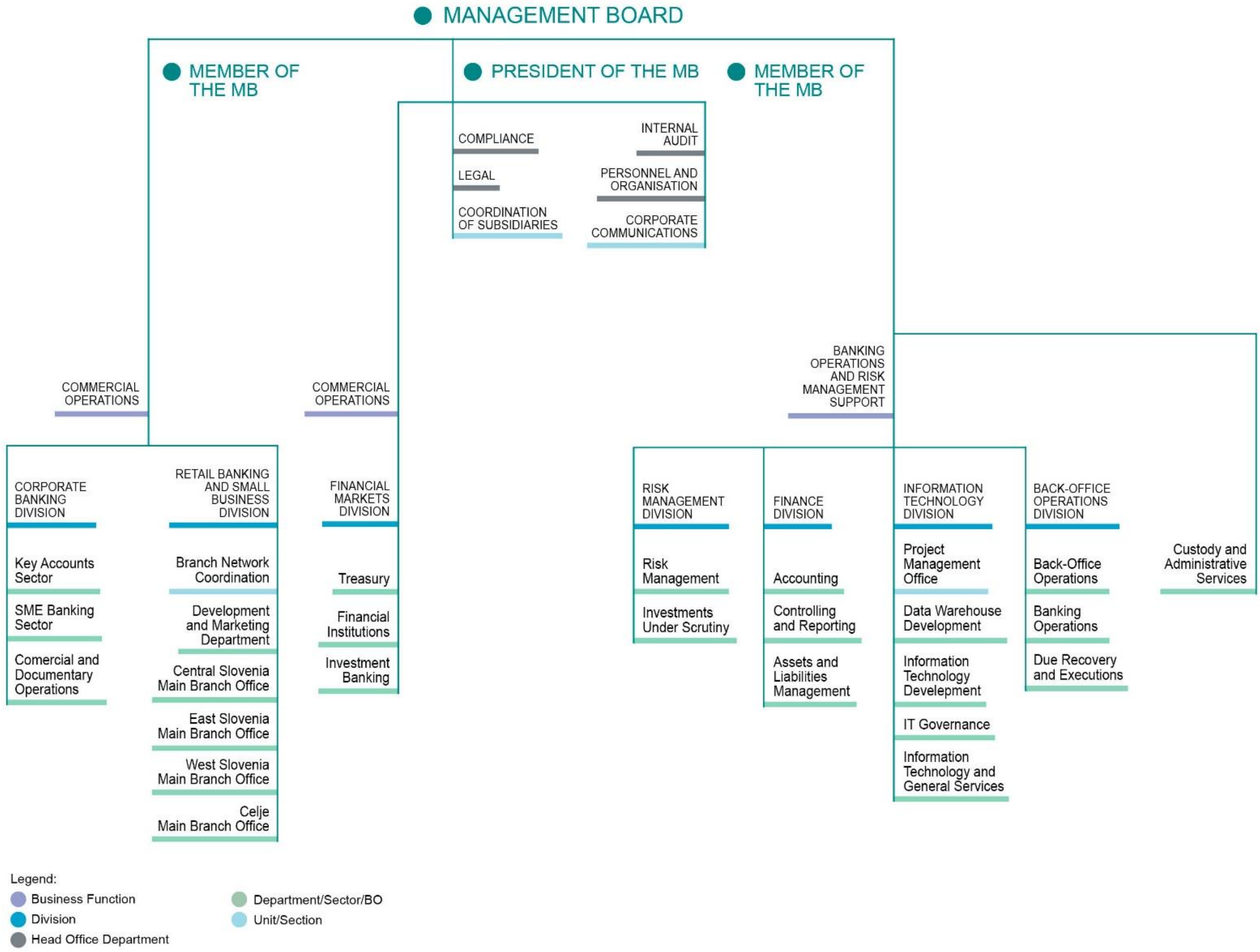
Matej GOLOB MATZELE
Member of the Management Board

Supervisory Board

Marko GARBAJS
Chairman of the Supervisory Board

ORGANISATION AND PROCESSES

ORGANISATIONAL CHART AS AT 31 DECEMBER 2016



Optimisation of the Bank’s organisational structure was continued in 2016 based on the guidelines set in the Bank’s strategy. The goal is to set up an efficient organisational structure adapted to the planned volumes of business not only in the front office but also in the back office and management. Optimisation of the organisational structure continued so as to centralise support functions, ensure more efficient collection and improve customer servicing.

PROJECTS PLANNED FOR 2017

In 2017, the highest priority will continue to be given to the projects connected to the operational merger or the establishment of joint information support in the merged bank, placing particular emphasis on achieving the synergies related thereto. In the context of the already established “Trojane D2” programme, the implementation of all projects will not only continue but will also be completed in 2017:

- migration of transaction accounts of retail and corporate customers;
- redesign of the “IRC naložbe” information system and data migration;
- upgrade of retail loans and data migration;
- upgrade of retail deposits and data migration;
- data warehouse development.

Considering the demanding and extensive changes resulting in the introduction of the IFRS 9 standard, the establishment of a uniform data platform for finance and risks and the advantages brought by such an approach, the Bank plans to introduce a programme of projects, which will include the following projects:

- adjustment of processes and IT support to the requirements of the new IFRS 9 standard,
- provision of a time series of historical data necessary for modelling and
- upgrade of the asset-liability management (ALM) software and implementation of Basel interest-rate risk standards (IRRBB).

In 2017, the programme will be implemented with the highest priority.

In accordance with the strategy of the Bank, in 2017 high priority will be given to the projects from the strategic programme of accelerating digital transformation:

- continued development of mobile banking and electronic channels for both retail and corporate customers,
- completion of website redesign,
- continued introduction of the comprehensive and multi-channel customer relationship management (CRM) system,
- development of a customer loyalty programme,
- development of support for instant payments and others.

Apart from this, Abanka will implement the projects aimed at significantly increasing its cost-effectiveness and improving its risk management systems:

- continued development of software support for a more efficient collection process,
- further upgrade of software support for more efficient monitoring of receivables,
- upgrade of software support for credit transactions with corporate customers based on the anticipated changes in the lending process,
- replacement of investment banking software,
- redesign of software support for recording and keeping the statutory data on cash transactions in line with the Prevention of Money Laundering and Terrorist Financing Act,
- adjustment of IT support to the introduction of the UPN order with a QR code,
- redesign of the Boniteta application, etc.

Within the framework of line duties, all other systems will continue to be developed in accordance with regulatory requirements and current needs of the Bank's operations.

EMPLOYEES

PERSONNEL POLICY AND THE EDUCATIONAL STRUCTURE OF EMPLOYEES

Efficient, motivated and dedicated employees are crucial to achieving the strategic and business objectives of the Bank. Abanka affords its employees opportunities to acquire and enhance their competences in a timely and relevant manner. By using transparent communication, the Bank creates a working environment that offers a pleasant atmosphere, contributes to employee satisfaction and encourages employee loyalty and commitment. Abanka follows its vision of becoming the first Bank in Slovenia according to the choice of customers, employees and investors.

The year 2016 was primarily marked by the activities related to the implementation of the commitments under the restructuring plan and the activities related to the strategic guidelines of the Bank. In the context of these activities, in addition to the Human Resource Policy as the main document regulating human resource management, the Bank adopted the Human Resource Restructuring Programme and Human Resource Optimisation Programme in order to ensure competent, committed and innovative employees and create a lean organisational structure. In 2016, the Bank further intensified its internal labour market, selectively replaced employees on leaves and recruited new employees only when no appropriate personnel was available in-house. The Bank will continue with its restrictive Recruitment and Remuneration Policy and Human Resource Optimisation Programme also in 2017.

As at the end of 2016, the Bank had 1,147 employees, 101 less than at the 2015 year-end.

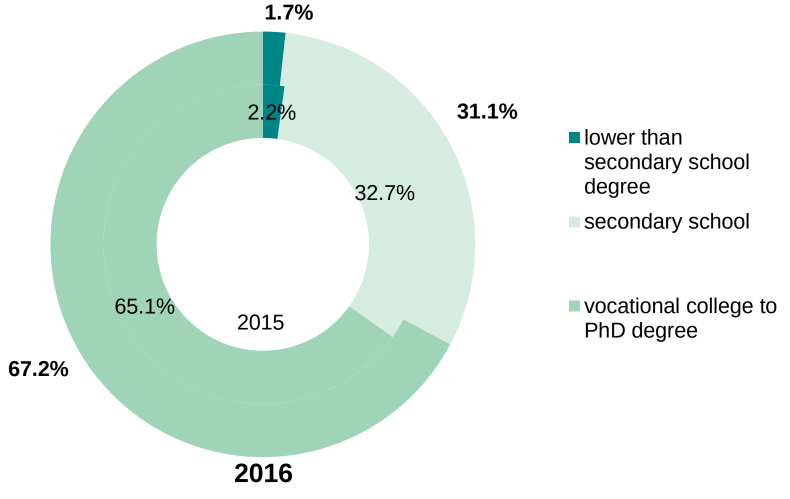
Other disclosures about the human capital of the Abanka Group and Abanka in 2016 are shown in the table below:

	The Abanka Group	Abanka
Total employees as at 31 December 2016	1,178	1,147
Average number of employees during the year	1,240	1,208
New recruits in 2016	20	19
Employees leaving in 2016	123	120
Employees – permanent work contract	1,169	1,139
Employees – fixed-term work contract	9	8
Employees with disabilities	28	28

1,147

employees of Abanka as at the 2016 year-end

EMPLOYEE EDUCATIONAL STRUCTURE IN ABANKA IN 2016 AND 2015



POLICY ON ASSESSMENT OF PROFESSIONAL COMPETENCE AND ADEQUACY

In accordance with the Banking Act and the related regulations and guidelines issued by the European Banking Authority (hereinafter: EBA), the Bank formulated two policies: the Policy on Assessment of the Suitability of Management and Supervisory Board Members and the Policy on Assessment of the Suitability of Key Function Holders.

The Policy on Assessment of the Suitability of Management and Supervisory Board Members was established so as to define the qualities required by the person who is a candidate for performing the function of a Management Board or Supervisory Board member and the qualities required by the person who already performs the function of a Management Board or Supervisory Board member. In defining the necessary qualities of a Management Board or Supervisory Board member, the Bank adheres to the "fit & proper" principle.

In defining the required characteristics of the members of the Management or the Supervisory Board, the Bank follows the "fit and proper principle", aiming to appoint independent persons who manage and supervise the operations of the Bank in a fair, responsible and professional manner and who are appropriately engaged themselves.

Criteria for the assessment of suitability

The assessment of suitability is made based on the criteria (defined in a policy) regarding the scope and nature of work experience required to perform a managerial and supervisory function, reputation, ethical integrity and the ability for constructive cooperation in governance and supervision. In the assessment of experience, a wide range of knowledge (theoretical and practical), skills and experience are taken into account, including the nature and complexity of the function for which a member is a candidate or to which they have been appointed. In line with the policy, at least university education and five years of work experience in a managerial function are required, in addition to knowing at least one foreign language. A study programme will be deemed appropriate if, in terms of content, it is related to banking and finance, economics, administrative sciences, financial regulations, or mathematical and statistical knowledge (the conditions for the performance of an individual function).

With respect to the criteria regarding the ability for constructive cooperation in governance, the diversity of the required knowledge and experience in the context of the management body will be considered, including appropriate representation of both genders, while also taking into account each member's contribution to the heterogeneity, complementary expertise and delegation of duties within the management body.

The policy defines the key guidelines for the appointment and assessment of suitability of candidates or members of the management body, both in terms of professional competence, knowledge, skills, experience and the conditions required for the performance of the functions as well as in terms of time devoted to the function, including the definition of personal characteristics (reputation). These criteria will also be considered in the appointment of members of Supervisory Board committees.

Considering the abovementioned criteria, the composition of both the Supervisory Board and the Management Board of the Bank is evident from the information published on the Bank's website.

The Human Resource Committee, which was set up as a working body of the Supervisory Board, once a year or upon any substantial change in circumstances prepares an assessment of the suitability of the Management Board and Supervisory Board members as well as of the Management Board and Supervisory Board as the bodies of the Bank. This is a documented assessment of suitability of every candidate for a Management Board or Supervisory Board member or the members already performing these functions, which includes reputation, experience and management. The assessment is made based on predetermined procedures and criteria in line with the Policy on Assessment of the Suitability of Management and Supervisory Board Members.

In line with the law and the implementation of this Policy, the Supervisory Board of the Bank discussed and approved the suitability assessments also in December 2016.

The Policy on Assessment of the Suitability of Key Function Holders in the Abanka Group was established so as to define the qualities required by the person who is a candidate for holding a key function in the Abanka Group and the qualities required by the person who already holds a key function in the Abanka Group. The key function holders are those employees whose work tasks and activities have a material impact on the operations and reputation of the Bank. These posts are defined in greater detail in the Policy. In defining the necessary qualities of the employee, the Bank adheres to the "fit & proper" principle.

The employee suitability assessment, which is a documented assessment of suitability of every candidate, is made during the selection process of a new employee or in the process of verifying compliance with the conditions of this Policy of existing employees due to changed circumstances or potential reappointment to the same or other key function. The suitability assessment of key function holders is made based on predetermined procedures and criteria in accordance with this Policy.

At least once a year, a periodic report is produced and presented to both the Human Resource Committee and the Supervisory Board of the Bank on the implementation of this Policy. In line with the law and the implementation of this Policy, the Supervisory Board of the Bank discussed the report on the execution of this Policy also in 2016.

STAFF TRAINING AND DEVELOPMENT

Investment in education and training is the best investment for the future success of the Bank. Education and training needs arise not only from individual needs related to the professional and personal development of employees but also from business needs related to the business strategy of the Bank; all needs were met to the maximum possible extent.

The key activities in education and training were aimed at the acquisition of relevant know-how and skills mainly required by business priorities, which employees obtained through in-house and external training. External training was provided by hiring recognised external experts, whereas in-house training was based on the transfer of know-how and skills among co-workers.

In 2016, systematic training of leaders was continued with a view to obtaining the relevant leadership competencies, placing emphasis on corporate culture and values with the aim of unifying the organisational culture in the merged bank. The leaders were trained to acquire and enhance their leadership skills, motivation to target achievement, responsibility at work, foster mutual trust and motivate other employees, as well as to improve communication with employees at all management levels. The 360-degree feedback was utilised to assess the management team of the Bank so as to obtain information on the factors affecting their productivity and the productivity of the team they lead.

In-house training is based on the transfer
of know-how and skills among co-workers.

In order to ensure relevant professional qualifications, in 2016 employees participated in different training and education programmes in various fields such as management, banking and financial operations, introduction of new products and software support, foreign languages and other statutory training courses. A special emphasis was placed on training in marketing and sales, negotiations and loan process redesign. An increasing number of education and training programmes are carried out as e-learning.

In 2016, the number of employees included in education and training amounted to 1,135, i.e. 98.95%. The average number of education/training hours per employee was 23.25, and 44.35 hours for managerial staff.

As in previous years, **work study** of the employees selected in an internal call was co-financed in 2016.

Abanka follows **the development of its employees** systematically, by using various tools, including **annual appraisal interviews**, which have been conducted in Abanka since 2000. It is also ensured that managers and employees are appropriately qualified and prepared for quality execution of interviews. Based on the annual interview, plans for achieving the objectives are prepared and employee development plans are outlined.

Employee development is one of the most important human resource functions that positively affects both the performance and employees of the Bank. In the context of employee development, the Bank provides for appropriate induction training and employees' professional and personal development. In filling the vacancies, priority is given to existing employees, thereby enabling their advancement and at the same time **carrying out in-house staff restructuring**.

Identification and management of key staff is an important part of the Human Resource Policy which has a large impact on the performance of the Bank and its competitive advantage. Key staff management provides an opportunity for the employees to have a successful career, while their visibility and development bring greater added value and give a reason to retain high-quality staff. Key staff of the Bank include almost 10% of employees.

STAFF REMUNERATION

Employees who achieve above-average results at work can be rewarded through a performance-related bonus in accordance with the Promotion and Remuneration Rules. The Bank set up appropriate remuneration schemes, separately also for rewarding the front office staff.

> Employees who achieve above-average results at work can be rewarded through a performance-related bonus.

Every year, **jubilarians** (the employees who have continuously worked in the Bank for 10, 20, 30 or 40 years) **and selected best front office staff and employees from middle and back office** are rewarded. In 2016, the ambassadors of Abanka's values were selected for the first time.

In the reporting year, **promotions** based on criteria stipulated in the Promotion and Remuneration Rules were limited in line with the Human Resource Policy, but nevertheless partly carried out in mid-2016.

The Bank has a **scholarship system for the children of deceased employees, and in 2016 company scholarships were re-established.** The company scholarship concept was adopted and an invitation to apply for a company scholarship for the field of information technology was published.

Accident insurance for posts with increased risk exposure is provided to employees at the work posts exposed to risks defined in the Safety Declaration and Risk Assessment.

DEVELOPMENT OF THE ORGANISATIONAL CULTURE

Abanka's organisational culture is based on promoting the Bank as a **successful and most desirable employer**.

The Bank's values and organisational culture are enhanced through different activities. Great care is taken to provide for **professional and personal development of employees**, as only skilled, satisfied and committed employees contribute to successful performance.

By rewarding the jubilees and giving recognition to those employees who deserve it, **loyalty and commitment to the Bank** are built. In 2016, the entire process of selecting the best front office employee and the best colleague was revised and upgraded with the awarding of titles of the ambassadors of Abanka's values.

> The selection of the best front office employee and the best colleague was expanded to include the awarding of titles of the ambassadors of Abanka's values.

In the context of the organisational culture, an employee satisfaction and commitment survey was conducted in order to further boost satisfaction and improve mutual relations in the workplace.

The employees who find themselves in financial or social hardship receive solidarity assistance.

Taking into account the abilities of the work process, Abanka implements measures designed to help its staff reconcile their professional and family life within the framework of the **"Family Friendly Company"** certificate. In 2016, lovely presents were given to the parents (Abančniki) of newborns.

Considerable effort is devoted to **having a constructive dialogue with both unions**. Moreover, **the sports club and the mountaineering society** of the Bank enable the employees to actively spend their free time.

REMUNERATION POLICY

Since the end of 2011, Abanka regulated its remuneration policy pursuant to the Banking Act and the regulations arising from this Act as well as any other applicable legislation. As the Bank is subject to the special legislation for the companies in which the Republic of Slovenia, directly or indirectly, holds a majority stake and due to the commitments made to the European Commission under the restructuring plan, remuneration is also regulated in line with this legislation.

The bodies in charge of the formulation, implementation and control of the remuneration policy are the Management Board, the Compensation Committee as a professional body of the Supervisory Board and the Supervisory Board. Furthermore, independent control functions within the Bank participate in the creation, control and assessment of adequacy of the remuneration policy. Once a year, the Bank reports on the implementation of the remuneration policy to the Compensation Committee and the Supervisory Board as part of a periodic report; such a report was given in November 2016.

The remuneration policy of the Bank is based on the balance between remuneration and prudent risk-taking. The Bank ensures that through appropriate ratios between the fixed and the variable remuneration component of employees whose work is of a specific nature, whereby the total remuneration of an employee may not significantly depend on the variable component. The remuneration policy and the relevant internal rules of the Bank regulate the ratios between the fixed and the variable component of managers' salaries, the mode of payment of the managers' variable remuneration component, and the period of deferred and retained variable remuneration of managers.

The remuneration policy of the Bank is based on the balance between remuneration and prudent risk-taking.

Abanka defined that "employees whose work is of a specific nature"[12] include the Management Board, the Executive Directors of Divisions, the authorised representative of the Management Board, Director of the Risk Management Department, Director of the Internal Audit Department, Head of Compliance Office, Head of Legal Office, Director of the Human Resource and Organisation Department and Director of the Investments Under Scrutiny Department. The employees whose work is of a specific nature are defined based on qualitative and quantitative criteria of the remuneration policy. The remuneration policy of Abanka is in compliance with the Bank's mission, the business strategy of the Bank, its risk management strategy, its corporate culture, the values of the Bank and its set goals. The remuneration policy and practice are strictly focused on the fulfilment of the Bank's business strategy objectives and adjusted to the risk profile of the Bank and its risk-taking ability.

Remuneration on the basis of manager employment agreements with a variable remuneration component is linked to the fulfilment of objectives, measures and criteria in compliance with the Bank's strategy and business plan. The amount of variable remuneration for the employees whose work is of a specific nature also depends on their contribution to achieving high professional and ethical standards of the Bank and a positive attitude toward the internal controls, based on which a strong organisational culture is built. The amount of variable remuneration can increase by surpassing the concrete business and financial goals. Such a remuneration policy provides performance incentives, while simultaneously containing corrective measures in case of critical deviations from the set goals. Appropriately set decision-taking processes and implemented business policies shall prevent any generation of improper risks in the business operations of the Bank.

The variable component of the remuneration of the Management Board and senior management depends on the conditions and criteria of the Bank's performance.

[12] Employees whose work tasks and activities could have a material impact on the bank's risk profile.

INFORMATION TECHNOLOGY

The Information Technology Division is in charge of the development and management of the information system, information technology management and general services in Abanka. Its role is to develop IT solutions and manage highly available, integrated, safe and user-friendly IT services so as to provide constant and reliable information and technological support at minimum cost and with maximum reliability. Moreover, the Information Technology Division is in charge of maintaining the real property of the Bank, facilitating investments and general services, and ensuring security of the IT system.

The core of Abanka's information system is developed and maintained in-house, whereas the sub-systems that do not interact directly with the core are developed externally or already developed solutions are purchased. External development is actively managed and attention is paid that the IT solutions are compliant with the concepts, technologies and standards of the Bank.

In **own software solution development**, a great deal of effort was put in the activities related to the operational merger of Abanka and Banka Celje. The key objectives for 2016 were the migration of retail and corporate accounts to Abanka's information system, the upgrade of Abanka's data warehouse with an analytical platform, which was developed in Banka Celje, and submission of several reports for the Bank of Slovenia created using this platform. The key milestones in both of these projects were achieved. Data migration will continue in 2017 with the aim of transferring all transactions from the former Banka Celje's information system to Abanka's information system so that in 2017 the applications of Banka Celje will cease to be used.

The key objectives for 2016 were the migration of retail and corporate accounts to Abanka's information system, the upgrade of Abanka's data warehouse with an analytical platform, which was developed in Banka Celje, and submission of several reports for the Bank of Slovenia created using this platform.

In 2016, **software solutions** were focused on the development and introduction of modern IT concepts. The key objective of the changes is to establish a flexible information system that will support the omni-channel approach and will be based on the service architecture. The AIDO (the online Abanka integrated work environment) framework continued to be developed, into which newly developed web applications are being integrated. In the context of this framework, the Bank continued to develop a uniform customer approach system, created new software support for collateral management, the financial commitments module and software support for the redesigned collection process. New process support for corporate sales was introduced.

Furthermore, the Bank continued to introduce the software solution development processes based on the continuous development/integration concept. The plan to establish a catalogue of computerised business processes and exposure of individual processes through interfaces (APIs) was created, in addition to the introduction of the application programming interface (API) management system.

An important part of development was directed towards the projects focusing on the acceleration of digital transformation. Activities are underway in various areas. The mobile and online banking services for retail and corporate customers were upgraded, Abanka's website was redesigned, a system for digital marketing via e-mail was introduced and the information support for the contact centre was replaced. The information system is being adapted to the needs of integration with the CRM system, whose introduction is foreseen in 2017.

With respect to business rules, advanced concepts continued to be introduced by upgrading the procedures for capturing and recording business rules, introducing complex business rules and through the establishment of procedures for the verification of business rule integrity. The transition to a higher version of the business rule management system was made.

In outsourced software development, in 2016 the preparations began for the replacement of software support for investment banking, which will be completed in 2017. In the context of the preparations for the implementation of the project relating to the replacement of the asset-liability management software and the project for the introduction of changes brought by IFRS 9, it was decided that it was reasonable to establish a uniform data platform for finance and risk assessment or to find an external solution that would work on a common data platform. Both projects will be executed in 2017.

In **information system protection and security**, in 2016 Abanka continued with e-training courses for employees, regularly carried out IT risk analyses and risk analyses in subsidiaries, as well as participated in IT audits and inspections. Controls over the functioning of security mechanisms were extended and the Division participated in the planning and implementation of IT system security modifications and incident management. Other tasks of promotion and IT security improvement included cooperation with external institutions (the Bank Association of Slovenia), associations (ISACA, the Slovenian Institute of Auditors) and other banks. Special attention was devoted to the testing of security settings by using vulnerability and penetration tests. Abanka continued to develop the audit trail management system, the user identity management system and the security management system.

In 2016, the greater part of resources allocated to the development of the **banking data warehouse** (BDW) was devoted to the merger of data warehouses. The team also had to participate in various other projects of the Bank, especially by providing the necessary data from the data warehouse. Apart from that, new rating grades were introduced and several new reports (for guarantees, LCR, etc.) were created.

In **IT management**, the reporting year was marked by the activities relating to the consolidation and optimisation of the solutions and technologies used in the merged bank. In accordance with the business needs and the consequent increase in data quantity, the data storage systems were adapted and the database servers were upgraded so that the infrastructure is capable of handling the increased volume of transactions in the information system as the result of the merger of both banks. Obsolete computer equipment was replaced and the peripheral equipment of end-users was unified. The required adjustments and upgrades of the wired network were made and the wireless network was setup in branch offices. The central control system and terminal servers were upgraded and the new remote access system was established. The system for recording the sessions of computer system access was introduced, which is used to supervise the outsourcers. The Division also participated in other projects undertaken by the Bank and its subsidiaries. In addition, both the system and application software of servers, workstations and communication equipment were regularly updated. As every year, in 2016 the business continuity tests were performed.

In **technical support and general services**, in 2016 the focus was on internal user assistance requests, data processing and system operation control, installations of new hardware and software, including new ATMs, installations and maintenance of other equipment, assistance in the relocation of employees due to reorganisation, office building maintenance, refurbishment projects for business premises and post room management.

Physical and technical protection of the Bank was also provided. In accordance with the investment plan, technical and mechanical protection systems were partly upgraded in order to ensure complete and adequate technical protection of property and people in the Bank. The good practice of regular employee training will continue, paying special attention to ongoing training on how to act in the event of a robbery or burglary.

SUSTAINABLE DEVELOPMENT AND CORPORATE SOCIAL RESPONSIBILITY

ECONOMIC DEVELOPMENT

As a modern universal commercial bank with a clear vision of the future and a focus on the development of advanced banking services, Abanka remains customer-oriented, committed to excellent financial services and sustainable development commitments. The Bank is aware of its important role on the path towards a new era of sustainability and progress. In business development, Abanka endeavours to combine business requirements with the principles of sustainable development as well as utilise the power of its human and financial capital in order to connect its customers and partners so as to enable them to take full advantage of new sustainable environmental economics. Transition to an environmentally sustainable economy will affect us all, directly or indirectly. The Bank is aware that future business success will increasingly depend on the ability of economic entities to adapt their business to global climate changes and challenges brought by these changes.

In business development, Abanka endeavours to combine business requirements with the principles of sustainable development as well as utilise the power of its human and financial capital in order to connect its customers and partners so as to enable them to take full advantage of new sustainable environmental economics.

As an important bank in the Slovene banking system, Abanka strives to support sustainable development and to create potential for business performance and economic growth in various ways:

- As "the bank of friendly people", Abanka strengthens the confidence and satisfaction of our customers. The Bank strives to cater to the financial needs of its customers and aims to promote the business of successful innovative companies, which have a vision, develop renewable sources of energy and create new environmentally friendly jobs.
- Customer-tailored innovative banking products are constantly developed and upgraded. The Bank pays attention to the ideas of the community at large and organises innovative and creative (ABATHON HACKATHON) gatherings for individuals and teams with innovative ideas. Abanka strives to provide services tailored to customer needs, which facilitate their banking operations and increase their performance (e.g. development and upgrade of online banking, mobile banking upgrades, Abanka website, the opening of new Abatočka points of sale for executing money orders, etc.).
- As a retail and corporate bank, Abanka offers a range of products and services tailored to specific customer segments, provides advice to customers on a whole range of environmentally friendly products and services, such as ecological loans promoting energy savings, as well as various electronic invoicing options and digital conclusion of agreements available on Abanet, etc.
- As a company with a strong presence in the social environment of Slovenia, Abanka is forging innovative partnerships with governmental and non-governmental organisations to preserve natural resources, while promoting greater energy efficiency and environmental responsibility.
- Abanka obtains sources of funds in order to promote competition and global entrepreneurship as well as to finance projects and investments in infrastructure, the environment, and regional and social development.
- Abanka has always made every effort to execute its operations in an environmentally responsible manner by:
  - carefully separating waste (e.g. separate collection of ink cartridges, waste paper, separate waste collection in the premises of the Bank etc.);
  - optimising paper use (e.g. electronic archiving, business process computerising – streamlining the paper-based processes in the Bank, encouraging the customers to use electronic bank statements and modern banking channels, etc.);
  - continuously implementing various measures for achieving savings in energy (e.g. investing in better insulation in buildings and greater energy efficiency of lighting, heating);
  - reducing the costs of other office supplies.

Abanka is aware that the path to sustainable development is not without obstacles. One of the important challenges is global climate change. The necessary transition from the existing technologies based on fossil fuels to clean technologies based on renewable resources that do not pollute the environment will be multifaceted and involve everybody in one way or another. Abanka has recognised its commitment to this transformation in its business strategy. The Bank is focused on upwards and finding synergies that help take advantage of the existing financial opportunities and create new ones for an environmentally and economically healthy future.

SOCIAL DEVELOPMENT

Internal Communication

Through responsible and ethical communication with its employees, Abanka supports the attainment of its business objectives and operations in compliance with the guidelines and values laid down in the Bank's strategy. In 2016, Abanka devoted even greater attention to internal communication, particularly to the transfer of its values to the employees. Obtaining the confidence and commitment of employees is an important task for all parties involved, as during the merger process of both banks the employees were exposed to major changes. In order to achieve greater employee commitment and to make it easier for the employees to cope with the changes, the values of the new bank were communicated through systematic communication.

Activities were aimed at raising the awareness about the importance of the values written in the strategy. In the first half of 2016, the new Code of Business Ethics was prepared for the employees, which explains in detail the importance of the Bank's values. Later in the year, several events on the topic of Abanka's values were organised.

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A user satisfaction survey regarding internal communication was conducted, followed by the proposals for upgrading internal communication. In 2016, four editions of the internal newspaper Pogled od znotraj (View from the Inside) were issued, which started to be published in the HTML format. In addition to news, several expert articles were published and a few colleagues were presented through interviews.

Communication with the Media

Information provided by the media affects the information of the public at large as well as the formation of opinions and views. The public image of Abanka is also presented through cooperation with the journalists. In 2016, a number of questions from the press were related to the Bank's products from all lines of business. The most important source of corporate information is the legally required disclosure of information on the websites of Ljubljana Stock Exchange and of Abanka.

Publications in various media are followed on a daily basis via clipping, while an in-depth assessment of publications is made on a semi-annual and annual basis through a media presence analysis. On the basis of the analysis, corporate communication is planned and certain reputational risk parameters are assessed. In the reporting year, fewer negative publications were seen compared to the previous year.

Publications in various media are followed on a daily basis via clipping, while an in-depth assessment of publications is made on a semi-annual and annual basis through a media presence analysis.

Sponsorships and Donations

Integration into the broader environment is important for successful performance, qualitative development and progress of the Bank, which is why Abanka is included in the social environment in a proactive and responsible manner. Abanka realises the mission and values of its operations and implements its vision of a long-term relationship through its sponsorship and donation programme. In line with its vision and strategy, the Bank invests in the environment in which it operates. The Bank supports sports and culture through sponsorships, participates in charity events and is engaged in social activities, because it is aware that the effectiveness and efficiency of operations also depend on the support of the environment and the confidence of other interested parties. Socially disadvantaged children received their traditional New Year's humanitarian presents also in 2016.

Socially disadvantaged children received their traditional New Year's humanitarian presents also in 2016.

PROTECTION OF THE ENVIRONMENT

Abanka is aware of the impact its operations have on the environment and supports the principles of sustainable development. In terms of technical equipment, for many years the Bank has been striving to ensure appropriate working conditions by installing air conditioning systems with energy recovery. They use environmentally sound technologies for cooling, heating and ventilation and thus ensure high efficiency and reduced energy consumption. All of Abanka's premises are being fitted with energy-efficient lighting, which further contributes towards a more rational use of electricity. Already in the planning phase of refurbishments and renovations of existing buildings or in the case of new constructions, appropriate materials are selected (suitable glass panes, insulation, etc.). Modernisation projects and investments in new and more modern equipment for heating, cooling and ventilation are made in compliance with the annual investment plan. In choosing new equipment, not only price but also technical adequacy and environmental acceptability are taken into account.

Strong emphasis is placed on training and raising employee awareness about the rational use of the cooling/heating systems, which along with computer hardware are the largest consumers of electricity in the Bank. To this end, instructions have been issued. They include practical advice and guidelines for employees and define the rational use of air conditioning and ventilation systems.

In the purchase of materials, the Bank ensures that they are environmentally safe, whilst waste is collected separately. The Bank cooperates with the companies that have introduced the highest ISO and EMAS quality standards. Moreover, waste paper and ink cartridges are collected and a central heating control system was installed for more rational energy consumption.

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INTERNAL AUDIT

To perform the internal audit control function, the Internal Audit Department (hereinafter: the IAD) was established as an independent organisational unit, which is functionally and organisationally separated from other units and is directly subordinated to the Management Board of the Bank. The IAD regularly reports about its work, audit findings and the implementation of recommendations also to the Audit Committee and/or the Supervisory Board. 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 for Internal Auditors and the Code of Internal Auditing Principles. The work of the IAD as a whole is regulated by the Rules on the Internal Audit Department, which are adopted by the Management Board with the approval of the Supervisory Board. The operating procedures of the internal audit activity are defined in greater detail in the Manual on Internal Auditing.

The IAD provides to the management body, the Audit Committee and senior management an independent assessment of the quality and efficiency of internal management, including the risk management and internal control systems and processes, and thereby contributes not only to improving the performance and achievement of the Bank's objectives but also to strengthening risk management and internal governance. The IAD carries out its mission by performing internal audits of riskier areas and providing advisory services in line with the IAD's annual plan and the strategic work plan. Both plans are based on the risk analysis and regulatory requirements and are approved by the Management Board with the consent of the Supervisory Board.

In 2016, the IAD conducted 17 regular internal audits, concentrating on riskier or regulatory mandatory areas: internal governance arrangements and risk management, execution of internal controls in retail and corporate lending, including early collection and non-performing exposure (NPE) management, IT management, the merger project, mobile banking, trade in financial instruments, administrative and custody services, documentary operations, arrangements of money laundering prevention, the calculation process of minimum capital requirements, the internal capital adequacy assessment process (ICAAP), reporting to the management body on the monitoring of compliance with the business strategy, the remuneration system, monitoring of the fulfilment of commitments made to the European Commission under the restructuring plan, the VISA security requirements and disclosures under Part Eight of the CRR.

In addition to internal auditing and advisory services, the IAD's employees devoted a considerable amount of their time to the monitoring of the implementation of recommendations made in audits. Furthermore, the Internal Audit Department coordinated the preparation of replies to the regulator's queries. With a view to ensuring and improving the quality of the IAD's performance, the internal documents on the operation of the internal audit function were revised, the internal auditing procedures following the merger of both banks were unified and upgraded, a self-assessment of the IAD's quality was made, and continuous education and training of internal auditors was provided for.

As at 31 December 2016, the Internal Audit Department including the Head of Department had 10 internal auditors. The internal auditors have an in-depth knowledge of the field and the banking processes and hold the following titles and/or licences: certified internal auditor, auditor, certified information systems auditor, certified auditor, ACCA[13] and CISA[14].

[13] ACCA stands for Association of Chartered Certified Accountants.
[14] CISA stands for Certified Information Systems Auditor.

SENIOR MANAGEMENT

MANAGEMENT BOARD	Jože Lenič	President of the Management Board
	Aleksander Vozel	Member of the Management Board
	Matej Golob Matzele	Member of the Management Board
	Davorin Leskovar	the authorised Representative of the Management Board
Compliance	Bojan Salobir	Director of the Compliance
Internal Audit	Tatjana Kirn Volk[15]	Director of the Internal Audit
Custody and Administrative Services	Jasmin Furlan	Director of the Custody and Administrative Services
Legal	Tomaž Marinček	Director of the Legal
Personnel and Organisation	Mateja Sedej	Director of the Personnel and Organisation
CORPORATE BANKING DIVISION	Blaž Stiplovšek	Division Executive Director
	Barbara Jagodič	Director of the Key Accounts Sector
	Tina Možina[16]	Director of the SME Banking Sector
	Nataša Velunšek Golčer	Director of the Commercial and Documentary Operations
RETAIL BANKING AND SMALL BUSINESS DIVISION	Nataša Damjanovič	Division Executive Director
	Jasna Kajtazović	Director of the Development and Marketing Department
	Bojan Stanković	Director of the Central Slovenia Main Branch Office
	Alenka Kikec	Director of the East Slovenia Main Branch Office
	Julija Šušmelj Stevanovič	Director of the West Slovenia Main Branch Office
	Urška Travner	Director of the Celje Main Branch Office
FINANCIAL MARKETS DIVISION	Boštjan Herič	Division Executive Director
	Jure Gedrih	Director of the Treasury
	Blaž Angel	Director of the Investment Banking
	Maja Domitrovič	Director of the Financial Institutions
RISK MANAGEMENT DIVISION	Stojan Hostnik	Director of the Risk Management
	Simon Svet	Director of the Investments Under Scrutiny
FINANCE DIVISION	Alenka Plut	Division Executive Director
	Irena Rojc	Director of the Accounting
	Silva Matko Gosak	Director of the Controlling and Reporting
	Boštjan Rupar	Director of the Assets and Liabilities Management
INFORMATION TECHNOLOGY DIVISION	Matej Jereb	Division Executive Director
	Marko Zabukovec[17]	Director of the Data Warehouse Development
	Janez Krašovec	Director of the Information Technology Development
	Davor Hvala	Director of the IT Governance
	Ivan Turk	Director of the Information Technology and General Services
BACK-OFFICE OPERATIONS DIVISION	Nada Mertik	Division Executive Director
	Mojca Žlak	Director of the Back-Office Operations
	Marija Kordiš	Director of the Banking Operations
	Monika Radovič	Director of the Due Recovery and Executions

Senior management organisational chart as at 31 December 2016.

[15] She was in charge of the Internal Audit as of 22 August 2016.
[16] She was in charge of the SME Banking Sector as of 1 August 2016.
[17] He was in charge of the Data Warehouse Development as of 1 April 2016.

BRANCH NETWORK

Regional and branch offices of Abanka

CENTRAL SLOVENIA MAIN BRANCH OFFICE

Slovenska Branch Office	Slovenska 50	Ljubljana
Šiška Branch Office	Celovška 106	Ljubljana
Pražakova Branch Office	Kolodvorska 9	Ljubljana
Bežigrad Branch Office	Dunajska 48	Ljubljana
Njegoševa Branch Office	Njegoševa 8	Ljubljana
Smelt Branch Office	Dunajska 160	Ljubljana
Vič Branch Office	Tržaška 87	Ljubljana
Šmartinska Branch Office	Šmartinska 102–104	Ljubljana
Logatec Branch Office	Tržaška 50a	Logatec
Domžale Branch Office	Ulica Nikola Tesla 19	Domžale
Novo mesto Branch Office	Rozmanova 40	Novo mesto
Novo mesto Mercator center Branch Office	Ljubljanska c. 47	Novo mesto
Trnovo Branch Office	Ziherlova 4	Ljubljana
Kranj Branch Office	Nazorjeva 1	Kranj
Jesenice Branch Office	Maršala Tita 39a	Jesenice
Tržič Branch Office	Cankarjeva 1a	Tržič

EAST SLOVENIA MAIN BRANCH OFFICE

Glavni trg Branch Office	Glavni trg 18	Maribor
Cankarjeva Branch Office	Cankarjeva 6b	Maribor
Tabor Branch Office	Kardeljeva 61	Maribor
Murska Sobota Branch Office	Kocljeva 16	Murska Sobota
Ptuj Branch Office	Osojnikova 9	Ptuj
Slovenj Gradec Branch Office	Ronkova 4a	Slovenj Gradec
Prevalje Branch Office	Trg 12	Prevalje
Tezno Branch Office	Prvomajska 26	Maribor
Aškerčeva Branch Office	Aškerčeva 10	Celje
Miklošičeva Branch Office	Miklošičeva 1	Celje
Žalec Branch Office	Celjska 8b	Žalec
Velenje Branch Office	Kersnikova 1	Velenje

WEST SLOVENIA MAIN BRANCH OFFICE

Koper Branch Office	Ferrarska 12	Koper
Izola Branch Office	Sončno nabrežje 6	Izola
Sežana Branch Office	Partizanska 41	Sežana
Erjavčeva Branch Office	Erjavčeva 2	Nova Gorica
Šempeter Branch Office	C. Prekomorskih brigad 2c	Šempeter
Kidričeva Branch Office	Kidričeva 18	Nova Gorica
Ajdovščina Branch Office	Goriška 25a	Ajdovščina
Idrija Branch Office	Lapajnetova 47	Idrija
Tolmin Branch Office	Mestni trg 5	Tolmin
Kobarid Branch Office	Markova 16	Kobarid
Postojna Branch Office	Titov trg 1	Postojna

CELJE MAIN BRANCH OFFICE

Miklošičeva Celje Branch Office	Miklošičeva 6	Celje
Ljubljanska Celje Branch Office	Ljubljanska 1A	Celje
Vojnik Branch Office	Celjska cesta 29	Vojnik
CMH Branch Office	Krekov trg 6	Celje
Citycenter Branch Office	Mariborska cesta 100	Celje
TUŠ Celje Branch Office	Mariborska cesta 128	Celje
Slovenske Konjice Branch Office	Oplotniška 1A	Slovenske Konjice
Zreče Branch Office	Cesta na Roglo 13B	Zreče
BC Žalec Branch Office	Savinjska cesta 20	Žalec
Mozirje Branch Office	Na trgu 53	Mozirje
Šempeter (CE) Branch Office	Rimska cesta 89	Šempeter v Savinjski dolini
Polzela Branch Office	Malteška cesta 38	Polzela
Šentjur Branch Office	Mestni trg 8	Šentjur
Laško Branch Office	Valvasorjev trg 5	Laško
Radeče Branch Office	Ulica OF 4A	Radeče
Rogaška Slatina Branch Office	Kidričeva 5	Rogaška Slatina
Šmarje Branch Office	Aškerčev trg 13	Šmarje pri Jelšah
Podčetrtek Branch Office	Zdraviliška cesta 27C	Podčetrtek
Rogatec Branch Office	Ulica ceste 10	Rogatec

Branch network overview as at 31 December 2016.

A bank of friendly people. Always and above all.

We are defined and guided by much, but by friendliness above all. Friendliness is much more than a kind word to a co-worker or a smile for a client; it is woven into everything we do and everything we are. **Friendliness** is our best-known trait, and we are proud to be the best possible reflection of that word.

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The Management Board of the Bank has approved the financial statements of ABANKA d.d. and the consolidated financial statements of the ABANKA GROUP for the year ended 31 December 2016 (pages 94 to 107 of the Annual Report), the applied accounting policies, and the notes to the financial statements (pages 108 to 231 of the Annual Report).

The Management Board is responsible for preparing the Annual Report, which gives a true and fair representation of the financial position of the Bank and the Group as at 31 December 2016, and the results of their operations for the year then ended.

The Management Board confirms that accepted accounting policies have been used on a consistent basis, and that the accounting estimates have been made in compliance with the principles of prudence and good management. The Management Board also confirms that the financial statements with the accompanying notes have been prepared on the assumption of a going concern for the Bank and the Group and in compliance with the relevant legislation and International Financial Reporting Standards, as adopted by the EU.

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

In the year ended 31 December 2016, Abanka d.d. did not start any related party transactions under unusual market conditions.

Ljubljana, 22 March 2017

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Aleksander VOZEL
Member of the Management Board

Jože LENIČ
President of the Management Board

FINANCIAL STATEMENTS

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NOTE	PAGE

(All amounts in EUR thousand unless otherwise stated)

INCOME STATEMENT OF ABANKA D.D.

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2016	2015
1	**2**		**3**	**4**
1	Interest income	5	90,404	111,215
2	Interest expenses	5	(12,831)	(34,760)
3	**Net interest income (1+2)**		**77,573**	**76,455**
4	Dividend income	6	753	1,089
5	Fee and commission income	7	53,311	58,620
6	Fee and commission expenses	7	(14,363)	(16,643)
7	**Net fee and commission income (5+6)**		**38,948**	**41,977**
8	Net realised gains on financial assets and liabilities not measured at fair value through profit or loss	8	14,739	32,093
9	Net gains on financial assets and liabilities held for trading	9	2,250	2,371
10	Net (losses)/gains on financial assets and liabilities designated at fair value through profit or loss		(33)	98
11	Fair value adjustments in hedge accounting	10	238	(116)
12	Exchange differences		(22)	40
13	Net losses on derecognition of assets		(54)	(208)
14	Net other operating expenses	11	(7,428)	(12,669)
15	Administrative expenses	12	(68,246)	(72,004)
16	Depreciation and amortisation	13	(7,185)	(9,221)
17	Provisions	14	3,982	32,572
18	Impairment	15	23,825	(42,449)
19	Total profit from investments in subsidiaries		79	–
20	Total profit/(loss) from non-current assets held for sale	37	3,028	(3)
21	TOTAL PROFIT BEFORE TAX FROM CONTINUING OPERATIONS (3+4+7+8+9+10+11+12+13+14+15+16+17+18+19+20)		82,447	50,025
22	Tax expense related to profit from continuing operations	16	(5,791)	(7,250)
23	TOTAL PROFIT AFTER TAX FROM CONTINUING OPERATIONS (21+22)		76,656	42,775
24	**NET PROFIT for the financial year (23)**		**76,656**	**42,775**

These financial statements were approved for issue by the Management Board on 22 March 2017.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Aleksander VOZEL
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 108 to 231 are an integral part of these financial statements.

(All amounts in EUR thousand unless otherwise stated)

STATEMENT OF COMPREHENSIVE INCOME OF ABANKA D.D.

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2016	2015
1	**2**		**3**	**4**
1	**NET PROFIT FOR THE FINANCIAL YEAR AFTER TAX**		**76,656**	**42,775**
2	**OTHER COMPREHENSIVE (LOSS)/INCOME AFTER TAX (3+4)**		**(10,658)**	**6,257**
3	**ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS (3.1)**		**84**	**(417)**
3.1	Actuarial gains/(losses) on defined benefit pensions plans	33	84	(417)
4	**ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS (4.1+4.2)**		**(10,742)**	**6,674**
4.1	Available-for-sale financial assets (4.1.1+4.1.2)	20	(11,674)	8,486
4.1.1	Net valuation (losses)/gains taken to equity		(1,871)	23,646
4.1.2	Net gains transferred to profit or loss		(9,803)	(15,160)
4.2	Income tax relating to items that may be reclassified to profit or loss	34	932	(1,812)
5	**TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX (1+2)**		**65,998**	**49,032**

These financial statements were approved for issue by the Management Board on 22 March 2017.

Management Board

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Aleksander VOZEL
Member of the Management Board

Jože LENIČ
President of the Management Board

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(All amounts in EUR thousand unless otherwise stated)

STATEMENT OF FINANCIAL POSITION OF ABANKA D.D.

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT As at 31 December 2016	2015
1	**2**		**3**	**4**
1	Cash, cash balances with the central bank and other demand deposits with banks	17	344,241	281,267
2	Financial assets held for trading	18	5,225	8,556
3	Financial assets designated at fair value through profit or loss	19	2,412	2,452
4	Available-for-sale financial assets	20	1,260,618	1,457,768
5	Derivatives - hedge accounting	18	–	237
6	Loans and receivables		1,903,830	1,978,296
	– loans to banks	21	65,489	96,513
	– loans to non-bank customers	22	1,826,524	1,869,335
	– other financial assets	23	11,817	12,448
7	Held-to-maturity investments	24	32,032	32,126
8	Non-current assets held for sale	25	806	806
9	Property and equipment	25	38,698	40,744
10	Investment property	25	165	180
11	Intangible assets	25	8,032	8,870
12	Investments in subsidiaries	26	4,483	6,024
13	Tax assets		9,396	8,797
	– deferred tax assets	34	9,396	8,797
14	Other assets	27	2,424	2,340
15	**TOTAL ASSETS (from 1 to 14)**		**3,612,362**	**3,828,463**

(All amounts in EUR thousand unless otherwise stated)

STATEMENT OF FINANCIAL POSITION OF ABANKA D.D. (continued)

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT As at 31 December 2016	2015
1	2		3	4
16	Financial liabilities held for trading	18	4,933	4,742
17	Financial liabilities measured at amortised cost		2,929,202	3,205,417
	– deposits from banks and the central bank	29	19,706	15,422
	– deposits from non-bank customers	30	2,776,019	2,846,889
	– loans from banks and the central bank	29	89,658	263,312
	– loans from non-bank customers		564	627
	– debt securities issued	31	21,047	61,860
	– other financial liabilities	32	22,208	17,307
18	Provisions	33	50,792	57,431
19	Tax liabilities		11,834	11,196
	– current tax liabilities		4,041	2,343
	– deferred tax liabilities	34	7,793	8,853
20	Other liabilities		1,150	1,212
21	TOTAL LIABILITIES (from 16 to 20)		2,997,911	3,279,998
22	Share capital	35	151,000	151,000
23	Share premium	35	282,459	282,459
24	Accumulated other comprehensive income	35	42,466	53,124
25	Reserves from profit	35	47,448	20,533
26	Retained earnings (including income from the current year)		91,078	41,349
27	TOTAL EQUITY (from 22 to 26)		614,451	548,465
28	**TOTAL LIABILITIES AND EQUITY (21+27)**		**3,612,362**	**3,828,463**

These financial statements were approved for issue by the Management Board on 22 March 2017.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Aleksander VOZEL
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 108 to 231 are an integral part of these financial statements.

(All amounts in EUR thousand unless otherwise stated)

STATEMENT OF CHANGES IN EQUITY OF ABANKA D.D. FOR THE REPORTING PERIOD ENDED 31 DECEMBER 2016

Item No.	ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including income from the current year)	Total equity (from 3 to 7)
1	2	3	4	5	6	7	8
1	OPENING BALANCE FOR THE REPORTING PERIOD	151,000	282,459	53,124	20,533	41,349	548,465
2	Comprehensive income for the financial year after tax	–	–	(10,658)	–	76,656	65,998
3	Transfer of retained earnings to reserves from profit	–	–	–	19,249	(19,249)	–
4	Transfer of net profit to reserves from profit	–	–	–	7,666	(7,666)	–
5	Other	–	–	–	–	(12)	(12)
6	CLOSING BALANCE FOR THE REPORTING PERIOD (1+2+3+4+5)	151,000	282,459	42,466	47,448	91,078	614,451
7	DISTRIBUTABLE PROFIT FOR THE FINANCIAL YEAR	–	–	–	–	91,078	91,078

STATEMENT OF CHANGES IN EQUITY OF ABANKA D.D. FOR THE REPORTING PERIOD ENDED 31 DECEMBER 2015

Item No.	ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including income from the current year)	Total equity (from 3 to 7)
1	2	3	4	5	6	7	8
1	OPENING BALANCE FOR THE REPORTING PERIOD	151,000	87,296	43,354	13,233	–	294,883
2	Acquisition of Banka Celje - opening balance	50,000	166,221	3,513	2,948	(21,101)	201,581
3	Acquisition of Banka Celje - transfer of share capital to share premium	(50,000)	50,000	–	–	–	–
4	Acquisition of subsidiary AB58	–	–	–	117	2,848	2,965
5	OPENING BALANCE FOR THE REPORTING PERIOD - after acquisition (1+2+3+4)	151,000	303,517	46,867	16,298	(18,253)	499,429
6	Comprehensive income for the financial year after tax	–	–	6,257	–	42,775	49,032
7	Transfer of net profit to reserves from profit	–	–	–	4,278	(4,278)	–
8	Covering of the loss brought forward	–	(21,058)	–	(43)	21,101	–
9	Other	–	–	–	–	4	4
10	CLOSING BALANCE FOR THE REPORTING PERIOD (5+6+7+8+9)	151,000	282,459	53,124	20,533	41,349	548,465
11	DISTRIBUTABLE PROFIT FOR THE FINANCIAL YEAR	–	–	–	–	22,100	22,100

These financial statements were approved for issue by the Management Board on 22 March 2017.

Management Board

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President of the Management Board

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(All amounts in EUR thousand unless otherwise stated)

CASH FLOW STATEMENT OF ABANKA D.D.

Desig-nation	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2016	2015
1	2		3	4
A	**CASH FLOWS FROM OPERATING ACTIVITIES**			
a)	Total profit before tax		82,447	50,025
	Depreciation and amortisation	13	7,185	9,221
	Impairments of financial assets available for sale	15	–	39
	(Reversal of impairments)/impairments of loans and receivables	15	(25,260)	38,900
	Impairments of intangible assets and other assets	15	–	721
	Impairments of capital investments in subsidiaries	15	1,435	2,789
	Net (profit) of subsidiaries		(79)	–
	Net losses/(gains) from exchange differences		22	(40)
	Net losses/(gains) from sale of tangible assets		49	(29)
	Net losses from sale of intangible assets		5	237
	Other (gains) from investing activities	37	(4,224)	(1,188)
	Other adjustments to total profit or loss before tax		(268)	(32,197)
	Cash flows from operating activities before changes in operating assets and liabilities		**61,312**	**68,478**
b)	**Decreases in operating assets (excl. cash & cash equivalents)**		**264,791**	**358,927**
	Net decrease in financial assets held for trading		3,249	4,762
	Net decrease/(increase) in financial assets designated at fair value through profit or loss		40	(98)
	Net decrease in financial assets available for sale		186,721	300,655
	Net decrease in loans and receivables		75,002	52,847
	Net decrease in derivatives - hedge accounting		237	1,187
	Net (increase) in non-current assets held for sale		(374)	(3)
	Net (increase) in other assets		(84)	(423)
c)	**(Decreases) in operating liabilities**		**(281,654)**	**(516,899)**
	Net increase/(decrease) in financial liabilities held for trading		188	(4,144)
	Net (decrease) in deposits, loans and receivables measured at amortised cost		(240,980)	(418,149)
	Net (decrease) in debt instruments issued measured at amortised cost		(40,813)	(94,708)
	Net (decrease)/increase in other liabilities		(49)	102
d)	**Cash flows from operating activities (a+b+c)**		**44,449**	**(89,494)**
e)	**Income taxes (paid)**		**(4,813)**	**(75)**
f)	**Net cash flows from operating activities (d+e)**		**39,636**	**(89,569)**

(All amounts in EUR thousand unless otherwise stated)

CASH FLOW STATEMENT OF ABANKA D.D. (continued)

Desig-nation	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2016	2015
1	2		3	4
B	**CASH FLOWS FROM INVESTING ACTIVITIES**			
a)	**Receipts from investing activities**		**4,975**	**1,407**
	Receipts from the sale of tangible assets		98	116
	Receipts from the disposal of subsidiaries		185	–
	Receipts from non-current assets held for sale		3,402	–
	Receipts from the sale of financial assets held to maturity	24	1,290	1,291
b)	**Cash payments on investing activities**		**(5,458)**	**(6,691)**
	(Cash payments to acquire tangible assets)		(2,263)	(1,987)
	(Cash payments to acquire intangible assets)		(3,195)	(4,704)
c)	**Net cash flows from investing activities (a+b)**		**(483)**	**(5,284)**
C	**CASH FLOWS FROM FINANCING ACTIVITIES**			
a)	**Cash proceeds from financing activities**		**–**	**–**
b)	**Cash payments on financing activities**		**–**	**–**
c)	**Net cash flows from financing activities (a+b)**		**–**	**–**
D	Effects of change in exchange rates on cash and cash equivalents		2,245	4,352
E	**Net increase/(decrease) in cash and cash equivalents (Af+Bc+Cc)**		**39,153**	**(94,853)**
F	**Opening balance of cash and cash equivalents**		**344,362**	**434,863**
G	**Closing balance of cash and cash equivalents (D+E+F)**	**37**	**385,760**	**344,362**

These financial statements were approved for issue by the Management Board on 22 March 2017.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Aleksander VOZEL
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 108 to 231 are an integral part of these financial statements.

(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED INCOME STATEMENT OF THE ABANKA GROUP

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2016	2015
1	2		3	4
1	Interest income	5	91,541	111,867
2	Interest expenses	5	(12,827)	(34,753)
3	**Net interest income (1+2)**		**78,714**	**77,114**
4	Dividend income	6	753	1,089
5	Fee and commission income	7	53,301	58,659
6	Fee and commission expenses	7	(14,427)	(16,784)
7	**Net fee and commission income (5+6)**		**38,874**	**41,875**
8	Net realised gains on financial assets and liabilities not measured at fair value through profit or loss	8	14,758	32,140
9	Net gains on financial assets and liabilities held for trading	9	2,250	2,371
10	Net (losses)/gains on financial assets and liabilities designated at fair value through profit or loss		(33)	98
11	Fair value adjustments in hedge accounting	10	238	(116)
12	Exchange differences		(22)	84
13	Net gains/(losses) on derecognition of assets		122	(130)
14	Net other operating expenses	11	(6,283)	(11,216)
15	Administrative expenses	12	(70,671)	(74,765)
16	Depreciation and amortisation	13	(8,382)	(10,021)
17	Provisions	14	3,955	32,548
18	Impairment	15	26,228	(41,528)
19	Total profit/(loss) from investments in subsidiaries and associates		82	(540)
20	Total profit/(loss) from non-current assets held for sale		3,028	(17)
21	TOTAL PROFIT BEFORE TAX FROM CONTINUING OPERATIONS (3+4+7+8+9+10+11+12+13+14+15+16+17+18+19+20)		83,611	48,986
22	Tax expense related to profit from continuing operations	16	(6,097)	(7,264)
23	TOTAL PROFIT AFTER TAX FROM CONTINUING OPERATIONS (21+22)		77,514	41,722
24	**NET PROFIT for the financial year (23)**		**77,514**	**41,722**

These financial statements were approved for issue by the Management Board on 22 March 2017.

Management Board

Matej GOLOB MATZELE
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Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 108 to 231 are an integral part of these financial statements.

(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE ABANKA GROUP

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2016	2015
1	2		3	4
1	**NET PROFIT FOR THE FINANCIAL YEAR AFTER TAX**		**77,514**	**41,722**
2	**OTHER COMPREHENSIVE (LOSS)/INCOME AFTER TAX (3+4)**		**(10,663)**	**6,691**
3	**ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS (3.1)**		**79**	**(417)**
3.1	Actuarial gains/(losses) on defined benefit pension plans	33	79	(417)
4	**ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS (4.1+4.2+4.3)**		**(10,742)**	**7,108**
4.1	Foreign currency translation (4.1.1+4.1.2)		–	433
4.1.1	Translation gains taken to equity		–	7
4.1.2	Net losses transferred to profit or loss		–	426
4.2	Available-for-sale financial assets (4.2.1+4.2.2)	20	(11,674)	8,487
4.2.1	Net valuation (losses)/gains taken to equity		(1,871)	23,647
4.2.2	Net gains transferred to profit or loss		(9,803)	(15,160)
4.3	Income tax relating to items that may be reclassified to profit or loss	34	932	(1,812)
5	**TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX (1+2)**		**66,851**	**48,413**

These financial statements were approved for issue by the Management Board on 22 March 2017.

Management Board

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President of the Management Board

The notes on pages 108 to 231 are an integral part of these financial statements.

(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ABANKA GROUP

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT As at 31 December 2016	2015
1	**2**		**3**	**4**
1	Cash, cash balances with the central bank and other demand deposits with banks	17	344,259	281,289
2	Financial assets held for trading	18	5,225	8,556
3	Financial assets designated at fair value through profit or loss	19	2,412	2,452
4	Available-for-sale financial assets	20	1,260,618	1,457,768
5	Derivatives - hedge accounting	18	–	237
6	Loans and receivables		1,884,134	1,960,263
	– loans to banks	21	65,489	97,218
	– loans to non-bank customers	22	1,806,473	1,850,384
	– other financial assets	23	12,172	12,661
7	Held-to-maturity investments	24	32,032	32,126
8	Non-current assets held for sale	25	973	806
9	Property and equipment	25	41,730	43,485
10	Investment property	25	8,700	5,253
11	Intangible assets	25	8,240	9,108
12	Investment in a subsidiary	26	–	1,652
13	Tax assets		9,466	9,143
	– deferred tax assets	34	9,466	9,143
14	Other assets	27	17,044	18,089
15	**TOTAL ASSETS (from 1 to 14)**		**3,614,833**	**3,830,227**

(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ABANKA GROUP (continued)

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT As at 31 December 2016	2015
1	**2**		**3**	**4**
16	Financial liabilities held for trading	18	4,933	4,742
17	Financial liabilities measured at amortised cost		2,928,606	3,204,933
	– deposits from banks and the central bank	29	19,706	15,422
	– deposits from non-bank customers	30	2,774,878	2,844,884
	– loans from banks and the central bank	29	89,658	263,312
	– loans from non-bank customers		521	558
	– debt securities issued	31	21,047	61,860
	– other financial liabilities	32	22,796	18,897
18	Provisions	33	50,891	57,527
19	Tax liabilities		11,863	10,891
	– current tax liabilities		4,070	2,038
	– deferred tax liabilities	34	7,793	8,853
20	Other liabilities		1,712	1,755
21	TOTAL LIABILITIES (from 16 to 20)		2,998,005	3,279,848
22	Share capital	35	151,000	151,000
23	Share premium	35	282,459	282,459
24	Accumulated other comprehensive income	35	42,445	53,108
25	Reserves from profit	35	47,468	20,533
26	Retained earnings (including income from the current year)		93,456	43,279
27	TOTAL EQUITY (from 22 to 26)		616,828	550,379
28	**TOTAL LIABILITIES AND EQUITY (21+27)**		**3,614,833**	**3,830,227**

These financial statements were approved for issue by the Management Board on 22 March 2017.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

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Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 108 to 231 are an integral part of these financial statements.

(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE ABANKA GROUP FOR THE REPORTING PERIOD ENDED 31 DECEMBER 2016

Item No.	ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including income from the current year)	**Total equity (from 3 to 7)**
1	2	3	4	5	6	7	8
1	**OPENING BALANCE FOR THE REPORTING PERIOD**	**151,000**	**282,459**	**53,108**	**20,533**	**43,279**	**550,379**
2	**Consolidated comprehensive income for the financial year after tax**	**–**	**–**	**(10,663)**	**–**	**77,514**	**66,851**
3	Transfer of retained earnings to reserves from profit	–	–	–	19,249	(19,249)	–
4	Transfer of net profit to reserves from profit	–	–	–	7,686	(7,686)	–
5	Other	–	–	–	–	(402)	(402)
6	**CLOSING BALANCE FOR THE REPORTING PERIOD (1+2+3+4+5)**	**151,000**	**282,459**	**42,445**	**47,468**	**93,456**	**616,828**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE ABANKA GROUP FOR THE REPORTING PERIOD ENDED 31 DECEMBER 2015

Item No.	ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including income from the current year)	**Total equity (from 3 to 7)**
1	2	3	4	5	6	7	8
1	**OPENING BALANCE FOR THE REPORTING PERIOD**	**151,000**	**87,296**	**42,904**	**13,411**	**5,771**	**300,382**
2	Acquisition of Banka Celje - opening balance	50,000	166,221	3,513	2,948	(21,101)	**201,581**
3	Acquisition of Banka Celje - transfer of share capital to share premium	(50,000)	50,000	–	–	–	**–**
4	**OPENING BALANCE FOR THE REPORTING PERIOD - after acquisition (1+2+3)**	**151,000**	**303,517**	**46,417**	**16,359**	**(15,330)**	**501,963**
5	**Consolidated comprehensive income for the financial year after tax**	**–**	**–**	**6,691**	**–**	**41,722**	**48,413**
6	Transfer of net profit to reserves from profit	–	–	–	4,278	(4,278)	**–**
7	Covering of the loss brought forward	–	(21,058)	–	(104)	21,162	**–**
8	Other	–	–	–	–	3	**3**
9	**CLOSING BALANCE FOR THE REPORTING PERIOD (4+5+6+7+8)**	**151,000**	**282,459**	**53,108**	**20,533**	**43,279**	**550,379**

These financial statements were approved for issue by the Management Board on 22 March 2017.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Aleksander VOZEL
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 108 to 231 are an integral part of these financial statements.

(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED CASH FLOW STATEMENT OF THE ABANKA GROUP

Desig- nation	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2016	2015
1	2		3	4
A	**CASH FLOWS FROM OPERATING ACTIVITIES**			
a)	Total profit before tax		83,611	48,986
	Depreciation and amortisation	13	8,382	10,021
	Impairments of financial assets available for sale	15	–	39
	(Reversal of impairments)/impairments of loans and receivables	15	(24,784)	39,787
	Impairments of investment property and other assets	15	(1,278)	1,097
	Impairments of capital investments in subsidiaries	15	(166)	605
	Net (profit)/loss from investments in subsidiaries and associates		(82)	540
	Net losses/(gains) from exchange differences		22	(84)
	Net (gains) from sale of tangible assets		(127)	(107)
	Net losses from sale of intangible assets		5	237
	Other (gains) from investing activities	37	(4,224)	(1,174)
	Other adjustments to total profit or loss before tax		(233)	(32,170)
	Cash flows from operating activities before changes in operating assets and liabilities		**61,126**	**67,777**
b)	**Decreases in operating assets (excl. cash & cash equivalents)**		**276,805**	**363,069**
	Net decrease in financial assets held for trading		3,249	4,762
	Net decrease/(increase) in financial assets designated at fair value through profit or loss		40	(98)
	Net decrease in financial assets available for sale		186,721	300,656
	Net decrease in loans and receivables		82,945	53,963
	Net decrease in derivatives - hedge accounting		237	1,187
	Net (increase) in non-current assets held for sale		(374)	(17)
	Net decrease in other assets		3,987	2,616
c)	**(Decreases) in operating liabilities**		**(293,548)**	**(515,819)**
	Net increase/(decrease) in financial liabilities held for trading		188	(4,144)
	Net (decrease) in deposits, loans and receivables measured at amortised cost		(252,709)	(417,109)
	Net (decrease) in debt instruments issued measured at amortised cost		(40,813)	(94,708)
	Net (decrease)/increase in other liabilities		(214)	142
d)	**Cash flows from operating activities (a+b+c)**		**44,383**	**(84,973)**
e)	**Income taxes (paid)**		**(4,808)**	**(541)**
f)	**Net cash flows from operating activities (d+e)**		**39,575**	**(85,514)**

(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED CASH FLOW STATEMENT OF THE ABANKA GROUP (continued)

Designation	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2016	2015
1	2		3	4
B	**CASH FLOWS FROM INVESTING ACTIVITIES**			
a)	**Receipts from investing activities**		**6,872**	**2,589**
	Receipts from the sale of tangible assets and investment property		1,992	867
	Receipts from the disposal of subsidiaries and associates		188	220
	Receipts from non-current assets held for sale		3,402	211
	Receipts from the sale of financial assets held to maturity	24	1,290	1,291
b)	**Cash payments on investing activities**		**(7,298)**	**(11,946)**
	(Cash payments to acquire tangible assets and investment property)		(4,102)	(7,242)
	(Cash payments to acquire intangible assets)		(3,196)	(4,704)
c)	**Net cash flows from investing activities (a+b)**		**(426)**	**(9,357)**
C	**CASH FLOWS FROM FINANCING ACTIVITIES**			
a)	**Cash proceeds from financing activities**		**–**	**–**
b)	**Cash payments on financing activities**		**–**	**–**
c)	**Net cash flows from financing activities (a+b)**		**–**	**–**
D	Effects of change in exchange rates on cash and cash equivalents		2,245	4,352
E	**Net increase/(decrease) in cash and cash equivalents (Af+Bc+Cc)**		**39,149**	**(94,871)**
F	**Opening balance of cash and cash equivalents**		**344,384**	**434,903**
G	**Closing balance of cash and cash equivalents (D+E+F)**	**37**	**385,778**	**344,384**

These financial statements were approved for issue by the Management Board on 22 March 2017.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Aleksander VOZEL
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 108 to 231 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Separate and consolidated financial statements were compiled in accordance with the basic accounting policies defined hereinafter.

Reporting entity

Abanka d.d. is headquartered in Slovenia. The consolidated financial statements of the Bank as at and for the year ended 31 December 2016 comprise the Bank and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group is primarily involved in corporate, retail and investment banking.

1.1 Basis of preparation

(a) Basis of preparation

Accepted accounting policies have been used on a consistent basis, and the accounting estimates have been made in compliance with the principles of prudence and good management. The Management Board confirms that the financial statements and the accompanying notes have been prepared on the assumption of a going concern for the Bank and the Group for the period of assessment, being twelve months from the date of approval of these financial statements and in compliance with the relevant legislation and International Financial Reporting Standards, as adopted by the EU.

These statutory financial statements are prepared for the purpose of compliance with legal requirements. The Bank is legally required to obtain an independent audit of these financial statements. The scope of that audit is limited to an audit of general purpose statutory financial statements to fulfill the legal requirement for audit of statutory financial statements. The audit scope comprehends the statutory financial statements taken as a whole and does not provide assurance on any individual line item, account or transaction. The audited financial statements are not intended for use by any party for the purposes of decision making concerning any ownership, financing or any other specific transactions relating to the Bank. Accordingly, users of the audited statutory financial statements should not rely exclusively on the financial statements and should undertake other procedures before making decisions.

(b) Statement of compliance

The financial statements of the Bank and the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU.

The scope of information and notes included in the Group's Annual Report and the breakdown of financial statements are also prescribed in the Companies Act and in the Regulation on the Books of Account and Annual Reports of Banks and Savings Banks issued by the Bank of Slovenia.

(c) Basis of measurement

The financial statements of the Bank and the consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value;
- financial instruments at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value.

(d) Functional and presentation currency

The financial statements of the Bank and the consolidated financial statements are presented in euros, which is the Bank's functional currency. All financial information presented in euros has been rounded to the nearest thousand unless otherwise stated.

(e) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS as adopted by the EU requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information on critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in Note 3 Critical accounting estimates and judgments in applying accounting policies.

(f) Standards and interpretations effective in the current period

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

- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures” - Investment Entities: Applying the Consolidation Exception - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IFRS 11 “Joint Arrangements” – Accounting for Acquisitions of Interests in Joint Operations - adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 1 “Presentation of Financial Statements” – Disclosure Initiative - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” – Clarification of Acceptable Methods of Depreciation and Amortisation - adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 19 “Employee Benefits” – Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015);
- Amendments to IAS 27 “Separate Financial Statements” – Equity Method in Separate Financial Statements - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016);
- Amendments to various standards “Improvements to IFRSs (cycle 2010-2012)” resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015);
- Amendments to various standards “Improvements to IFRSs (cycle 2012-2014)” resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these amendments to the existing standards and interpretation has not led to any changes in the Group’s accounting policies.

(g) Standards, interpretations and amendments issued but not yet effective

Among the standards issued by the International Accounting Standards Board but which the Group has not started to apply early, IFRS 9 – Financial Instruments (effective for annual periods beginning on or after 1 January 2018) is the most significant for the Group in terms of financial statements.

The implementation of IFRS 9

IFRS 9 “Financial Instruments” issued on 24 July 2014 is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

Classification and Measurement - IFRS 9 introduces a new approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single approach replaces existing requirements under IAS 39. The new model also results in a single impairment model being applied to all financial instruments.

Impairment - IFRS 9 has introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

NOTES TO THE FINANCIAL STATEMENTS
(continued)

Hedge accounting - IFRS 9 introduces a substantially modified hedge accounting model, particularly for companies that are exposed to product risk (hedged non-financial items). The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities.

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

Key requirements of IFRS 9 are:
All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt instruments and equity instruments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity instrument (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income recognised in profit or loss. With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements regarding an entity's risk management activities have also been introduced.

In 2016, the Group launched the IFRS 9 implementation project. With the help of an external consultant, a gap analysis was prepared as well as the content request of implementation. The project phases completed in 2016 included:
- the gap analysis between the existing situation and the IFRS requirements;
- the initial estimate of the transition impact;
- determination of the business model and procedures for filling the gaps in classification and measurement;
- determination of the characteristics of the contractual cash flows and the introduction of the SPPI test;
- concept and development of the model for the calculation of expected credit losses.

In 2017, the Group started developing and adapting IT systems to the requirements of the new standard.

According to IFRS 9, the Bank will be obliged to recognise a loss allowance for expected credit loss, which constitutes a significant change compared to the currently valid IAS 39 that requires the recognition of incurred losses in financial statements.

IFRS 9 introduces the identification and management of three different stages in the life cycle of any financial asset:
- a financial asset is assigned to **Stage 1** upon initial recognition and remains in Stage 1 until a significant increase in credit risk has been identified. Impairment is calculated on the basis of 12-month expected credit losses;
- a financial asset is classified as **Stage 2** once a significant increase of credit risk has been detected and remains in Stage 2 until a default event has occurred. Impairment is calculated on the basis of lifetime expected credit losses;

NOTES TO THE FINANCIAL STATEMENTS
(continued)

- a financial asset is classified as **Stage 3** if there is objective evidence of impairment or if a default event has occurred. Impairment is calculated on the basis of lifetime expected credit losses or assessed based on the discounted value of expected repayment (cash flows) including the expected proceeds from the realisation of collateral (individual impairment calculation).

The Bank has defined triggers for the transition or re-classification of financial assets between the stages for individual debtor segments, which include:
- credit rating,
- threshold number of days past due,
- restructuring of financial assets,
- watch list,
- significant past-due liabilities of debtor and past-due financial asset.

Expected losses will be calculated on the basis of the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The calculated credit parameters (PD and LGD) will be adjusted to macroeconomic forecasts.

Loans and those debt securities held in the banking book, which are not intended to regulate operational, current liquidity but to collect contractual cash flows, will be classified by the Group into the business model whose objective is to hold the financial asset to collect the contractual cash flows (valued at amortised cost).

The Group's business model of assets held for the purpose of both collecting contractual cash flows and selling financial assets (valued at fair value through equity) will consist of debt securities held in the banking book, which are intended to regulate operational, current liquidity and are, as a rule, more liquid, high quality and less exposed to credit risk and a part of non-performing loans destined for sale according to the Group’s strategy.

At initial recognition of the debt securities classified into the above-mentioned models, the Group will be obliged to check whether their cash flows include only the repayment of the principal and interest.

In the other business model (valued through profit or loss), the Group will include the following:
- instruments obtained for hedging of other positions,
- structured products, which were recognised at fair value through profit or loss even as at the 2016 year-end,
- securities held for trading,
- equity securities, for which the option of irrevocable election of measurement through equity will not be selected at initial recognition.

In the other business model (the option of irrevocable election of valuation through equity), the Group will include the following:
- equity securities that are complementary to the principal activity of the Bank (of strategic nature for the Bank) and
- equity securities that support the principal activity of the Bank (of infrastructure nature for the Bank) and are currently classified as available-for-sale financial assets.

The business models are based on the Bank’s business decisions in accordance with IFRS 8.

The Group has presented only qualitative information, since no reliable assessment of the quantitative impacts could be made as at 31 December 2016, because the final methodology for the calculation of expected credit losses and related risk parameters had not been confirmed.

- IFRS 15 “Revenue from Contracts with Customers” and amendments to IFRS 15 “Effective date of IFRS 15” - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018)

The Group estimates that the introduction of IFRS 15 in the initial application period will not have a material impact on the Group's financial statements.

(h) New Standards and amendments to the existing standards issued by IASB but not yet adopted by the EU
- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;

NOTES TO THE FINANCIAL STATEMENTS (continued)

- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 2 "Share-based Payment" - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied for the first time);
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);
- Amendments to IFRS 15 "Revenue from Contracts with Customers" - Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IAS 7 "Statement of Cash Flows" - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017);
- Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017);
- Amendments to IAS 40 "Investment Property" - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018);
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018).

The Group estimates that the introduction of these accounting standards and changes to the existing standards in the initial application period will not have a material impact on the Group's financial statements.

- Hedge accounting (part of IFRS 9) for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated. The Group estimates that the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements, if applied as at the balance sheet date.

1.2 Consolidation

(a) Subsidiaries
Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on which control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

In the separate financial statements of the Bank, investments in subsidiaries are measured at cost.

In 2016, the subsidiary Afaktor d.o.o. has been excluded from the consolidated financial statements of the Abanka Group, as the company had no significant impact on the true and fair view of the financial position of the Group.

(b) Associates
Associates are all entities in which the Group has between 20% and 50% of the voting rights and over which the Group has significant influence, but does not control. In the consolidated financial statements, investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified upon acquisition.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The Group's share of the post-acquisition profits or losses of associates is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses unless the Group has incurred obligations or made payments on behalf of the associate.

In the separate financial statements of the Bank, investments in associates are measured at cost.

1.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Management Board of the Bank.

In accordance with IFRS 8, the Group has the following business segments: retail banking, corporate banking and financial markets. Additional information is disclosed in Note 4 Segment Analyses.

1.4 Foreign currency translation

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional and presentation currency of the Bank and its subsidiaries in Slovenia and Montenegro is the euro.

(a) Transactions and balances
Foreign currency transactions are translated into the respective functional currency of the operation, using the spot exchange rates as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the ECB reference rate as at that date. Foreign exchange gains and losses on monetary items are the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the spot exchange rate as at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate as at the date that fair value was determined. Foreign currency differences arising from retranslation are recognised in profit or loss, except for differences arising from the retranslation of available-for-sale equity instruments that are recognised directly in other comprehensive income. Non-monetary assets and liabilities that are measured in terms of the historical cost in a foreign currency are translated using the exchange rate as at the date of the transaction.

(b) Foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into euros at spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into euros at spot exchange rates as at the dates of the transactions.

Foreign currency differences on the translation of foreign operations are recognised in other comprehensive income in the translation reserve, which is part of the accumulated other comprehensive income. However, if the operation is not wholly owned, the relevant proportional share of the difference is instead allocated to the non-controlling interest. When a foreign operation is disposed of, the relevant amount in the translation reserve is transferred to profit or loss upon disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation, whilst retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate that includes a foreign operation, whilst retaining significant influence, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognised in other comprehensive income in the translation reserve, which is part of the accumulated other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1.5 Financial assets and financial liabilities

The Group initially recognises loans and receivables, given deposits and debt securities isued on the date that they originate. Regular purchases and sales of other financial assets are recognised on the trade date at which the Group commits to purchasing and selling the asset.

A financial asset is initially measured at fair value; plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition.

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or with the write-off. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset in the statement of financial position. Upon the de-recognition of a financial asset, the difference between the carrying amount of the asset and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition. Reclassifications after initial recognition are also possible under certain circumstances.

Borrowings are recognised initially at the fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in realised gains and losses on financial assets and liabilities not measured at fair value through profit or loss.

Deposits from banks, the central bank and non-bank customers are measured at amortised cost.

(a) Financial assets and liabilities at fair value through profit or loss
This category has two sub-categories: held-for-trading financial assets and those designated at fair value through profit or loss at inception.

A financial asset is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held-for-trading, unless they are designated as hedging instruments.

Financial assets and financial liabilities are designated at fair value through profit or loss when:
- doing so significantly reduces measurement inconsistencies that would arise if the related instruments were classified in different groups of financial instruments and therefore valued differently; or
- financial instruments containing one or more embedded derivatives that significantly modify the cash flows are designated at fair value through profit or loss; or
- certain instruments, such as equity investments, which are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis, are designated at fair value through profit or loss.

Interest income and expenses, and dividend income on financial assets at fair value through profit or loss are included in “Net interest income” or “Dividend income”, respectively.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(b) Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held-for-trading and those that the entity designates at fair value through profit or loss upon initial recognition; (b) those that the entity designates as available for sale upon initial recognition; or (c) those for which the holder may not substantially recover all of its initial investment, other than because of credit deterioration.

(c) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available-for-sale.

(d) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets can be reclassified to the loans category if they can be classified as loans at the moment of reclassification, and the Group has the ability and intent to hold the financial asset for the foreseeable future or until maturity.

Amortised cost measurement

Loans and held-to-maturity investments are carried at amortised cost using the effective interest method. This method is explained in Note 1.8 Interest income and expenses.

Fair value measurement

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Interest earned whilst holding trading securities is reported as interest income. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. Gains and losses from foreign exchange differences of equity securities are recognised within fair value changes in other comprehensive income. Interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the income statement. Financial assets, for which no market transactions or market information are available and for which the Group has decided not to measure fair value using alternative valuation methods due to the immateriality of an individual or cumulative position of such assets, are measured using the cost model (average purchase price).

Fair value measurement, valuation methods and the assumptions applied are additionally disclosed in Note 3(d). The fair value hierarchy is described and disclosed in the same note.

Impairment of financial assets is described in Note 1.11.

1.6 Offsetting financial instruments

Financial assets and liabilities are offset, and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The ISDA (International Swaps and Derivatives Association) and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties or following other predetermined events. In addition, the Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1.7 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received).

Derivatives of the Group are classified as held-for-trading and held for hedging purposes (Note 18).

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group uses derivatives to hedge the fair value of recognised assets and liabilities.

Hedge accounting is used provided certain criteria are met. When a hedge is introduced, a formal document is prepared, describing the relationship between hedged items and hedging instruments, as well as its risk management purpose and strategy and the valuation methodology. The Group also documents the effectiveness assessment of hedging instruments at exposure to changes in the fair value of a hedged instrument, which are attributable to hedging. The Group assesses the effectiveness of a hedge at its inception and then on an ongoing basis during the duration of the hedge, where the hedge effectiveness must always fall within a range of 80 to 125 percent.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Effective changes in fair value of hedging instruments and the related hedged items are reflected in the income statement under ''Fair value adjustments in hedge accounting''.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is transferred to profit or loss over the period to maturity. The adjustment in the carrying amount of the hedged equity investment is included in operating profit at the moment of sale.

Individual derivative financial instruments that provide effective economic hedges which, however, do not qualify for hedge accounting under the specific accounting rules, are treated as derivatives held for trading. Changes in the fair value of those derivative instruments are recognised immediately in the income statement under “Net gains/(losses) on financial assets and liabilities held for trading”.

Past due receivables from derivatives held for trading remain recorded under the same item of financial assets (derivatives) and are not reclassified under other receivables. When objective evidence of the possible impairment of derivative financial assets due to credit risk exists, the Group assesses the impairment loss and recognises it in the valuation of the derivative.

1.8 Interest income and expenses

Interest income and expenses for all interest-bearing financial instruments are recognised within “interest income” and “interest expenses” in the income statement, using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss.

1.9 Fee and commission income and expenses

Fees and commissions received are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct cost) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed, and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commissions and fees arising from negotiating or participating in the negotiation of a transaction for a third party (e.g. the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses) are recognised upon completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

Fees and commissions paid that are mostly related to payment transactions are recognised as the Group's expenses as they arise.

1.10 Dividend income

Dividends are recognised in the income statement when the entity's right to receive payment is established.

1.11 Impairment of financial assets

(a) Assets carried at amortised cost

At each reporting date, the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses are recognised if there is objective evidence of impairment of a financial asset as a result of one or more events that occurred after the initial recognition of the asset and have an impact on the future cash flows that can be reliably estimated. The Group first estimates whether there is impartial evidence of the impairment or possibility of loss, such as: significant financial difficulties for the debtor; an actual breach of contract (such as a failure to pay interest, the principal, fees and commissions); restructuring of financial assets; the existence or probability of bankruptcy or financial reorganisation; a measurable decline in the projected cash flows of a group of financial assets from the initial recognition of those assets, even though the decline cannot yet be allocated to individual assets in the group, including negative changes when settling debts in the group of financial assets, or national or local economic conditions associated with the failure to settle financial assets in the group.

The Group first assesses whether objective evidence of impairment exists for individually significant financial assets. If the Group determines that no objective evidence of impairment exists for an individually significant financial asset, such asset is included in a group of financial assets exposed to similar credit risks. The group of financial assets is then examined for signs of impairment. The assets that have been individually assessed for impairment and for which any signs of impairment loss have been established are excluded from a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or held-to-maturity financial asset has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, including estimated cash flows from collateral foreclosure, less the costs for obtaining and selling collateral, discounted at the effective interest rate or contractual interest rate which does not substantially differ from the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. Alternatively, the impairment of a financial asset carried at amortised cost may be measured at the asset's fair value, using a market price.

NOTES TO THE FINANCIAL STATEMENTS (continued)

When assessing collective impairments, financial assets are grouped on the basis of similar credit risk characteristics that indicate the debtor's ability to pay all amounts due according to the contractual terms. Such homogenous groups are formed according to the following criteria: the type of debtor; the debtor's credit rating; stability of the debtor's operations; the credit rating of the financial asset; the type of collateral.

In 2016, the Bank upgraded the methodology for the collective loss assessment of exposures to corporate and retail customers. By expanding the number of credit rating grades, under the new methodology collective percentage losses for corporate customers were calculated for each grade (A1, A2, A3, B1, B2, B3, C1, C2, D and E) and not for a particular credit rating group (A, B, C, D and E). Default rates were calculated on the basis of average annual non-weighted transition matrix by grade, while loss rates were calculated on the basis of the information on the amount of exposure to defaulting customers and the collateral; the deductible proportions and the expected term of realisation were set based on the Bank of Slovenia guidelines on the calculation of default and loss rates, with the exception of deductible proportions for real property and the insurer's guarantee, which were estimated by the Bank itself.

The calculation of collective percentage losses for retail customers is based on the default rates, which are calculated on the basis of annual non-weighted transition matrix by grade as in the previous year; the loss rate is, in accordance with the new methodology, calculated based on the information on the amount of exposure to defaulting customers and collateral. The deductible proportions and the expected term of realisation are set in accordance with the Bank of Slovenia guidelines on the calculation of default and loss rates, with the exception of deductible proportions for real property and the insurer's guarantee. Apart from that, exposures to retail customers, which are classified into the E group and for which repayment or partial repayment is expected, were impaired at the level of collective percentage loss which applies to the E group; exposures to retail customers, which are classified into the E group and for which full repayment is not expected, were 100% impaired.

As the result of the revised methodology for the collective loss assessment of exposures to corporate and retail customers, the collectively assessed impairments and provisions decreased by EUR 1.3 million.

Exposures to companies are grouped according to the credit rating of individual debtor. Credit risk loss is calculated for any individual group of companies on the basis of the average non-weighted transition matrix and calculated average debt un-recovery rate of defaulters. The average non-weighted transition matrix, composed of annual non-weighted transition matrices, sets out the probability of debtor transfers from one credit group to another credit group over one year. Past experiences with losses and factors indicating the current state are taken into account when evaluating losses.

Exposures to individuals are grouped according to the credit rating of the financial assets. Classification of the financial assets of individuals is mainly based on objective criteria, such as the regularity of settling liabilities to the Group. Credit risk loss is calculated for any individual group of financial assets on the basis of the average default probability (non-weighted transition matrices) and the estimated debt un-recovery rate of defaulters.

Percentages of loss from credit risk for the collectively assessed financial assets of companies and individuals are calculated once per year or during the year if there are significant changes in circumstances within the Group and/or in the market.

Non-risky balance sheet items are not assessed for impairments. The following exposures are not impaired:
- exposures secured with best-quality collateral;
- performance guarantees (principal values only) with very low realisation risk, where the probability of non-realisation is higher than the probability of realisation;
- exposures to banks and governments with no unbiased evidence for impairment or possible credit risk loss;
- exposures to companies arising from payment transactions where the debtor settles them on the next business day.

The Group regularly checks the methodology and assumptions used when assessing losses. The assessment of loss must be brought into line with changed circumstances, both in the Group and in the market, or with changes in legislation.

NOTES TO THE FINANCIAL STATEMENTS (continued)

If the Bank, in its debt collection process, assesses that a financial asset measured at amortised cost will not be recovered and the criteria stipulated in Article 20 of the Regulation on the Assessment of Credit Risk Losses of Banks and Savings Banks are fulfilled:

- for an uncollateralised financial asset arising from a loan agreement or an exercised off-balance contingent liability defaulted on by the borrower for over 1 year;
- for a financial asset arising from a loan agreement or an exercised off-balance contingent liability secured by real estate collateral, if the debtor is more than 4 years in arrears with repayment or the Bank has not received any payments from foreclosed property sales during this period;
- for an uncollateralised financial asset arising from a loan agreement or an exercised off-balance contingent liability where the borrower is in bankruptcy proceedings;
- for a financial asset where, by approval of compulsory settlement, the Bank’s right to claim payment from the borrower in judicial or other proceedings has expired and up to the amount to which that right has expired;

or the conditions for derecognition of that asset in the statement of financial position have been fulfilled, the Bank, in accordance with that Article, writes it off through the use of the previously established allowance account and keeps it on off-balance-sheet records until the legal basis for concluding the collection process has been obtained. In cases when the criteria stipulated in the second paragraph of Article 20 of the Regulation on the Assessment of Credit Risk Losses of Banks and Savings Banks are not fulfilled, the Bank may nevertheless write off a financial asset and keep it on off-balance-sheet records, provided that the asset recovery is in the final stage as regulated by the Financial Operations, Insolvency Proceedings and Compulsory Winding-up Act or the asset is subject to enforcement proceedings, or provided that the Bank has a reasonable expectation based on available information and past experience that no more than 10 percent of the outstanding contract value will be recovered.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the previously recognised impairment loss is reversed by adjusting the allowance for impairment. The amount of the reversal is recognised in the income statement in impairment losses.

Renegotiated loans

Renegotiated loans are defined in Section 2 Risk Management (Note 2.1.4 d).

In accordance with IFRS, the Bank restructures financial assets based on their adjusted value.

(b) Assets carried at fair value

At each reporting date, the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. The Group carries out an assessment of whether there is objective evidence of impairment of the equity and debt instruments classified as available-for-sale financial assets, whose accumulated other comprehensive income is negative (deficit). Evidence for impairment of an available-for-sale equity investment includes information about any significant adverse changes that have taken place in the technological, market, economic or legal environments in which the issuer of the equity instrument operates which indicate that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also regarded by the Group as objective evidence of impairment. During the period of significant or prolonged decline in the fair value, the Group continuously recognises a loss in accumulated other comprehensive income in relation to the relevant equity security.

The key indicator for debt securities impairment is the issuer’s performance, i.e. its credit rating and the breach of contractual obligations. If there is objective evidence of impairment of an available-for-sale debt instrument, such an instrument has to be impaired.

Upon the impairment of available-for-sale financial assets, the amount of the cumulative revaluation loss (difference between the current fair value and the acquisition cost for equity instruments or amortised cost for debt instruments), recognised directly in equity, is removed from equity and recognised in profit or loss.

Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases, and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

1.12 Property and equipment, intangible assets, investment property and non-current assets held for sale

Land and buildings mainly comprise investments in branches and offices. All property and equipment is stated at the historical cost less depreciation and impairment loss. The historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to administrative expenses during the financial period in which they are incurred.

The Group includes licences and software among its intangible assets. Intangible assets are valued at historical cost upon initial recognition. Subsequent valuation is made using the historical cost model. All intangible assets have finite useful lives. In line with the historical cost model, intangible assets are recorded at the historical cost less amortisation and the accumulated impairment loss.

Investment property includes land and buildings leased out under an operating lease. Investment property is valued at the historical cost upon initial recognition. Subsequent valuation is made using the historical cost model, as made for property and equipment. The same accounting treatment that applies to property and equipment is applied to investment property.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives as follows:

	2016	2015
Buildings	2–6%	2–6%
Equipment	14–20%	14–20%
Computers	10–50%	10–50%
Intangible assets	9–50%	9–50%

The residual values and useful lives of assets are reviewed at least once a year or as needed and adjusted accordingly. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Property and equipment are reviewed for impairment at least once a year. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on the disposal of property and equipment are determined by comparing proceeds with carrying amount and are included in gains and losses upon the de-recognition of assets other than those held for sale in the income statement.

Non-current assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amount is to be recovered through a sales transaction rather than through continued use. This condition is regarded as being met only when the sale is highly probable and the asset is available for immediate sale in its present condition, subject to terms that are usual and customary for the sale of such assets. Management must be committed to the sale and must actively market the property for sale at a price that is reasonable in relation to the current fair value. The sale should be expected to qualify for recognition as a completed sale within one year of the date of classification.

The property and equipment received by the Group following foreclosure due to unpaid past-due receivables are disclosed as inventory. If such property and equipment are leased by the Group under an operating lease, they are recognised as investment property.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1.13 Impairment of investments in subsidiaries and associates

In line with IAS 36, when assessing the impairment of investments in subsidiaries and associates, the Group reviews not only objective evidence of impairment, but also any indication that an investment in a subsidiary or associate may be impaired. In addition to indications from external and internal sources of information, the Group takes into account other indications of possible impairment, such as underperformance, or the decision of a company's management to wind the company up.

If there is objective evidence or an indication that an investment in a subsidiary or associate may be impaired, according to IAS 36 the Group calculates the impairment amount as being the difference between the carrying amount of the investment and its recoverable amount. The recoverable amount is that which is found to be higher following a comparison of an investment's:

- fair value less costs to sell; or
- value in use, which equals the present value of the future cash flows expected to arise from this investment, discounted at the current market rate of return on a similar financial asset.

If any of these amounts exceeds the carrying value, the financial asset is not impaired, and the other amount need not be assessed. If expected future cash flows cannot be estimated to calculate the value in use, the Group calculates the necessary impairments using the net asset value method (the asset accumulation method), or as the difference between the carrying amount of a financial asset and the equity book value of the company into which the Group has invested, and does so by reference to its proportional share in equity.

At each reporting date, an assessment is made as to whether previous impairments of non-financial assets may be reversed.

1.14 Leases

A group company is the lessor

A lease is classified as a finance lease if it transfers all the substantial risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer all the substantial risks and rewards incidental to ownership.

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is treated as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

Lease income from operating leases is recognised in income on a straight-line basis over the lease term. Costs, including depreciation, incurred in earning the lease income are recognised as costs. Initial direct costs incurred by lessors in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as costs over the lease term on the same basis as the lease income.

A group company is the lessee

The leases entered into by the Group are primarily operating leases. The Group rents business premises, equipment, cars and locations for cash machines. The total payments made under operating leases are charged to administrative expenses. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as a cost in the period in which termination takes place.

1.15 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including cash and non-restricted balances with the central bank, amounts due from other banks and ECB eligible securities held for trading, designated at fair value through profit or loss and available-for-sale.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1.16 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; when it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

1.17 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs, because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group’s liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise the fee income earned on a straight line basis over the life of the guarantee and contingent liability or provision in accordance with IAS 37, which presents the best estimate of the expenditure required to settle any financial obligation existing as at the statement of financial position date. These estimates are determined based on the experience of similar transactions and a history of past losses, supplemented by the judgment of management.

Any increase in the liability relating to guarantees is recorded in the income statement under provision charges.

1.18 Employee benefits

The Group provides benefits to employees as a legal obligation, including jubilee benefits and retirement bonuses. Employee benefits are included in staff costs and provisions for employee benefits. The Group sets aside such provisions based on actuarial calculations. The major assumptions used in these calculations are the following: the discount rate, the number of employees eligible for benefits, the rate of labour turnover and the average annual salary growth.

Employees retire once they meet the requirements of the old-age pension scheme and achieve the required years of service in accordance with the relevant Slovene legislation. At that time (if they meet certain conditions) they become eligible for full retirement benefits. Furthermore, pursuant to the collective agreement, employees are also entitled to jubilee payments.

Defined contributions to state social security are deducted each month from the payroll, expensed as incurred and included in administrative expenses.

1.19 Taxation

Taxation is provided for in the financial statements in accordance with the Slovene legislation currently in force. The charge for taxation in the income statement for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the taxable profit for the year using the tax rates in effect at the statement of financial position date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date, and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

The Group has created deferred taxes on the temporary differences arising from the impairment of tangible and intangible assets, from different depreciation rates for accounting and tax purposes, from the revaluation and impairment of available-for-sale securities, from the impairment of equity investments, from provisions created for employee benefits, from restructuring provisions, from the impairment of loans and receivables in subsidiaries and from tax losses carried forward.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available, against which the temporary differences can be utilised. Current income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carrying forward are recognised as an asset when it is probable that future taxable profits will be available, against which these losses can be utilised.

Deferred tax related to the fair value re-measurement of available-for-sale investments, which is charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and subsequently (upon de-recognition or impairment) recognised in the income statement, together with the deferred gain or loss.

1.20 Share capital

(a) Share issue costs
Incremental costs directly attributable to the issue of new shares or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(b) Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

1.21 Managed funds

Asset management was one of the services the Group offered to its customers. Assets under management are not included in the statement of financial position of the Group. Clients are charged fees for asset management services, which are itemised in Note 40. In compliance with the Slovene legislation, Note 40 additionally includes fees charged to customers for the acceptance, transmission and execution of orders, management and custody of financial instruments, itemised assets and liabilities per customer account which the Group uses to account for customers' financial assets arising from brokered transactions.

1.22 Sale and repurchase agreements

Securities sold subject to repurchase agreements ("repos") are classified in the financial statements as held-for-trading financial assets, available-for-sale financial assets or held-to-maturity financial assets, even though the transferee has the right by contract or custom to sell or re-pledge them as collateral. The counterparty financial liability is included in loans from banks and the central bank or loans from non-bank customers. Securities purchased under agreements to resell ("reverse repos") are recorded as loans to banks or non-bank customers, as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

1.23 Precious metals

The Group carries precious metals among other assets. Although precious metals are not considered to be financial assets, they are recognised, measured and derecognised in compliance with IAS 39. This means that the stock of precious metals held for trading is measured at fair value through profit or loss. Gains and losses from the valuation and sales are recognised in net other operating income or expenses.

1.24 Comparatives

Due to changes in the underlying methodology of the fair value hierarchy, the Group has adjusted the comparative data in the table showing the valuation methodology for financial instrument measured at fair value (Note 3(d)).

1.25 Information in the notes to the financial statements

Disclosures in the notes to the financial statements are presented for the Bank and for the Group separately. In the cases of completely identical information for the Bank and the Group, only information for the Group is presented. Notes 2, 3 and 4 are prepared on a consolidated basis, as there are no significant differences between the Bank and the Group.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 RISK MANAGEMENT

Effective risk management is one of the cornerstones of the safe and stable operations of the Group and its strategic development. Within this framework, the Group promotes good practices and applies the general standards of risk management. The management, supervisory bodies and senior management of the Bank actively participate in risk management processes. The risk management function is independent from operational functions. The Supervisory Board approves the risk management strategy, strategic decisions and accompanying policies and monitors the efficancy and adequacy of the risk management system at the Group level. The Group is exposed daily to various risks in its operations, which can be broadly divided into credit risk, market risk, interest rate risk, foreign exchange risk, liquidity risk, operational risk, capital risk, business risk and reputational risk. The ability to manage and appropriately control risks has a direct impact on the Group's long-term stability and performance. Therefore, the Group pays heightened attention to the risk management function, which includes risk identification, risk measurement or assessment, risk control, risk monitoring and risk reporting procedures. The risk profile of the Group is monitored through key risk-bearing capacity indicators.

This chapter discusses the management of individual types of risks in the Group. In addition to these, the Group's operations may also be affected by other risks that are not yet recognised as significant by the Group, or which are insignificant at present but could grow in significance in the future. Risk management is disclosed only on a consolidated basis, as there are no significant differences between the Bank and the Group in the treatment of individual risks.

In the reporting period, the Group was engaged in further activities related to the merger with Banka Celje and focused on enhancing its risk management process. The key focus areas of the Group were the activities related to the implementation of the projects "IFRS 9" (transition to a new international reporting standard for the classification, valuation and impairment of financial instruments and general hedge accounting that will become applicable on 1 January 2018) and the comprehensive assessment of the Bank, including the asset quality review (AQR) and stress tests.

The Abanka Group has been classified as a systemically important bank and has been subject to a comprehensive assessment by the European Central Bank (ECB). Abanka has successfully passed the evaluation, in both the baseline and the adverse scenarios.

In 2016, the Risk Management Strategy was revised to take into account the guidelines included in the restructuring plan of the Bank and the plan of operations of the merged bank for the period 2017–2019, as well as the commitments made to the European Commission regarding risk management.

The Group updated its Recovery Plan (an obligatory document for all banks in the EU), which contains the definition of critical functions and the measures envisaged in the event of an identified capital or liquidity weakness.

Credit risk represents the Group's major risk exposure, while also remaining the most significant system risk in the banking industry in 2016, despite the fact that bad debt recovery has led to gradual stabilisation.

Significant attention was paid to improving credit risk management procedures, both in terms of assessing customer credit rating assignment and approving credit exposure as well as in terms of monitoring, recovery and hedging processes. The Group continued activities related to the implementation of the Bank of Slovenia guidelines on the calculation of default and loss rates. The process of assessing customer credit rating has been enhanced by virtue of an improved credit classification methodology for companies (increased number of credit classes); by upgrading the methodology for the collective assessment of credit losses; and by overhauling the expert model underlying the credit assessment of companies and sole traders and the model underlying the assessment of the probability of default (PD) for companies. The Group has implemented an upgraded application for the central collateral records, introduced a system for the early detection of increased credit risk and started an overhaul of the data warehouse related to the calculation of credit risk parameters. In order to improve the efficiency of the risk exposure approval process, the Group has upgraded the methodology for the calculation of exposure limits to companies and banks and exposure limits for individual portfolios, countries and sectors.

In 2016, the Group maintained its conservative approach to assuming market risk. In general, the year 2016 was marked by high volatility of stock exchange indices. In the beginning of the year, the main causes of uncertainty were China's decision to devalue its currency and the sharp drop of oil prices; in mid-June 2016 came the UK referendum and the decision to leave the EU, followed by the election in the USA. The strengthening of the global economy was primarily reflected in the growth of stock

NOTES TO THE FINANCIAL STATEMENTS (continued)

market indices in developed markets. Slovenia also recorded a positive economic growth rate in 2016. The return to maturity on 10-year government bonds of the Republic of Slovenia stood at 0.8 percent at 2016 year-end. The growth of stock indices on the Ljubljana stock exchange was higher than that of most European indices; at the annual value, the SBITOP index increased in value by more than 3 percent.

The Group managed its appetite for market risk by implementing a limit system in its trading in financial instruments. The Group primarily trades in government bonds of the Republic of Slovenia, acting as market maker for the sovereign bond market, and in derivatives aimed at hedging client risks, while trading in equity securities was not allowed. The value-at-risk (Var) of the debt security portfolio calculated using the historical simulation method at 99% confidence level and a 10-day holding period stood at EUR 2.2 million at the 2016 year-end.

Liquidity conditions remained favourable throughout 2016. Due to ECB measures, surplus liquidity on international financial markets was mostly reflected in further interest rate falls. Deposit interest rates in the banking industry recorded a further decrease. The Group's balance of deposits by retail and corporate clients remained stable, while the share of sight deposits increased, mostly as a result of low interest rates.

In the reporting year, the Group complied with the regulatory requirements for the category one liquidity ratio and amount of required reserves, recording an average category one liquidity ratio of 1.66 in 2016. The Group duly reported on both the liquidity coverage ratio (LCR) that stood at 5.52 at the 2016 year-end and the net stable funding ratio (NSFR). Information on encumbered and unencumbered assets was also reported. This type of reporting has been introduced in order to standardise liquidity maintenance requirements within the European Monetary Union.

As mentioned, moderate economic growth in the euro area continued in 2016. Purchasing sovereign and corporate bonds of Eurozone countries, the ECB continued with its expansionary monetary policy aimed at increasing the liquidity of the banking system and stimulating the supply of credit. Monthly purchases of securities under the current programme are expected to remain at EUR 80 billion until March 2017 and continue at EUR 60 billion as of April 2017. The programme is planned to continue until the end of December 2017 or until the ECB is satisfied that the inflation rate is approaching the target value. In the field of monetary policy, the ECB reduced the benchmark financing rate to 0.00 percent and the deposit rate to -0.40 percent. Reference interest rates continued to decrease in 2016 and are in negative figures, even for longer terms. In view of the low/negative interest rates, the Bank's exposure to interest risk is particularly significant; meanwhile, the period of low/negative interest rates also presents the bank with new challenges in terms of generating income.

The Abanka Group continuously adapted its interest rate policy to developments in the domestic and foreign markets and adjusted its interest rate position accordingly. The exposure of the Abanka Group to interest risk measured in terms of the effect of interest rate changes on the economic value of equity and on net interest income reduced somewhat in 2016. However, interest risk remains a significant risk in periods of low interest rates and must be subject to continuous monitoring and control.

In the area of operational risk management, the Group implemented regular preventive activities aimed at reducing the possibility of loss events and incidents as well as corrective measures aimed at minimising the recurrence of such events and incidents. A database of loss events and operational risk related incidents that occurred in 2016 was compiled, revealing that the majority of operational losses were due to the human factor. In 2016, the Group focused its attention on the sources of operational risk that proved to be most significant in the recent period. In 2016, Abanka prepared an assessment of its exposure to operational risk and updated most of its business continuity plans.

Within the framework of the Internal Capital Adequacy Assessment Process (ICAAP), the Group upgraded the existing methods for calculating the internal assessments of capital requirements; continued to regularly monitor its risk profile and evaluated its risk-bearing capacity; designed and developed methodologies for calculating the impact of stress test scenarios; and calculated the amount of its internal assessment of capital and internal assessment of capital requirements for all important types of risks on a quarterly basis. As at 31 December 2016, the Group recorded a surplus of capital over the total capital requirement (including the total SREP capital requirement) of EUR 243 million.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.1 Credit risk

Credit risk is the risk that a debtor or counterparty will cause a financial loss for the Group by failing to discharge an obligation. This risk represents the potential unwillingness or inability of the debtor to fully meet its contractual obligations within the agreed period and/or amount. In addition to default risk and counterparty risk, credit risk also includes: concentration risk, residual risk, country risk, dilution risk of purchased receivables, risk associated with foreign currency loans, participation risk, credit rating risk and shadow banking risk.

Concentration risk is the risk of a loss arising from being overexposed to a single individual, groups of related parties and parties connected by common risk factors, such as the same economic sector, geographical area or transactions of the same type. Concentration risk also arises from using credit protection.

Residual risk is the risk of less effective credit protection than expected.

Country risk is the risk of a loss arising from lending to borrowers in foreign countries. It is linked to the economic, social and political environment of the debtor country. Specific kinds of country risk include transfer risk and sovereign risk. Transfer risk exists when a debtor's obligation is not denominated in a local currency. Sovereign risk arises from the default of a foreign sovereign entity acting as a debtor.

Dilution risk is the risk that the amount of receivables to which the Group is entitled might be reduced due to successful objections by the debtor arising from the legal relationship with the previous creditor that gave rise to such receivables.

The risk associated with foreign currency loans is the current or future risk to the Bank's profit and equity arising from foreign currency loans granted to unhedged borrowers.

Participation risk refers to the risk of loss arising from capital investments in equity stakes, including stakes in subsidiaries and the Bank Resolution Fund.

Credit rating risk refers to the risk of loss due to the downgrading of a client or receivable.

Shadow banking risk refers to the risk of loss arising from exposure to entities engaged in shadow banking activities outside the regulated framework, namely:
- taking deposits and other repayable funds,
- financial leasing,
- issuing of guarantees and warranties and incurring liabilities,
- participation in securities issues and the provision of services related to such issues,
- money brokering.

Credit risk arises in all areas of banking involving risk-bearing balance sheet asset items and risk-bearing off-balance sheet items. Credit risk is the most important risk in the Group's operations and, therefore, is given high priority by the management.

2.1.1 The credit risk management process

The main objective of **credit risk management** is to achieve and maintain the quality and diversification of the credit portfolio that provides for stable and sound operations and enables the achievement of the target level of profitability as well as capital adequacy as set out in the risk management strategy. **The strategy and policy of credit risk** assumption and management complies with general credit risk management standards, best banking practices and own experience. Moreover, this defines the goals to be pursued by the Group during its operations, which include effective credit processes, early identification of increased credit risk, efficient bad debt recovery, intensive resolving of non-performing loans, development of a model approach to credit portfolio management, execution of procedures for accepting and management of credit collaterals and consideration of profitability per transaction upon credit approval, including appropriate compensation for assumed risks.

The credit risk management process includes the identification, measurement, control and monitoring of credit risk, including reporting credit risks to which the Group is or might be exposed in its operations.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Credit risk is managed at the level of individual transactions and debtors, as well as at the level of the overall credit portfolio.

The Group has an established **structure and organisation of appropriate functions for credit risk management**. The Management Board and senior management are responsible for efficient credit risk management. The Management Board transferred some of its competencies in this area to senior management and collective decision-making bodies (the Risk Management Committee, the Credit Committee, the Committee for Special Loan Treatment, the Assets and Liabilities Committee, the Assets and Liabilities Commission). Within the scope of its powers, the Loan Recovery and Restructuring Department not only processes problem loans but is also closely involved in their recovery in collaboration with experts from other departments. The credit risk management function is coordinated at the Group level so as to provide compliance and maximise standardisation in all subsidiaries.

The Group has clearly delimited competencies and tasks between commercial divisions and the Risk Management Division, which is organisationally independent of the front-end units (where credit risk is assumed). Furthermore, competencies and tasks are also clearly delimited between commercial units and the back office, including management.

The extent and features of internal reporting on credit risk allow an appropriate flow of information up and down-stream, as well as between organisational units. This enables timely decision-making at all managerial levels of the Group with regard to measures for mitigating credit risk and for monitoring the results of these measures. There is an established practice of producing periodic and, when appropriate, extraordinary reports on assumed credit risk. The Risk Management Committee, the Management Board, the Risk Management and Assets Liability Management Commission and the Supervisory Board discuss and review at least quarterly comprehensive risk reports focusing primarily on credit risk.

2.1.1.1 Credit risk measurement

a) Loans

The Group's exposure to credit risk depends on the following three credit risk components: exposure amount, a debtor’s default probability reflected in its credit rating, and the recovery ratio on defaulted obligations, which is dependent on collateral and debt collection.

The Group has set up its own internal methodologies for measuring credit risk, which serve as the basis for the process of classifying borrowers and exposures into credit rating categories: A, B, C, D and E, in accordance with the Regulation on the assessment of credit risk losses of banks and savings banks issued by the Bank of Slovenia.

Credit rating A denotes the lowest credit risk and is assigned to borrowers with the highest creditworthiness, those who are assessed as being able to regularly settle their liabilities when they fall due. Credit rating B is assigned to borrowers whose financial position is somewhat weaker, yet the Group does not expect any significant difficulties in them being able to service their obligations. Credit rating C is assigned to borrowers who are either undercapitalised or who lack sufficient long-term sources of funds to finance long-term investments, whose cash flows have been ascertained to be insufficient for the regular settlement of all due liabilities. However, their past-due liabilities to the Group do not exceed 90 days and no material credit-related economic losses wtih these borrowers are foreseen. Credit rating D is assigned to borrowers to whom the Group’s exposures are treated as non-performing, who are insolvent or undergoing rehabilitation or compulsory settlement and for whom the Group consider that they are unlikely to pay their credit obligations in full, but it can be reasonably expected that their loans will be repaid, at least in part. Credit rating E denotes the highest credit risk and is also assigned to borrowers to whom the Group’s exposures are treated as non-performing, but the Group considers that the borrowers are highly unlikely to pay their credit obligations or does not expect any repayment at all. Country risk is also taken into account when assigning credit ratings to foreign borrowers.

Companies are ranked in ten credit classes (credit grades A and B have three credit sub-grades, credit grade C has two).The assignment of credit ratings to customers and exposures is based on quantitative and qualitative criteria, such as an assessment of the borrowers’ financial position, the ability to provide sufficient cash flow for future debt servicing, the borrower’s loan servicing track record, and the quality and amount of credit protection.

The Group also performs its own credit risk analyses of foreign banks and countries, taking into account inter alia credit ratings and credit reports by credit rating agencies, as well as export credit agencies’ ratings in the case of country credit risk analyses.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Prior to credit approval, all debtors must be classified into the appropriate rating category. Throughout the duration of the legal relationship underlying credit exposure, the Group monitors the borrower's operations and the quality of credit protection. The Group also regularly evaluates the level of expected credit losses and creates the necessary impairments and provisions in accordance with the International Financial Reporting Standards.

b) Debt securities

Credit risk arising from investments in debt securities is managed by a limit system in accordance with provisions of the Banking Act, which is based on internal and external ratings (Fitch Ratings and Moody's Investors Service) of securities and their issuers. The limit system ensures investments mostly in debt securities of high credit quality. Investing in debt securities issued by foreign issuers without an external credit rating is not allowed. The Group has established a limit system which bans investments in subordinated and structured debt financial instruments.

c) Credit-related commitments and contingent liabilities

Credit-related commitments and contingent liabilities represent guarantees, letters of credit and undrawn portions of granted loans, overdrafts and credit lines. The primary purpose of these instruments is to ensure that funds are available to a customer when required. Guarantees and standby letters of credit, which are written undertakings by the Group to pay in the event of the customer's default on its obligations to a third party, potentially carry the same credit risk for the Group as loans. Credit-related commitments and contingent liabilities represent potential credit risk for the Group. The same methodology as for loans is used to measure the credit risk arising from these instruments.

d) Derivatives

In case of derivative instruments, which are traded over-the-counter (OTC), the Group is exposed to counterparty credit risk, i.e. the risk that the counterparty may not fulfil their underlying contractual payment obligations. Counterparty credit risk from positions in derivatives equals the credit exposure value of these transactions. The exposure on a specific transaction is calculated as the sum of the current market value of the transaction and potential credit exposure.

The Group avoids transactions involving counterparties with lower credit ratings. For transactions that involve counterparties with such a credit rating, the Group insists on adequate collateral.

2.1.1.2 Credit risk mitigation

a) Credit limits

The Group mitigates credit risk by setting and monitoring credit limits at the level of individual borrowers or counterparties and groups of related counterparties. Structural limits are also established for industries, geographical regions and for specific products within the credit limits for banks. The system of credit limits is also the basic tool for the successful management of the credit risk arising from positions in debt securities, derivatives, REPO and reverse transactions. Credit risk exposure limits ensure that the Group's credit portfolio is adequately diversified.

Credit limits are set and monitored according to internal methodologies. The Risk Management Department proposes credit limits, taking into account the limits prescribed by law. Credit limits are approved by the Risk Management Committee, the Credit Committee or by duly authorised employees, depending on the type of credit limit. Exposure limits (so-called gross limits and limits after exemptions) are set for every exposure to an individual customer or a group of connected clients whose gross direct or indirect exposure equals or exceeds 10% (and every further 5%) of the capital of the Bank or Group or is very likely to reach or exceed 10% (and every further 5%) of the capital of the Bank or Group in the near future. Large exposure limits are also set for every exposure to entities with a special relationship with the Bank, which are subject to previous approval by the Supervisory Board.

The Group complies with regulatory requirements on the maximum exposure to individual clients or a group of related parties (after taking into account impairments and provisions as well as regulatory exemptions and the effect of eligible credit protection) which is set at 25% of the Group's regulatory capital.

b) Credit protection (collateral and guarantees)

In addition to the risk limit system, the Group also requires credit protection in order to reduce credit risk. A credit protection policy was developed for this purpose, defining the types of funded and unfunded credit protection that the Group accepts, as well as the procedures for assessing and monitoring the adequacy and value of credit protection. The most common forms of credit protection are real-estate collateral and guarantees.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As funded credit protection, the Group primarily accepts collateral in the form of real estate, other physical collateral, receivables, cash on deposit held by a credit institution, and securities. As unfunded credit protection, the Group mainly accepts joint and several guarantees from corporate and retail customers, guarantees of the Republic of Slovenia, and guarantees issued by insurance companies and banks.

In granting credit, most important for the Group is a borrower's creditworthiness, enabling the settlement of all obligations, whilst accepted credit protection serves as a secondary source of loan repayment. The quality of collateral and the loan-to-value ratio required by the Group depend on a borrower's credit rating and loan maturity. Credit protection instruments (CRM techniques) mitigate credit risk losses, improve the recovery of past-due receivables and decrease capital requirements on the condition they are compliant with minimum requirements in terms of their adequacy defined in banking regulation.

The Group mitigates credit risk by applying credit protection, but this may simultaneously trigger or increase other risks (such as legal risk, operational risk, liquidity risk or market risk); therefore, the Group pays due attention to residual risk in applying credit protection. This risk arises, for example, when the property provided as collateral is overvalued or when the liquidation of the collateral in reasonable time is either problematic or implausible.

c) Master netting agreements

The Group further reduces its exposure to credit risk by entering into master netting agreements that cover repurchase transactions, OTC derivatives contracts and other capital market instruments. These transactions can be carried out only with the counterparties who have concluded master netting agreements with the Group. These arrangements are usually settled on a gross basis, but in the case of a default they are settled on a net basis.

d) Financial covenants and other contractual provisions in credit agreements

The Group additionally mitigates credit risk exposure by including financial covenants and other contractual provisions in credit agreements. Financial covenants consist of a set of financial categories or financial ratios that a borrower must maintain at an agreed level throughout the term of the loan. They most often refer to the funding structure and income statement.

2.1.1.3 Credit risk management in extreme situations

The Group performs activities to reduce credit risk and mitigate the impact of extreme situations on its operations. The Supervisory Board is regularly informed of the course of developments.

In a difficult economic and financial situation, the Group adapts its credit policy and takes measures based on stricter credit standards.

2.1.2 Impairment and provisioning policies

In accordance with the International Financial Reporting Standards, the Group regularly assesses whether there is objective evidence of financial asset impairment or possible losses from off-the-balance-sheet commitments and contingencies, defined in Chapter 1.11 Impairment of financial assets. Where there is objective evidence of impairment or possible losses, the Group creates impairments of financial assets or provisions for off-the-balance-sheet commitments and contingencies on the basis of an individual or collective assessment. For the purpose of assessing the credit risk losses, the Group individually assesses its significant exposures to corporate customers where there is objective evidence of impairment or the possibility of a loss.

Individual impairments of financial assets are calculated as the difference between the carrying amount and recoverable amount. The latter is calculated by discounting estimated future cash flows, which include cash flows from the foreclosure of collateral, if certain required conditions are met.

For the purpose of calculating collective impairments, homogenous groups of debtors are formed according to similar credit risk characteristics that reflect the debtor's ability to meet its contractual obligations. The Group estimates the impairments and provisions for any homogenous groups of exposures on the basis of available historical default data and credit losses.

The structure of loans and the average impairment rates for the internal credit classes are shown below.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

THE STRUCTURE OF LOANS AND THE AVEGARE IMPAIRMENT RATES FOR THE INTERNAL CREDIT CLASSES

As at 31 December	2016		2015	
Internal credit rating	Loans (%)	Average % of impairment	Loans (%)	Average % of impairment
A	60.92	0.32	54.30	0.32
B	15.65	4.13	15.50	3.61
C	7.79	16.34	14.64	16.93
D	9.49	56.62	6.16	56.19
E	6.15	74.58	9.40	79.62
	100.00	**12.07**	**100.00**	**14.15**

Note: This excludes other financial assets.
The average impairment rates are calculated on the basis of individual and collective impairments in each of the credit classes.

2.1.3 Maximum exposure to credit risk

The following table shows the maximum exposure to credit risk from the balance sheet items and off-balance sheet items, without taking collateral or other credit protection into account.

MAXIMUM EXPOSURE TO CREDIT RISK BEFORE COLLATERAL HELD OR OTHER CREDIT PROTECTION

As at 31 December		Maximum exposure 2016	Maximum exposure 2015
	Credit risk exposures relating to on-balance sheet assets:	**3,442,767**	**3,648,632**
1.	Cash, cash balances with the central bank and other demand deposits with banks	308,399	250,411
2.	Financial assets held for trading	6	10
	– loans and other financial assets	6	10
3.	Available-for-sale financial assets	1,218,197	1,405,822
	– debt securities	1,218,197	1,405,822
4.	Loans and receivables	1,884,133	1,960,263
	– loans to banks	65,489	97,218
	– loans to non-bank customers	1,806,472	1,850,384
	– loans and receivables to retail customers	835,023	819,157
	– loans and receivables to corporate entities	971,449	1,031,227
	– other financial assets	12,172	12,661
5.	Held-to-maturity investments	32,032	32,126
	– debt securities	32,032	32,126
	Credit risk exposures relating to commitments and contingencies (note 2.3.7):	**450,994**	**468,657**
	– financial guarantees	50,481	70,770
	– other commitments and contingencies	400,513	397,887
	Total credit risk exposure	**3,893,761**	**4,117,289**

The exposure arising from balance sheet assets and commitments and contingencies shown above is based on carrying values as shown in the statement of financial position and in commitments and contingencies (Note 2.3.7). Balance sheet assets are disclosed based on carrying amounts (after impairment) and off-the-balance-sheet commitments and contingencies at nominal value.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
(continued)

2.1.4 Loans to non-bank customers and loans to banks

The following tables show loans by their overdue status, loan impairments and fair value of collateral.

LOANS TO NON-BANK CUSTOMERS AND LOANS TO BANKS

As at 31 December 2016	Loans to non-bank customers	Loans to banks	Total loans
Neither past due nor impaired loans	1,680,172	65,489	**1,745,661**
Past due but not impaired loans	61,372	–	**61,372**
Impaired loans	313,006	–	**313,006**
– individually imapired loans	258,828	–	**258,828**
– collectivelly imapired loans	54,178	–	**54,178**
Gross loans	**2,054,550**	**65,489**	**2,120,039**
Less: total impairments	(248,078)	–	**(248,078)**
– individual impairments	(165,059)	–	**(165,059)**
– collective impairments	(83,019)	–	**(83,019)**
Net loans	**1,806,472**	**65,489**	**1,871,961**
Fair value of collateral	**2,383,716**	**–**	**2,383,716**
– of which fair value of collateral for individually impaired D and E loans	239,945	–	**239,945**

As at 31 December 2015	Loans to non-bank customers	Loans to banks	Total loans
Neither past due nor impaired loans	1,770,461	97,218	**1,867,679**
Past due but not impaired loans	48,531	–	**48,531**
Impaired loans	336,473	–	**336,473**
– individually imapired loans	271,778	–	**271,778**
– collectivelly imapired loans	64,695	–	**64,695**
Gross loans	**2,155,465**	**97,218**	**2,252,683**
Less: total impairments	(305,081)	–	**(305,081)**
– individual impairments	(186,977)	–	**(186,977)**
– collective impairments	(118,104)	–	**(118,104)**
Net loans	**1,850,384**	**97,218**	**1,947,602**
Fair value of collateral	**2,666,390**	–	**2,666,390**
– of which fair value of collateral for individually impaired D and E loans	260,440	–	**260,440**

Note: This excludes other financial assets.

Among **impaired loans**, the Group classifies individually and collectively impaired loans with objective evidence for impairment. These include defaulted exposures, i.e. exposures to debtors or derived from transactions, respectively, with internal credit ratings D and E as well as those that are more than 90 days[1] past due, excluding those outstanding exposures that are not subject to impairment. Among **non-impaired loans,** the Group classifies loans that are not subject to impairment (secured by best quality collateral, risk-free items and other loans not impaired according to internal methodology), and collectively impaired loans without objective evidence for impairment (with credit ratings A, B and C, which are not more than 90 days past due). Non-impaired loans are divided into past due and non-past due loans. The largest item at the end of 2016 represents neither past due nor impaired loans in the amount of EUR 1,746 million, i.e. 82.3% of the total loan portfolio (2015: 82.9%).

[1] For corporate customers and sole proprietors defaults on exposures are established per debtor, whereas for retail customers per exposure.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
(continued)

The fair value of collateral shows the value of deposits, residential and commercial real estate and securities and does not take into account any haircuts. Residential and commercial real estate is evaluated by independent external appraisers. For valuation purposes, properties' sales agreement values or the adjusted generalised market values published by the Surveying and Mapping Authority of the Republic of Slovenia are also used (this only applies to residential properties with a value of less than EUR 500 thousand). Marketable securities are designated at their market value or by using valuation models. Exceptionally, book value of securities is applied when their fair value cannot be reliably estimated. Deposits pledged as collateral are carried at their book value.

a) Loans neither past due nor impaired

LOANS NEITHER PAST DUE NOR IMPAIRED

As at 31 December 2016

Internal credit rating	Loans and receivables to retail customers					Loans and receivables to corporate customers				Total loans to non-bank customers	Loans to banks	Total loans
	Overdrafts	Credit cards	Housing loans	Consumer loans		Large corporates	SMEs	Other				
A	40,349	15,710	513,167	228,720	797,946	282,496	109,107	40,818	432,421	**1,230,367**	**33,914**	**1,264,281**
B	–	–	–	6	6	156,087	127,755	18,895	302,737	**302,743**	**31,575**	**334,318**
C	133	1	3,949	3,076	7,159	63,620	56,379	11,048	131,047	**138,206**	–	**138,206**
D	–	–	–	–	–	–	1	8,853	8,854	**8,854**	–	**8,854**
E	–	–	–	–	–	2	–	–	2	2	–	**2**
Total	**40,482**	**15,711**	**517,116**	**231,802**	**805,111**	**502,205**	**293,242**	**79,614**	**875,061**	**1,680,172**	**65,489**	**1,745,661**
Fair value of collateral	–	–	907,584	71,640	979,224	507,084	392,982	111,642	1,011,708	**1,990,932**	–	**1,990,932**

As at 31 December 2015

Internal credit rating	Loans and receivables to retail customers					Loans and receivables to corporate customers				Total loans to non-bank customers	Loans to banks	Total loans
	Overdrafts	Credit cards	Housing loans	Consumer loans		Large corporates	SMEs	Other				
A	47,630	15,879	492,806	230,590	786,905	231,764	115,809	30,096	377,669	**1,164,574**	**62,311**	**1,226,885**
B	5,975	139	–	23	6,137	152,378	145,844	14,286	312,508	**318,645**	**34,907**	**353,552**
C	902	68	5,366	4,890	11,226	210,655	57,431	7,884	275,970	**287,196**	–	**287,196**
D	–	–	–	–	–	–	46	–	46	**46**	–	**46**
E	–	–	–	–	–	–	–	–	–	–	–	**–**
Total	**54,507**	**16,086**	**498,172**	**235,503**	**804,268**	**594,797**	**319,130**	**52,266**	**966,193**	**1,770,461**	**97,218**	**1,867,679**
Fair value of collateral	–	–	877,233	85,614	962,847	600,090	543,178	97,343	1,240,611	**2,203,458**	–	**2,203,458**

Note: This excludes other financial assets.

The drop in loans neither past due nor impaired is the result of the shrinking credit portfolio due to the reduction of loans to legal entities and banks. On the other hand, loans to retail clients increased.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

b) Loans past due but not impaired

LOAN PAST DUE BUT NOT IMPAIRED

As at 31 December 2016

	Loans and receivables to retail customers					Loans and receivables to corporate customers				Total loans to non-bank customers
	Overdrafts	Credit cards	Housing loans	Consumer loans		Large corporates	SMEs	Other		
Past due up to 30 days	256	58	5,644	4,227	**10,185**	–	1,107	418	**1,525**	**11,710**
Past due 31 to 60 days	136	20	2,160	1,129	**3,445**	–	43	44	**87**	**3,532**
Past due 61 to 90 days	10,638	213	297	4,401	**15,549**	16,792	11,442	1,930	**30,164**	**45,713**
Past due over 90 days	–	1	–	3	**4**	–	348	65	**413**	**417**
Total	**11,030**	**292**	**8,101**	**9,760**	**29,183**	**16,792**	**12,940**	**2,457**	**32,189**	**61,372**
Fair value of collateral	–	–	15,209	4,949	**20,158**	30,416	11,073	4,575	**46,064**	**66,222**

As at 31 December 2015

	Loans and receivables to retail customers					Loans and receivables to corporate customers				Total loans to non-bank customers
	Overdrafts	Credit cards	Housing loans	Consumer loans		Large corporates	SMEs	Other		
Past due up to 30 days	2,086	1	489	3,480	**6,056**	1,820	7,738	2,176	**11,734**	**17,790**
Past due 31 to 60 days	305	–	7,767	3,816	**11,888**	91	7,412	1,305	**8,808**	**20,696**
Past due 61 to 90 days	178	1	3,084	2,127	**5,390**	2	2,536	498	**3,036**	**8,426**
Past due over 90 days	–	–		4	**4**	–	1,415	200	**1,615**	**1,619**
Total	**2,569**	**2**	**11,340**	**9,427**	**23,338**	**1,913**	**19,101**	**4,179**	**25,193**	**48,531**
Fair value of collateral	–	–	21,900	10,567	**32,467**	2,446	32,182	12,289	**46,917**	**79,384**

Note: This excludes other financial assets.

Past due loans are loans for which the debtor has failed to make a payment when contractually due in part or in the total amount. “Past due” means one or more days overdue. Past due loans include the total amount of exposure under a single loan agreement and not merely the instalment not paid when contractually due. Exposures from other loan agreements to the same debtor not in arrears are not included among past due loans.

The amount of loans past due but not impaired which include collectively assessed loans showing no objective evidence of impairment increased to EUR 61.4 million at the 2016 year-end (2015: 48.5 million). The highest decrease was recorded in loans past due from 31 to 60 days and loans past due over 90 days, whilst loans past due between 61 to 90 days increased.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

c) Individually impaired loans

INDIVIDUALLY IMPAIRED LOANS

As at 31 December 2016	Loans and receivables to retail customers			Loans and receivables to corporate entities				Loans to banks	Total loans
	Consumer loans	Housing loans		Large corporates	SMEs	Other			
Individually impaired loans	2,215	310	**2,525**	103,878	89,353	63,072	**256,303**	–	**258,828**
Fair value of collateral	402	118	**520**	87,670	98,563	53,192	**239,425**	–	**239,945**

As at 31 December 2015	Loans and receivables to retail customers			Loans and receivables to corporate entities				Loans to banks	Total loans
	Consumer loans	Housing loans		Large corporates	SMEs	Other			
Individually impaired loans	4,323	292	**4,615**	115,228	145,899	6,036	**267,163**	–	**271,778**
Fair value of collateral	2,261	186	**2,447**	97,527	156,806	6,107	**260,440**	–	**262,887**

Note: This excludes other financial assets.

Individually impaired loans fell and amounted to EUR 258.8 million at the 2016 year-end (2015: EUR 271.8 million).

d) Restructured loans

Restructured loans are loans resulting from a debtor's incapacity to repay debt in accordance with the originally agreed contractual terms due to financial difficulties of the debtor (i.e. troubled loans), whereby the Bank has taken actions or measures which it would not have taken had the economic and financial position of the debtor been normal. Restructuring measures may entail a loss for the Bank, as they consist of concessions towards a debtor.

Loans can be restructured in two ways:
- by modifying the terms and conditions of the original loan contract with an annex;
- by total or partial refinancing of a troubled debt contract.

Restructuring actions may include:
- extending the term of the loan or declaring a moratorium on the repayment of debt;
- decreasing the claimed amount following a contractually agreed write-off or equity restructuring;
- debt to equity swap;
- repossession of other assets (exp. property, plant and equipment, securities) including realising collateral for partial or full debt recovery;
- other similar actions.

In the Group, all loan restructuring decisions exceeding a certain threshold are supported by a documented analysis of alternative solutions with their economic effects (that may arise from the realisation of collaterals, sales of loans, loan agreement terminations or any other foreseeable action). After restructuring, loans cease to be accounted for as restructured when all the terms and conditions (exit criteria) are met, as required by the standards set by the European Banking Authority on the treatment of restructured and non-performing exposures.

The Group assesses whether the restructuring of an exposure to a defaulter is reasonable, which also applies to exposures included in compulsory settlements. When restructuring of the exposure to the debtor in question is reasonable, the Group forms an appropriate restructuring plan and monitors its execution and effects. When restructuring an exposure to a company is not reasonable without the restructuring of that entire company, the latter is obliged to give to the Group its business plan with operational, equity and financial restructuring measures. When the Group decides that it is no longer reasonable to continue restructuring an exposure, an approximate loan recovery plan is made.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

RESTRUCTURED LOANS

	Loans to retail customers			Loans to corporates			Total restructured loans
As at 31 December 2016	Loans without mortgage collateral	Collateralised mortgage loans		Loans without mortgage collateral	Collateralised mortgage loans		
Neither past due nor impaired loans	2,968	4,061	**7,029**	12,589	46,950	**59,539**	**66,568**
Past due but not impaired loans	699	1,337	**2,036**	274	9,980	**10,254**	**12,290**
Impaired loans	502	1,438	**1,940**	14,948	162,416	**177,364**	**179,304**
– individually imapired loans	–	–	**–**	12,088	155,030	**167,118**	**167,118**
– collectivelly imapired loans	502	1,438	**1,940**	2,860	7,386	**10,246**	**12,186**
Gross loans	4,169	6,836	**11,005**	27,811	219,346	**247,157**	**258,162**
Less: total impairments	(1,489)	(2,219)	**(3,708)**	(13,960)	(103,877)	**(117,837)**	**(121,545)**
– individual impairments	–	–	**–**	(9,529)	(91,086)	**(100,615)**	**(100,615)**
– collective impairments	(1,489)	(2,219)	**(3,708)**	(4,431)	(12,791)	**(17,222)**	**(20,930)**
Net loans	**2,680**	**4,617**	**7,297**	**13,851**	**115,469**	**129,320**	**136,617**

Share of restructured gross loans and receivables in total gross loans and receivables to non-bank customers	**12.57%**
Share of restructured net loans and receivables in total net loans and receivables to non-bank customers	**7.56%**

	Loans to retail customers			Loans to corporates			Total restructured loans
As at 31 December 2015	Loans without mortgage collateral	Collateralised mortgage loans		Loans without mortgage collateral	Collateralised mortgage loans		
Neither past due nor impaired loans	4,050	6,022	**10,072**	4,398	180,999	**185,397**	**195,469**
Past due but not impaired loans	258	2,079	**2,337**	382	1,673	**2,055**	**4,392**
Impaired loans	635	1,061	**1,696**	36,624	183,612	**220,236**	**221,932**
– individually imapired loans	–	–	**–**	32,675	174,416	**207,091**	**207,091**
– collectivelly imapired loans	635	1,061	**1,696**	3,949	9,196	**13,145**	**14,841**
Gross loans	4,943	9,162	**14,105**	41,404	366,284	**407,688**	**421,793**
Less: total impairments	(2,162)	(3,756)	**(5,918)**	(23,638)	(152,472)	**(176,110)**	**(182,028)**
– individual impairments	–	–	**–**	(20,310)	(117,655)	**(137,965)**	**(137,965)**
– collective impairments	(2,162)	(3,756)	**(5,918)**	(3,328)	(34,817)	**(38,145)**	**(44,063)**
Net loans	**2,781**	**5,406**	**8,187**	**17,766**	**213,812**	**231,578**	**239,765**

Share of restructured gross loans and receivables in total gross loans and receivables to non-bank customers	**19.57%**
Share of restructured net loans and receivables in total net loans and receivables to non-bank customers	**12.96%**

Note: This excludes other financial assets.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

e) Non-performing loans

NPLs are defaulted loans, i.e.loans that satisfy either or both of the following criteria:

- the debtor is past due more than 90 days on any material credit obligation to the Group;
- the Group considers that the debtor is unlikely to pay its credit obligations to the Group in full without recourse by the Group to actions such as realising security (loans to D- and E-rated debtors according to internal credit rating methodology).

In the case of corporate customers and sole proprietors the definition of default is applied at the debtor level, while for retail customers at the level of an individual loan. Loans are classified as non-performing for their entire amount and without taking into account the existence of any collateral.

NON-PERFORMING LOANS

As at 31 December 2016	Loans to non-bank customers	Loans to banks	Total loans
Non-performing loans (NPLs)	326,937	–	**326,937**
Share of NPLs in total loans	15.91 %	–	**15.42 %**
Coverage of NPLs with total impairments	75.88 %	–	**75.88 %**

As at 31 December 2015	Loans to non-bank customers	Loans to banks	Total loans
Non-performing loans (NPLs)	342,320	–	**342,320**
Share of NPLs in total loans	15.88 %	–	**15.20 %**
Coverage of NPLs with total impairments	89.12 %	–	**89.12 %**

Note: This excludes other financial assets.

In 2016, the amount of non-performing loans decreased to EUR 326.9 million (2015: EUR 342.3 million), so that the share of non-performing loans stood at 15.4 percent (2015: 15.2%). The decrease in the amount of non-performing loans was the result of repayment and recovery as well the re-classification of debtors into higher credit classes due to their improved financial situation. In order to reduce non-performing loans, the Group carries out recovery proceedings, writes off the receivables which were justifiably deemed unrecoverable in the recovery process (as explained in Note 1.11), implements a process for the early detection of increased credit risk and has a selective approach to granting new loans (the base criterion for the approval of a new loan is a sufficient cash flow to repay the loan or the calculated credit rating with respect to loan approval for retail customers). In 2017, the Bank will continue to manage non-performing exposures with due care and diligence as well as actively reduce non-performing exposures in accordance with the adopted strategy. The latter includes the use of all methods provided for by the experts and the guidelines on the management of non-performing exposures, set by the European Central Bank.

2.1.5 Debt securities

The following table presents the Group's exposure to debt securities, classified according to the purpose of their acquisition and credit quality, taking into account credit ratings by the agencies Fitch Ratings and Moody's Investors Service.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

DEBT SECURITIES BY CREDIT RATING

As at 31 December 2016	Debt securities held for trading (note 18)	Available-for-sale debt securities (note 20)	Held-to-maturity debt securities (note 24)	Total
Non-past due debt securites at fair value / at amortised cost				
AAA	–	73,573	–	**73,573**
AA- to AA+	–	60,914	–	**60,914**
A- to A+	–	1,068,918	32,032	**1,100,950**
BBB- to BBB+	–	8,624	–	**8,624**
Lower than BBB-	–	6,168	–	**6,168**
Unrated	–	–	–	–
Total non-past due debt securities	**–**	**1,218,197**	**32,032**	**1,250,229**
Total debt securities	**–**	**1,218,197**	**32,032**	**1,250,229**

As at 31 December 2015	Debt securities held for trading (note 18)	Available-for-sale debt securities (note 20)	Held-to-maturity debt securities (note 24)	Total
Non-past due debt securites at fair value / at amortised cost				
AAA	–	87,857	–	**87,857**
AA- to AA+	–	66,568	–	**66,568**
A- to A+	2,004	104,205	–	**106,209**
BBB- to BBB+	1,115	1,147,192	32,126	**1,180,433**
Lower than BBB-	–	–	–	–
Unrated	–	–	–	–
Total non-past due debt securities	**3,119**	**1,405,822**	**32,126**	**1,441,067**
Total debt securities	**3,119**	**1,405,822**	**32,126**	**1,441,067**

As at the 2016 year end, bonds issued by the Republic of Slovenia and by BAMC accounted for 81 percent of the total debt securities portfolio (at the end of 2015: 76%). Similar to in 2015, the Group did not have any overdue debt securities in the portfolio as at the 2016 year-end. The Group does not invest in subordinated and structured debt securities.

As at the 2016 year-end, the portfolio of Slovene government bonds amounted to EUR 462 million (at the end of 2015: 595 million), followed by the government bonds issued by Poland amounting to EUR 15 million (at the end of 2015: 17 million), Austria EUR 12 million (at the end of 2015: 15 million) and Lithuania EUR 8 million (at the end of 2015: 5 million).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.1.6 Assets seized for debt repayment

At the 2016 year-end, the value of assets recovered in collateral foreclosure went up by 2% compared to the 2015 year-end, with investment property recording the highest increase. The bulk of assets obtained in recovery procedures was posted to inventories of seized movables in the collection of leasing obligations.

ASSETS SEIZED FOR DEBT REPAYMENT

(note 25)

	Carrying amount	
As at 31 December	**2016**	**2015**
Non-current assets held-for-sale	–	–
Property, plant and equipment	115	–
Investment property	7,242	5,126
Equity and debt instruments	673	891
Other	12,577	14,114
Total	**20,607**	**20,131**

The assets obtained in recovery procedures are sold off by the Group at the earliest possible date and certain investment properties are leased out under long-term lease agreements.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.1.7 Credit risk exposure by industry sector

The following table shows the credit risk exposure of financial assets by industry sector.

CREDIT RISK EXPOSURE OF FINANCIAL ASSETS ACCORDING TO INDUSTRY SECTOR

	Financial assets	**Manufac-turing**	**Construc-tion**	**Trade**	**Financial and insurance activities**	**Profes-sional, scientific and technical activities**	**Public admini-stration and defence activities**	**Other**	**Retail customers**	**Total**
1.	Cash, cash balances with the central bank and other demand deposits with banks	–	–	–	308,399	–	–	–	–	**308,399**
2.	Financial assets held for trading	–	–	1	5	–	–	–	–	**6**
	– loans and other financial assets	–	–	1	5	–	–	–	–	**6**
3.	Financial assets designated at fair value through profit or loss	6,441	–	–	110,519	–	535,767	565,470	–	**1,218,197**
	– debt securities	6,441	–	–	110,519	–	535,767	565,470	–	**1,218,197**
4.	Loans and receivables	293,328	26,701	159,854	184,476	33,399	26,993	324,174	835,208	**1,884,133**
	– loans to banks	–	–	–	65,489	–	–	–	–	**65,489**
	– loans to non-bank customers	293,238	26,571	158,277	109,606	33,328	26,475	323,954	835,023	**1,806,472**
	– loans and receivables to retail customers	–	–	–	–	–	–	–	835,023	**835,023**
	– loans and receivables to corporate entities	293,238	26,571	158,277	109,606	33,328	26,475	323,954	–	**971,449**
	– other financial assets	90	130	1,577	9,381	71	518	220	185	**12,172**
5.	Held-to-maturity investments	–	–	–	–	–	32,032	–	–	**32,032**
	– debt securities	–	–	–	–	–	32,032	–	–	**32,032**
	Total financial assets as at 31 December 2016	**299,769**	**26,701**	**159,855**	**603,399**	**33,399**	**594,792**	**889,644**	**835,208**	**3,442,767**
	Total financial assets at 31 December 2015	**300,378**	**34,298**	**191,604**	**641,206**	**44,532**	**753,477**	**863,980**	**819,157**	**3,648,632**

In 2016, the total portfolio exposed to credit risk reduced by 5.6% and amounted to EUR 3,442.8 million at the 2016 year-end (2015: EUR 3,648.6 million). The highest reduction in absolute terms was in the public administration and defence services sector and in financial and insurance activities.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.1.8 Credit risk exposure by geographical area

The following table shows the credit risk exposure of financial assets by geographical area.

CREDIT RISK EXPOSURE OF FINANCIAL ASSETS BY GEOGRAPHICAL AREA

	As at 31 December 2016	Slovenia	Other EU member states	Europe (without EU member states)	Other countries	Total
	Financial assets					
1.	Cash, cash balances with the central bank and other demand deposits with banks	242,513	49,039	10,812	6,035	**308,399**
2.	Financial assets held for trading	1	5	–	–	**6**
3.	Available-for-sale financial assets	1,011,638	200,891	3,067	2,601	**1,218,197**
4.	Loans and receivables	1,798,531	67,691	14,156	3,755	**1,884,133**
	– loans to banks	14,609	48,183	–	2,697	**65,489**
	– loans to non-bank customers	1,773,056	18,624	14,127	665	**1,806,472**
	– other financial assets	10,866	884	29	393	**12,172**
5.	Held-to-maturity investments	32,032	–	–	–	**32,032**
	Total financial assets	**3,084,715**	**317,626**	**28,035**	**12,391**	**3,442,767**

	As at 31 December 2015	Slovenia	Other EU member states	Europe (without EU member states)	Other countries	Total
	Financial assets					
1.	Cash, cash balances with the central bank and other demand deposits with banks	170,068	61,733	4,575	14,035	**250,411**
2.	Financial assets held for trading	–	10	–	–	**10**
3.	Available-for-sale financial assets	1,137,076	260,233	3,088	5,425	**1,405,822**
4.	Loans and receivables	1,833,625	103,493	20,112	3,033	**1,960,263**
	– loans to banks	18,608	76,015	–	2,595	**97,218**
	– loans to non-bank customers	1,803,393	26,444	20,111	436	**1,850,384**
	– other financial assets	11,624	1,034	1	2	**12,661**
5.	Held-to-maturity investments	32,126	–	–	–	**32,126**
	Total financial assets	**3,172,895**	**425,469**	**27,775**	**22,493**	**3,648,632**

The Group's geographical exposure is based on the domicile or head office of the counterparties.

The Group conducts its business primarily in Slovenia. The largest foreign exposures from a regional perspective were in EU member states, primarily Luxemburg, Germany, Belgium, the Netherlands, Austria and France, with all of the above arising mostly from debt securities.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.2 Market risk

Market risk is the uncertainty that an adverse change in risk factors, including interest rates, exchange rates, credit spreads, prices of financial instruments, commodity prices and other relevant parameters, may unfavourably affect the value of a financial instrument and/or consequently lead to a loss.

The Group monitors its market risk exposure in its trading and banking books. Market risks primarily arise from activities performed in treasury and the investment banking departments. The trading book positions include mainly positions in equity and debt instruments that the Group intends to sell at a profit in the short term. Part of the trading book also consists of financial derivatives that the Group sells to its customers to hedge against interest rate and foreign exchange risk. These positions are closed according to the Group's back-to-back policy. In the reporting period, the trading book on average stood at EUR 3.2 million which is two times higher compared to the 2015 average trading volume. The average trading volume in debt securities increased. The banking book positions include positions in debt instruments, foreign exchange instruments and financial derivatives held for asset and liability management purposes of the Bank, equity instruments (acquired through collateral foreclosures and/or debt to equity swaps) and strategic positions. On average, in 2016 the banking book amounted to EUR 1,373 million, mainly from debt financial instruments.

2.2.1 Market risk management process

The market risk management strategy is based on the Group's market risk-bearing capacity, the existing and expected market conditions, realised and projected financial data, regulations in force and the existing risk management systems. In the reporting period, the Group traded in debt financial instruments on a limited scale, while trading in equity financial instruments for own account was not allowed. The Group's trading in derivative financial instruments is based on a policy of back-to-back trading and the involvement of counterparties with higher credit ratings. Such trades are concluded mostly to hedge against financial risks.

The purpose of **the market risk management process** is to minimise losses from positions in trading and banking books. Simultaneously, it takes into account business policies, balance sheet structure, capital adequacy and opportunities in capital markets. The Group aspires to achieve the most favourable ratio between generated return and assumed risk and it manages market risk pursuant to the Market Risk Policy of the Group.

The market risk management process comprises:
- procedures of market risk identification, measurement/assessment, monitoring, control, and
- internal reporting on market risk.

Identification procedures are used to define existing and potential risks that arise from trading and banking book positions. Risks and a risk management process must be defined before launching new services or entering new markets. The Trading Strategy, which presents potential risks and the way in which they will be managed, is formulated on an annual basis and approved by the Supervisory Board.

The system of limits for trading in financial instruments allows market risk appetite to be kept at low levels. This system also requires investing in highly liquid positions whilst maintaining an adequate risk diversification. The Risk Management Department sets a limit system primarily based on the Group's market risk appetite and capital adequacy. The limit system includes credit and position limits, stop loss limits, market rates compliance limits, VaR limits and limits per single authorised person.

The Group has also established a system of limits for debt financial instruments in the banking book through which it implements its policy of investing in bonds of high credit quality pledgeable as collateral to the European Central Bank, while following the goal of credit diversification and maximum loss limitation.

The structure and organisation of appropriate functions for market risk management is the responsibility of the Management Board and senior management. The Management Board has authorised the Risk Management Committee to approve market risk exposure limits.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The competencies and responsibilities are clearly delimited between trading units (treasury, investment banking), the back office, the middle office and the Risk Management Department, which is organisationally independent of the units that assume market risk.

The extent and features of internal reporting: The middle office is responsible for the daily calculating of exposures from financial instruments in trading and in the banking book and reporting to the Management Board, senior management, trading units and the Risk Management Department. Quarterly reports on market risk exposure, the utilisation of limits, the size of Value-at-Risk and stress-testing results for trading and the banking book are presented to the Management Board. The Supervisory Board discusses and reviews a report on the Group's exposure to various types of risks, including market risk, on at least a quarterly basis.

2.2.1.1 Market risk measurement techniques

Market risk measurement techniques comprise risk analyses and validation. This includes assessing the possible frequency of a potential event and the size of its consequences. Market risk is regularly measured by:

- the Value-at-Risk method (i.e. VaR);
- stress testing;
- sensitivity analysis; and
- calculating market risk capital requirements, using the standardised approach.

The Group is aware of the limitations of the VaR method in cases of extreme market conditions, which is why the Group performs stress testing as a supplement to VaR. Stress testing assesses potential impacts of extraordinary, yet plausible, events in financial markets on the value of financial instruments.

Market risk is also measured with sensitivity analyses to determine the impact of changes in different risk factors and their influence on the Group's profit and equity levels.

2.2.1.2 Market risk mitigation

An adequate limit system, in line with the conservative market risk policy, is the basic tool of effective risk management. For the purpose of **hedging and reducing market risk**, a system of trading limits is in place alongside a system of limits on the banking book operations with debt financial instruments. The market risk regime is implemented on a daily basis through systems of limits and clear guidelines on responsibilities and competencies in assuming risk.

For the main part of trading in derivative financial instruments, exposures to position risk, interest rate risk and currency risk are reduced by pursuing a back-to-back policy. Market risks are hedged by counter-transactions.

2.2.1.3 VaR of debt securities

Value-at-risk assessment (VaR assessment) is a quantitative measure used for assessing potential loss in the value of positions caused by adverse risk factor changes over a given future period at a given confidence level. The Group calculates value-at-risk (VaR) by applying the historical simulation approach and in compliance with the standards set by the Bank of Slovenia. The model assumes the following:

- a 10-day holding period, meaning that within 10 days all the positions included in the calculation can be liquidated, i.e. sold off. This assumption does not necessarily always hold true for all positions, i.e. not in a period of general illiquidity of financial markets. Expanding the daily VaR to a longer period is based on the assumption of a static portfolio;
- a 1-year observation period, meaning that the most recent year should sufficiently reflect the market situation changes that influence the business of the Group. In fact, historical data do not necessarily represent a good indicator of potential future risk factors. This is especially true in periods of extreme market conditions;
- a 99% level of confidence, meaning that on any one day of one hundred trading days the Group would suffer a loss from trading activity exceeding the calculated value. The amount of such excessive losses cannot be measured with VaR.

Measuring VaR shows that the Group's potential loss on one day out of one hundred trading days will at least be equal to the calculated VaR on an individual trading day, under the assumption that positions can be sold over the following 10-day period.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

The year 2016 was marked by stable macroeconomic conditions in the Republic of Slovenia and the growth of leading global stock indices. The Group's market risk appetite remained low. VaR went up due to the increased size of the portfolio and more volatile bond markets. The Group's market risk exposure was carefully managed through a system of exposure limits.

The following table presents the VaR value of debt securities.

VaR OF DEBT SECURITIES

2016	As at 31 December	Average	Maximum	Minimum
VaR of debt securities	**2,208**	7,583	12,876	2,208

2015	As at 31 December	Average	Maximum	Minimum
VaR of debt securities	**8,624**	5,066	8,624	3,410

In 2016, most of the potential loss, using a value-at-risk model, resulted from a debt portfolio of the banking book**.** At the end of the reported year, the Group estimated with 99 percent probability that it would lose no more than EUR 2.2 million over the following ten days.

2.2.1.4 Sensitivity analyses

The Group uses sensitivity analyses to measure the impact of changes in various factors on market risk.

The sensitivity analysis of equity securities portfolio reflects the impact of changes in risk factors on the value of the position, while showing the impact of changes in profit or loss and equity. The methodology for determining potential changes in risk factors is based on expectations concerning their movement in the next calendar year. When defining the expected changes in the equity indices, the Group uses internal assessments made by analysts, based on the trend in stock market indices.

The table below shows the sensitivity analysis of equity securities.

SENSITIVITY ANALYSES OF EQUITY SECURITES

As at 31 December 2016

Equity securities	Carrying amount	Effect on result of income statement	Effect on equity
Equity securites held for trading	170	42	–
Avaliable-for-sale equity securites	14,962	–	3,740
Total	**15,132**	**42**	**3,740**

As at 31 December 2015

Equity securities	Carrying amount	Effect on result of income statement	Effect on equity
Equity securites held for trading	273	68	–
Avaliable-for-sale equity securites	11,805	–	2,951
Total	**12,078**	**68**	**2,951**

Taking into account a 25% lower value of equity securities portfolio, as at the reporting date, 3,740 thousand lower equity would be disclosed but the impact on total loss would be minimal. Due to an increase in equity securities resulting from higher share prices, the decrease would have been higher by 27% compared to at 31 December 2015.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The impact of interest rate changes on net interest income and economic value of capital based on the sensitivity analysis is shown in Section 2.2.3.2.

2.2.2 Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

2.2.2.1 Foreign exchange risk management process

The foreign exchange risk strategy focuses on risk exposure in accordance with set limits and the Group's risk capacity in view of its income and capital adequacy. Foreign exchange risk is identified, measured, controlled and monitored in line with the Group's established foreign exchange risk management policy. **The foreign exchange risk management process** is based on the procedures for identifying, measuring, monitoring and managing foreign exchange risk and includes internal reporting.

The structure and organisation of appropriate functions for foreign exchange risk management are set out in the relevant policy. The adequacy of the strategy, policies and limit system of foreign exchange risk management is monitored by the Risk Management Committee. The implementation of the relevant policy is monitored and controlled by the Assets and Liabilities Management Committee; foreign exchange risk management is the responsibility of the Assets and Liabilities Management Department, whereas the Treasury Department and other divisions are in charge of the operationalisation of policies and guidelines.

The extent and features of internal reporting: it is an established practice to produce daily reports on foreign exchange exposures, including daily calculations of maximum potential losses arising from net foreign exchange positions. Regular monthly reports on foreign exchange exposures are also produced for the Assets and Liability Committee. The Supervisory Board quarterly discusses and reviews a report on a Group's exposure to various types of risks, including foreign exchange risk.

The foreign exchange measurement system covers the daily monitoring of net foreign exchange positions per currency and currency groups, as well as the daily calculation of maximum loss limits associated with foreign exchange risk by using the Value-at-Risk method. Foreign exchange risk is measured and assessed in accordance with internal methodology. This defines the stress testing used by the Group to evaluate potential losses resulting from foreign exchange rate fluctuations.

The Group **hedges and reduces foreign exchange rate risk,** since fluctuations in the prevailing foreign currency exchange rates have an impact on its financial position and cash flows. In 2016, the gaps between foreign currency inflows and outflows, which mostly arose from payment transactions, were managed by arbitrage. These exposures associated with financial instruments in foreign currencies were low and well within the set limits.

The following table presents the Group's foreign exchange risk exposure and includes the Group's financial instruments at their carrying amounts by currency.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

CONCENTRATION OF CURRENCY RISK: ON- AND OFF- BALANCE SHEET FINANCIAL INSTRUMENTS

As at 31 December 2016

		EUR	USD	CHF	Other	Total
	Financial assets					
1.	Cash, cash balances with the central bank and other demand deposits with banks	295,823	18,369	11,001	19,065	**344,258**
2.	Financial assets held for trading	3,494	1,570	–	161	**5,225**
3.	Financial assets designated at fair value through profit or loss	2,413	–	–	–	**2,413**
4.	Available-for-sale financial assets	1,230,143	30,472	–	2	**1,260,617**
5.	Loans and receivables	1,831,409	35,137	12,786	4,802	**1,884,134**
	– loans to banks	28,667	32,025	–	4,797	**65,489**
	– loans to non-bank customers	1,790,847	2,839	12,786	–	**1,806,472**
	– other financial assets	11,895	273	–	5	**12,173**
6.	Held-to-maturity investments	32,032	–	–	–	**32,032**
	Total financial assets	**3,395,314**	**85,548**	**23,787**	**24,030**	**3,528,679**
	Financial liabilities					
1.	Financial liabilities held for trading	3,263	1,572	–	98	**4,933**
2.	Financial liabilities measured at amortised cost	2,796,651	85,730	24,035	22,190	**2,928,606**
	– deposits from banks and the central bank	4,307	10,181	2,268	2,950	**19,706**
	– deposits from non-bank customers	2,660,474	73,689	21,730	18,985	**2,774,878**
	– loans from banks and the central bank	89,658	–	–	–	**89,658**
	– loans from non-banks customers	521	–	–	–	**521**
	– debt securities issued	21,047	–	–	–	**21,047**
	– other financial liabilities	20,644	1,860	37	255	**22,796**
	Total financial liabilities	**2,799,914**	**87,302**	**24,035**	**22,288**	**2,933,539**
	Net on-balance sheet position	**595,400**	**(1,754)**	**(248)**	**1,742**	**595,140**
	Loan commitments	**279,281**	**2,003**	**–**	**3,768**	**285,052**

(All amounts in EUR thousand unless otherwise stated)

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CONCENTRATION OF CURRENCY RISK: ON- AND OFF- BALANCE SHEET FINANCIAL INSTRUMENTS

As at 31 December 2015

		EUR	USD	CHF	Other	Total
	Financial assets					
1.	Cash, cash balances with the central bank and other demand deposits with banks	238,984	22,281	6,431	13,593	**281,289**
2.	Financial assets held for trading	7,893	195	–	468	**8,556**
3.	Financial assets designated at fair value through profit or loss	2,452	–	–	–	**2,452**
4.	Available-for-sale financial assets	1,441,230	16,536	–	2	**1,457,768**
5.	Loans and receivables	1,886,498	55,197	15,630	2,938	**1,960,263**
	– loans to banks	41,893	52,390	–	2,935	**97,218**
	– loans to non-bank customers	1,831,949	2,805	15,630	–	**1,850,384**
	– other financial assets	12,656	2	–	3	**12,661**
6.	Held-to-maturity investments	32,126	–	–	–	**32,126**
	Total financial assets	**3,609,183**	**94,209**	**22,061**	**17,001**	**3,742,454**
	Financial liabilities					
1.	Financial liabilities held for trading	4,465	171	–	106	**4,742**
2.	Financial liabilities measured at amortised cost	3,071,508	95,238	22,095	16,091	**3,204,932**
	– deposits from banks and the central bank	2,996	9,514	2,117	795	**15,422**
	– deposits from non-bank customers	2,724,377	85,520	19,967	15,020	**2,844,884**
	– loans from banks and the central bank	263,311	–	–	–	**263,311**
	– loans from non-banks customers	558	–	–	–	**558**
	– debt securities issued	61,860	–	–	–	**61,860**
	– other financial liabilities	18,406	204	11	276	**18,897**
	Total financial liabilities	**3,075,973**	**95,409**	**22,095**	**16,197**	**3,209,674**
	Net on-balance sheet position	**533,210**	**(1,200)**	**(34)**	**804**	**532,780**
	Loan commitments	**254,667**	**1,819**	**–**	**2,935**	**259,421**

2.2.2.2 Value-at-risk (VaR) of net foreign exchange position

The table below shows Value-at-Risk (VaR) of net foreign exchange positions. Calculations are based on a historical simulation in a 1-year period, at a 99% confidence level and with a 10-day holding period.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

VAR OF NET FOREIGN EXCHANGE POSITION

2016	As at 31 December	Average	Maximum	Minimum
foreign currencies risk	**18**	21	102	9

2015	As at 31 December	Average	Maximum	Minimum
foreign currencies risk	**16**	32	122	9

The Group's exposure to foreign exchange risk was minimal. As at 31 December 2016, the Group estimated with 99 percent probability that it would lose no more than EUR 18 thousand over the following ten days.

2.2.3 Interest rate risk

Interest rate risk is the risk arising from the exposure of the Group’s financial position to unfavourable changes in interest rate levels in the market. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on fair value risk and cash flow risk. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. As a consequence of these changes, interest margins and the Group’s income also change.

2.2.3.1 Interest rate risk management process

In accordance with **the interest rate risk management strategy,** the Group has limited the extent of interest rate risk by setting up a limit system and by defining the amount of required internal capital. The Group monitors interest risk through assets and liabilities management in terms of their maturity, amount and interest rate setting method and through the application of derivative financial instruments. The Group also regularly calculates the impact of interest rate changes on net interest income and the economic value of capital through the application of various interest rate variation scenarios.

The Group utilises an efficient **interest rate risk management process,** which enables the risk to remain at an acceptable level. Interest rate risk is identified, measured, managed, controlled and monitored in line with the established interest rate risk management policy. The interest rate risk management process is based on procedures involving the identification, measurement, assessment and management of interest rate risk. The process is supported by efficient internal reporting.

The structure and organisation of appropriate interest rate risk management functions are set out in the relevant policy, which put the Risk Management Committee in charge of monitoring the adequacy of the strategy, policies and limit system of interest rate risk management. The implementation of the policy is monitored and controlled by the Assets and Liabilities Management Committee, interest rate risk management is the responsibility of the Assets and Liabilities Management Department, while the Treasury Department and other divisions are in charge of the operationalisation of policies and guidelines.

As required by its **internal reporting,** the Group monitors interest rate risk arising from trading in the framework of global market risk control and uses the Value-at-Risk method, stress testing, and sensitivity analysis to measure it. The level of exposure to interest rate risk in the banking book is controlled by the Assets and Liabilities Committee on a monthly basis, whilst quarterly reports on interest rate risk exposure are submitted to the Supervisory Board.

Interest rate risk, arising from mismatches in the banking book, **is measured** by means of gap analysis. Gap analysis comprises aggregating cash flows into different maturity buckets, categorised by the earlier of contractual re-pricing or maturity dates. The option of early repayment of loans was not taken into account. To classify non-maturing items, the Group uses an internal methodology. Open positions are monitored and reported on a monthly basis.

The Group takes on exposure to the effects of interest rate fluctuations. It is therefore important for the Group to measure its interest rate sensitivity and manage its assets and liabilities in accordance therewith. The Group regularly calculates the effect of interest rate fluctuations on its profit and equity.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
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For the purpose of monitoring the effectiveness of **interest rate risk hedging and reduction,** the Group regularly assesses its risk capacity in line with the set methodology. The Group also uses derivatives to hedge against interest rate risk.

In 2016, the interest rate risk exposure decreased in relation to the regulatory capital of the Group. The Group remains vulnerable to a fall in interest rates.

The Group's exposure to interest rate risk was reduced by closing out interest rate positions by individual time buckets. The following table summarises the Group's exposure to interest rate risk. It includes the Group's financial instruments at carrying amounts categorised by the earlier of contractual re-pricing or maturity dates.

CONCENTRATION OF INTEREST RATE RISK

As at 31 December 2016

		Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
	Interest-sensitive assets						
1.	Cash, cash balances with the central bank and other demand deposits with banks	308,398	–	–	–	–	**308,398**
2.	Financial assets designated at fair value through profit or loss	13,000	95,823	632,768	286,909	119,835	**1,148,335**
3.	Loans and receivables	557,748	219,446	926,802	79,215	35,137	**1,818,348**
	– loans to banks	50,368	6,915	5,500	2,671	–	**65,454**
	– loans to non-bank customers	507,380	212,531	921,302	76,544	35,137	**1,752,894**
4.	Held-to-maturity investments		11,981	4,151	15,000	–	**31,132**
	Total interest-sensitive assets	**879,146**	**327,250**	**1,563,721**	**381,124**	**154,972**	**3,306,213**
	Interest-sensitive liabilities						
1.	Financial liabilities measured at amortised cost	537,364	511,103	537,816	651,873	663,553	**2,901,709**
	– deposits from banks and the central bank	19,700	–	–	–	–	**19,700**
	– deposits from non-bank customers	506,523	472,234	501,671	631,528	658,220	**2,770,176**
	– loans from banks and the central bank	5,027	35,855	36,083	7,944	4,920	**89,829**
	– debt securities issued	5,172	3,000	–	12,071	–	**20,243**
	– other financial liabilities	942	14	62	330	413	**1,761**
	Total interest-sensitive liabilities	**537,364**	**511,103**	**537,816**	**651,873**	**663,553**	**2,901,709**
	Interest rate sensitivity gap	**341,782**	**(183,853)**	**1,025,905**	**(270,749)**	**(508,581)**	

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NOTES TO THE FINANCIAL STATEMENTS (continued)

CONCENTRATION OF INTEREST RATE RISK

As at 31 December 2015

		Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
	Interest-sensitive assets						
1.	Cash, cash balances with the central bank and other demand deposits with banks	250,411	–	–	–	–	**250,411**
2.	Financial assets designated at fair value through profit or loss	7,000	81,788	136,555	938,791	161,234	**1,325,368**
3.	Loans and receivables	785,362	227,559	808,307	53,036	11,529	**1,885,793**
	– loans to banks	77,371	8,479	8,769	2,577	–	**97,196**
	– loans to non-bank customers	707,991	219,080	799,538	50,459	11,529	**1,788,597**
	– other financial assets	–	–	–	–	–	**–**
	– other financial assets	–	–	–	–	–	**–**
4.	Held-to-maturity investments	–	–	–	26,132	5,000	**31,132**
	Total interest-sensitive assets	**1,042,773**	**309,347**	**944,862**	**1,017,959**	**177,763**	**3,492,704**
	Interest-sensitive liabilities						
1.	Financial liabilities measured at amortised cost	622,822	535,442	798,006	656,883	560,999	**3,174,152**
	– deposits from banks and the central bank	8,357	6,204	850	–	–	**15,411**
	– deposits from non-bank customers	598,558	443,280	695,614	537,286	560,941	**2,835,679**
	– loans from banks and the central bank	13,735	48,154	101,361	100,000	–	**263,250**
	– debt securities issued	2,056	37,802	172	19,550	–	**59,580**
	– other financial liabilities	116	2	9	47	58	**232**
	Total interest-sensitive liabilities	**622,822**	**535,442**	**798,006**	**656,883**	**560,999**	**3,174,152**
	Interest rate sensitivity gap	**419,951**	**(226,095)**	**146,856**	**361,076**	**(383,236)**	

The tables include the following:
- debt securities at face value (not at market value or amortised cost);
- loans after taking into account impairments in relation to the first re-defining of interest rates or contractual maturity;
- principal amounts of loans and deposit (excluding interest, outstanding commissions and initial recognition costs).

Demand deposits and saving accounts are classified into different time buckets according to an internal methodology. They are divided into stable and unstable sources, using a statistical method based on a multi-annual time series. Stable sources are subsequently dispersed into different long-term time buckets

2.2.3.2 Interest rate sensitivity analyses

The impact of interest rate changes on net interest income and the economic value of capital arising from the presented existing interest sensitivity gaps is shown in the table below.

The economic value of equity is calculated as a sum of discounted cash flow of individual interest-sensitive assets and interest-sensitive liabilities of the banking book. The defined scenarios of yield curve movements are used to calculate a new economic value and, consequently, the effect of interest rate fluctuations on the economic value of equity.

The impact of interest rate changes on interest income is calculated for a 1-year period. Interest rate changes have an impact on the interest income and expense dependant on a flexible interest rate over a period when the latter is not yet defined (i.e. from the date the interest rate is redefined). These calculations do not account for refinancing and/or reinvestment.

(All amounts in EUR thousand unless otherwise stated)

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INTEREST RATE SENSITIVITY ANALYSES

	As at 31 December 2016		As at 31 December 2015	
	Effect on interest rate income	Effect on the economic value of equity	Effect on interest rate income	Effect on the economic value of equity
+200 basis points	18,706	68,540	20,817	40,591
+100 basis points	9,293	35,864	10,441	21,418
+50 basis points	4,569	18,351	5,227	11,004
–50 basis points	(3,388)	(13,560)	(495)	(14,611)
–100 basis points	(6,651)	(14,601)	(510)	(22,505)
–200 basis points	(12,074)	(15,585)	(513)	(23,379)

If a market interest rate increase of 200 basis points was taken into account, the economic value of equity would increase by EUR 68,540 thousand based on the data, while net interest income would rise by EUR 18,706 thousand. If a market interest rate decrease of 200 basis points was taken into account, the economic value of equity would drop by EUR 15,585 thousand based on the data, while net interest income would fall by EUR 12,074 thousand. When making downward adjustments to interest rates, the Bank takes into consideration that the interest rates used for discounting are not negative. In calculating the effect of interest rate changes on net interest income based on the data for the 2016 year-end, the actual balance of interest rate floor clauses is taken into consideration. The Bank also assessed the effect of interest rate changes on net interest income for the year 2015 by taking account of the actual balance of interest rate floor clauses and determined that, based on the data for the 2015 year-end, a reduction in market interest rates by 200 basis points would have resulted in a reduction of net interest income by EUR 16,783 thousand.

2.2.3.3 Interest rates by currency

The Group monitors interest rates by currency for financial instruments. Average interest rates are shown in the following table.

AVERAGE INTEREST RATES BY CURRENCY FOR FINANCIAL INSTRUMENTS

		2016			2015		
		EUR	USD	CHF	EUR	USD	CHF
	Financial assets						
1.	Cash, cash balances with the central bank and other demand deposits with banks	-0.31 %	0.71 %	0.00 %	-0.16%	0.11%	0.00%
2.	Available-for-sale financial assets	1.69 %	3.11 %	–	1.57%	3.77%	–
3.	Loans and receivables	2.57 %	1.40 %	1.49 %	3.44%	0.40%	1.11%
	– loans to banks	0.24 %	1.24 %	–	-0.03%	0.36%	–
	– loans to non-bank customers	2.62 %	3.28 %	1.49 %	3.55%	2.90%	1.66%
4.	Held-to-maturity investments	3.88 %	–	–	3.88%	–	–
	Financial liabilities						
1.	Financial liabilities measured at amortised cost	0.24 %	0.08 %	0.01 %	0.63%	0.06%	0.02%
	– deposits from banks and the central bank	0.00 %	0.33 %	0.00 %	0.24%	0.21%	0.00%
	– deposits from non-bank customers	0.18 %	0.04 %	0.01 %	0.53%	0.04%	0.02%
	– loans from banks and the central bank	0.80 %	–	–	0.76%	–	–
	– debt securities issued	5.52 %	–	–	4.65%	–	–
	– druge finančne obveznosti	0.00 %	0.00 %	0.00 %	0.00%	0.00%	0.00%

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2.3 Liquidity risk

Liquidity risk is the risk that includes the risk of failing to provide liquidity sources, market liquidity risk and asset encumbrance risk.

The risk of failing to provide liquidity sources is the risk that the Group might not be able to meet its payment obligations when due, and/or that as a consequence of its inability to provide sufficient funding to meet payment obligations by the due date, the Group might be forced to provide the required funding at costs significantly above usual.

Market liquidity risk is the risk of loss arising from the impossibility of selling or replacing positions (in financial instruments) in a short period of time without this bearing a significant impact on the market price, due to insufficient market depth, market imbalances or other reasons.

The asset encumbrance risk is the risk arising from the encumbrance of the bank's assets and means an increase in the risk of providing liquidity sources and market liquidity risk due to fewer possibilities of providing liquidity sources and disposing of assets. Any decrease in the value of encumbered assets as a result of market factors and the related demand for additional coverage further increases this risk.

2.3.1 Liquidity risk management process

The liquidity risk management strategy is based on prudent and stable operations, and includes the careful management of assets and liabilities (both on and off-balance sheet) as well as a balanced borrowing strategy, which enables the Group to meet its financial obligations as they fall due.

The Group provides for the appropriate volume and structure of the liquidity buffer, taking into account the risk related to procuring liquidity sources, market liquidity risk and asset encumbrance risk.

The liquidity risk management process follows the established liquidity risk management policy. This process includes implementation procedures and rules on measures for identifying, assessing, monitoring, reporting on and minimising risk exposure.

The liquidity risk management process consists of:

- integrated planning and monitoring future cash flows, which include day-to-day funding, with a view to ensuring that requirements are met and sources are replenished as they mature;
- maintaining an appropriate volume of the liquidity buffer, i.e. a portfolio of highly liquid assets that can be easily liquidated and serve as protection against unforeseen cash flow developments;
- assessing market liquidity risk;
- monitoring and calculating liquidity indicators in line with the requirements of the Abanka Group and regulatory requirements;
- monitoring the diversity of financing sources and the profile of outstanding liabilities;
- running liquidity management scenarios for the normal course of business and for extraordinary liquidity requirements (stress scenarios);
- monitoring the liquidity position of the banking system and the national economy;
- adopting adequate liquidity policies in view of the given circumstances; and
- establishing an adequate relationship between the costs, benefits and risks involved in providing liquidity.

The structure and organisation of appropriate functions for liquidity risk management are set out in the relevant policy. The adequacy of the strategy, policies and limit system of liquidity risk management is monitored by the Risk Management Committee. The implementation of the relevant policy is jointly controlled by the Assets and Liabilities Management Committee and the Liquidity Commission, liquidity risk management lies within the competence of the Treasury Department and the Assets and Liabilities Management Department, whilst the Treasury Department and other divisions are in charge of the operationalisation of policies and guidelines.

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Internal reporting takes the form of cash flow measurement and projections for the next day, week and month, as these are key periods for operational liquidity management. Furthermore, liquidity measurements for longer periods are carried out to monitor liquidity exposure in those periods, and to manage emergency liquidity situation. The starting point for those projections is the contractual maturity of financial liabilities, the expected recovery date of financial assets and the assessment of the expected movement of unstable sources. Liquidity risk exposure is followed and controlled by the Liquidity Committee on a daily basis and by the Assets and Liabilities Committee on a monthly basis. The Supervisory Board discusses a quarterly report on the Group's exposure to various types of risks, including liquidity risk.

2.3.1.1 Liquidity risk measurement

The procedures for **measuring liquidity risk** include quality and quantity assessments for risk measurement. The Group has developed its own methods for establishing, measuring, managing and monitoring liquidity, which enable matching of the actual and potential liquid funds to the actual and potential use of such funds over certain time periods. The Group evaluates the adequacy of liquid assets and their availability. When an assessment of liquidity is made, the Group primarily takes into account the possibility of obtaining liquidity in the short run on the basis of these funds. The Group also monitors the distribution of costs, benefits and risks involved in providing liquidity. An internal methodology has been developed for this purpose, which covers important assets and liability items, off-balance items and all liquidity maintenance costs. This methodology is regularly upgraded by the Group.

The Group also regularly upgrades its methodology for assessing expected cash flows. The discrepancy between the expected and contractual cash flows is evaluated using assumptions, which are based on historical data. The Group regularly verifies the adequacy and accuracy of these assumptions.

The Group implements the internal liquidity adequacy assessment process (ILAAP). The key aim of the ILAAP process is ensuring that the Bank has sufficient short-term and mid-term liquidity available both under normal and stress conditions. The ILAAP process includes the assessment of liquidity requirements and the assessment of available liquidity. The Bank regularly checks its liquidity adequacy, both within the framework of the ordinary course of business and in the context of the business plan for the future planning period. The verification of liquidity adequacy also includes liquidity stress testing for pre-defined stress situations of varying severity.

2.3.1.2 Liquidity risk mitigation

With the aim of hedging and reducing liquidity risk, the Group implements prudent assets and liabilities management, which is the foundation of stable operations; therefore, the following objectives are pursued:

- the ability to fulfil all obligations related to balance-sheet and off-balance-sheet outflows in the short term;
- minimizing the costs of maintaining liquidity;
- foreseeing the occurrence of extraordinary liquidity conditions and implementing the adopted action plan for re-establishing appropriate liquidity in the event that such extraordinary conditions materialise.

In order to reduce the liquidity risk, the Group established a limit system, which includes compliance with regulatory requirements and internally defined limits as well as monitoring of target structural liquidity indicators. In 2016, the Group slightly adapted its limit system requirements by changing the threshold levels of certain liquidity indicators.

For the purpose of liquidity risk hedging, The Group applies a methodology for identifying and measuring liquidity risk and maintains an action plan for the re-establishment of appropriate liquidity. The Group is hedged against liquidity risk by virtue of diligent and effective liquidity buffer management and the availability of adequate sources of funding, which are kept as diverse as possible. The Group also adequately addresses liquidity risk in its Recovery Plan.

In order to monitor the effectiveness of hedging and minimise liquidity risk, the Group regularly assesses its risk capacity in accordance with the established methodology.

2.3.1.3 Liquidity management scenarios in extreme situations

The Group prepares various liquidity scenarios in extreme situations with the aim of identifying potential weaknesses and vulnerabilities in its liquidity position. These scenarios assume worsened liquidity conditions due to a weaker financial position of the Bank and a diminished reputation domestically and internationally. Moreover, the Group prepares scenarios assuming

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extreme liquidity situations in domestic and foreign financial markets, reduced confidence in the banking system, and a decline in economic activity.

The Group prepares various liquidity management scenarios also including liquidity risk mitigation measures and uses these scenarios as the basis for testing the assumptions used in decision-making on liquidity-related issues. Based on these scenarios, the Bank determines the most appropriate measures for ensuring adequate liquidity, taking into account:
- the baseline scenario: the scenario based on assumptions that reflect the Bank's business strategy and operating conditions and for which it can be assumed with certainty that they will affect the Bank's liquidity in the normal course of business;
- stress scenarios or extraordinary liquidity conditions scenarios: liquidity management scenarios based on assumptions reflecting business developments and operating conditions differing from the baseline scenario – i.e. assumptions that include significant changes of the factors that have a negative impact on the Bank's liquidity.

The extraordinary conditions scenarios used in the assessment of cash flows take into account various severity levels and are based on various durations of the extraordinary liquidity situation. The Bank regularly verifies the adequacy and accuracy of the assumptions underlying these scenarios.

2.3.1.4 Contingency plan

In order to hedge liquidity risk, procedures are defined for minimising the occurrence of crisis situations that would prevent the Group from duly and promptly discharging its obligations. Early identifying of potential crisis situations is carried out during the daily monitoring of the Group's liquidity position.

The contingency plan for the re-establishment of appropriate liquidity is a catalogue of processes aimed at the early detection of liquidity deficits based on the monitoring of liquidity indicators and other indicators used by the Bank to identify potential liquidity issues in due time. The plan also includes a list of situations deemed as examples of liquidity deficits.

2.3.2 Liquidity ratios and structural liquidity indicators

Liquidity ratios are based on compliance with the Bank of Slovenia's regulations regarding the minimum requirements for ensuring an adequate liquidity position. This regulation prescribes the ratio of financial assets to financial liabilities according to residual maturity. For this purpose, the following prescribed ratios are calculated and monitored:
- the liquidity ratio with a residual maturity of assets and liabilities of up to 30 days. The value of this ratio may not be less than 1; and
- the liquidity ratio with a residual maturity of assets and liabilities of up to 180 days. This ratio is calculated for information purposes.

As at the 2016 year-end, both prescribed liquidity ratios remained high and above the limit.

In 2016, the Group regularly reported on the liquidity coverage ratio (LCR), as shown in the table.

PRESCRIBED LIQUIDITY RATIOS (ASSETS/LIABILITIES)

	Average 2016	As at 31 December 2016	Average 2015	As at 31 December 2015
Maturity of up to 30 days	1.66	1.71	1.98	1.78
Maturity of up to 180 days	1.35	1.48	1.28	1.29
Liquidity coverage ratio	4.52	5.52	5.94	4.97

The Group also monitored the liquidity situation by continuously calculating structural liquidity indicators. Cash and cash equivalents, reserves held at the central bank, receivables due from banks, securities and loans eligible as collateral for Eurosystem refinancing constitute the Group's liquidity buffer. In 2016, the indicator showing the volume of the liquidity buffer in relation to the total assets remained at approximately the same level as in 2015, while the indicator showing the volume of the liquidity buffer in relation to short-term deposits of the non-banking sector recorded an improvement compared to 2015.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

STRUCTURAL LIQUIDITY INDICATORS (%)

	Average 2016	As at 31 December 2016	Average 2015	As at 31 December 2015
Core liquidity/total assets	45.5	46.1	45.8	42.0
Core liquidity/short-term deposits of the non-banking sector	285.7	286.6	243.2	245.8
Loans to non-banking sector/deposits of the non-banking sector	62.5	64.6	60.4	65.0

Note: For the year 2015 the calculation has taken into account the liquidity reserve, while for the year 2016 they have been replaced with a liquidity buffer.

2.3.3 Funding approach

The Group keeps its funding sources at an adequate level and appropriately diversifies them by currency, lender/creditor, banking product, and maturity. In 2016, the loan received as part of the ECB's targeted longer-term refinancing operation (TLTRO) in the amount of EUR 100 million was repaid early by the Bank, while the volume of total wholesale liabilities continued to decline. In total liabilities, the share of primary sources of funds increased.

2.3.4 Non-derivative cash flows from liabilites based on contractual maturity

The following table shows non-derivative cash flows according to their remaining contractual maturity as at the date of the statement of financial position. On-balance sheet items disclosed in the maturity table represent undiscounted cash flows including future payments. Off-balance sheet items are included in the time bucket containing the earliest date on which loan commitments could be drawn down (according to IFRS7 amendments: B11C(b)), or on which financial guarantees could be called (according to IFRS7 amendments: B11C(c)).

Foreign currency cash flows are converted into euros using the spot exchange rate as at the date of the statement of financial position.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

NON-DERIVATIVE CASH FLOWS BASED ON CONTRACTUAL MATURITY

	As at 31 December 2016	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
	Financial liabilities						
1.	Financial liabilities measured at amortised cost	2,137,266	156,579	420,232	180,828	33,702	**2,928,607**
	– deposits from banks and the central bank	19,205	–	500	–	–	**19,705**
	– deposits from non-bank customers	2,088,808	149,051	409,771	125,450	1,799	**2,774,878**
	– loans from banks and the central bank	1,293	4,519	9,720	42,744	31,383	**89,658**
	– loans from non-bank customers	–	–	–	–	521	**521**
	– debt securities issued	5,172	3,000	241	12,634	–	**21,047**
	– other financial liabilities	22,787	9	–	–	–	**22,797**
	Total financial liabilities	**2,137,266**	**156,579**	**420,232**	**180,828**	**33,702**	**2,928,607**
	Loan commitments and financial guarantees	**335,533**	–	–	–	–	**335,533**

	As at 31 December 2015	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
	Financial liabilities						
1.	Financial liabilities measured at amortised cost	1,940,663	296,795	666,069	337,785	43,524	**3,284,836**
	– deposits from banks and the central bank	8,365	6,214	856	–	–	**15,435**
	– deposits from non-bank customers	1,904,420	222,023	619,785	111,732	5,493	**2,863,453**
	– loans from banks and the central bank	8,014	28,836	44,746	202,299	38,031	**321,926**
	– debt securities issued	2,328	39,561	322	23,754	–	**65,965**
	– other financial liabilities	17,536	161	360	–	–	**18,057**
	Total financial liabilities	**1,940,663**	**296,795**	**666,069**	**337,785**	**43,524**	**3,284,836**
	Loan commitments and financial guarantees	**330,215**	–	–	–	–	**330,215**

The largest part of liquidity reserves held by the Group in 2016 to meet balance sheet and off-balance sheet obligations was composed of debt securities, whilst the second largest liquidity reserve item as at the reporting date was cash and cash equivalents. The Group does not have any commitments and contingencies that would exceed the contractually determined amount of obligations.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3.5 Cash flows of financial instruments based on expected maturity

The following table shows on- and off-balance cash flows according to their expected maturity as at the date of the statement of financial position.

Expected cash flows from on-balance sheet items for individually assessed large loans include expected cash flows instead of contractually agreed ones. Demand deposits and saving accounts are classified into different time buckets according to an internal methodology. They are divided into stable and unstable sources, using a statistical method based on a multi-annual time series. Stable sources are subsequently classified into different long-term time buckets.. Expected cash flows from off-balance sheet items are classified into different time buckets according to an internal methodology based on historical data.

The Group carries out measures for maintaining the level of liquidity gaps within internally defined limits. These measures include activities for raising long-term funds, maturity matching of assets and liabilities and ongoing adjustments of the interest rate policy.

CASH FLOWS OF FINANCIAL INSTRUMENTS BASED ON EXPECTED MATURITY

	As at 31 December 2016	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
	Financial assets						
1.	Cash, cash balances with the central bank and other demand deposits with banks	310,611	–	–	33,648	–	**344,259**
2.	Financial assets held for trading	470	247	1,279	3,071	158	**5,225**
3.	Financial assets designated at fair value through profit or loss	–	–	2,413	–	–	**2,413**
4.	Available-for-sale financial assets	17,381	104,366	647,603	341,973	154,507	**1,265,829**
5.	Loans and receivables	127,051	108,639	297,880	826,688	581,234	**1,941,491**
	– loans to banks	41,529	3,607	5,502	14,341	510	**65,489**
	– loans to non-bank customers	73,413	104,969	292,378	812,347	580,724	**1,863,831**
	– other financial assets	12,108	63	–	–	–	**12,172**
6.	Held-to-maturity investments	–	12,881	4,151	15,000	–	**32,032**
	Total financial assets	**455,513**	**226,133**	**953,324**	**1,220,380**	**735,899**	**3,591,249**
	Financial liabilities						
1.	Financial liabilities held for trading	248	240	1,275	3,055	115	**4,933**
2.	Financial liabilities measured at amortised cost	551,691	188,835	538,622	816,186	833,274	**2,928,607**
	– deposits from banks and the central bank	19,206	–	500	–	–	**19,706**
	– deposits from non-bank customers	504,052	181,293	528,099	760,477	800,957	**2,774,878**
	– loans from banks and the central bank	1,293	4,519	9,720	42,744	31,383	**89,658**
	– loans from non-bank customers	–	–	–	–	521	**521**
	– debt securities issued	5,172	3,000	241	12,634	–	**21,047**
	– other financial liabilities	21,968	23	62	330	413	**22,797**
3.	Capital	–	–	–	–	616,828	**616,828**
	Total financial liabilities	**551,939**	**189,074**	**539,897**	**819,240**	**1,450,217**	**3,550,368**
	Net liquidity gap	**(96,427)**	**37,058**	**413,427**	**401,140**	**(714,318)**	**40,881**
	Loan commitments and financial guarantees	**8,434**	**16,129**	**73,401**	**–**	**–**	**97,964**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

CASH FLOWS OF FINANCIAL INSTRUMENTS BASED ON EXPECTED MATURITY

	As at 31 December 2015	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
	Financial assets						
1.	Cash, cash balances with the central bank and other demand deposits with banks	264,337	1	7	18,037	–	**282,382**
2.	Financial assets held for trading	273	40	10	3,120	–	**3,443**
3.	Available-for-sale financial assets	8,206	90,292	155,955	1,013,290	203,730	**1,471,473**
4.	Loans and receivables	67,443	120,833	367,594	1,005,121	624,403	**2,185,394**
	– loans to banks	49,499	8,502	8,799	26,276	4,506	**97,582**
	– loans to non-bank customers	5,424	112,331	358,795	978,845	619,897	**2,075,292**
	– other financial assets	12,520	–	–	–	–	**12,520**
5.	Held-to-maturity investments	219	838	233	28,716	5,219	**35,225**
	Total financial assets	**340,478**	**212,004**	**523,799**	**2,068,284**	**833,352**	**3,977,917**
	Financial liabilities						
1.	Financial liabilities held for trading	–	–	–	–	–	**–**
2.	Financial liabilities measured at amortised cost	634,915	337,994	764,081	856,065	691,781	**3,284,836**
	– deposits from banks and the central bank	8,365	6,214	856	–	–	**15,435**
	– deposits from non-bank customers	598,788	263,220	717,788	629,965	653,692	**2,863,453**
	– loans from banks and the central bank	8,014	28,836	44,746	202,299	38,031	**321,926**
	– debt securities issued	2,328	39,561	322	23,754	–	**65,965**
	– other financial liabilities	17,420	163	369	47	58	**18,057**
3	Capital	–	–	–	–	550,379	**550,379**
	Total financial liabilities	**634,915**	**337,994**	**764,081**	**856,065**	**1,242,160**	**3,835,215**
	Net liquidity gap	**(294,437)**	**(125,990)**	**(240,282)**	**1,212,219**	**(408,808)**	**142,702**
	Loan commitments and financial guarantees	**6,027**	**12,222**	**55,000**	**–**	**–**	**73,249**

2.3.6 Derivative cash flows

2.3.6.1 Derivatives settled on a net basis

The Group's derivatives that are settled on a net basis include:
- foreign exchange derivatives: over-the-counter (OTC) currency options; and
- interest rate derivatives: interest rate swaps and interest rate options.

The following table shows an analysis of the Group's derivative financial instruments with negative fair value, which are settled on a net basis, arranged in groups according to maturity on the basis of the outstanding contractual maturity on the date of the statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flows.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

DERIVATIVE FINANCIAL INSTRUMENTS WITH A NEGATIVE FAIR VALUE SETTLED ON A NET BASIS

As at 31 December 2016	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Derivatives held for trading						
– foreign exchange derivatives	–	–	–	–	–	**–**
– interest rate derivatives	(10)	(527)	(167)	(453)	(12)	**(1,169)**
Total	**(10)**	**(527)**	**(167)**	**(453)**	**(12)**	**(1,169)**

As at 31 December 2015	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Derivatives held for trading						
– foreign exchange derivatives	–	–	–	–	–	**–**
– interest rate derivatives	(8)	(1,304)	(232)	(649)	(17)	**(2,210)**
Total	**(8)**	**(1,304)**	**(232)**	**(649)**	**(17)**	**(2,210)**

2.3.6.2 Derivatives settled on a gross basis

The Group’s derivatives that are settled on a gross basis include:

- foreign exchange derivatives: currency forwards and currency swaps.

The following table shows an analysis of the Group’s derivative financial instruments with a negative fair value settled on a gross basis and arranged in logical groups according to maturity on the basis of the outstanding contractually determined maturity on the date of the statement of financial position. Items shown in the table represent the contractually determined undiscounted cash flows.

DERIVATIVE FINANCIAL INSTRUMENTS WITH A NEGATIVE FAIR VALUE SETTLED ON A GROSS BASIS

As at 31 December 2016	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Derivatives held for trading						
– foreign exchange derivatives						
– inflows	2,851	4,101	35,763	–	–	**42,715**
– outflows	2,898	4,144	37,623	–	–	**44,665**
Total inflows	**2,851**	**4,101**	**35,763**	**–**	**–**	**42,715**
Total outflows	**2,898**	**4,144**	**37,623**	**–**	**–**	**44,665**

As at 31 December 2015	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Derivatives held for trading						
– foreign exchange derivatives						
– inflows	3,805	11,195	7,621	–	–	**22,621**
– outflows	3,877	11,316	7,670	–	–	**22,863**
Total inflows	**3,805**	**11,195**	**7,621**	–	–	**22,621**
Total outflows	**3,877**	**11,316**	**7,670**	–	–	**22,863**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3.7 Commitments and contingencies

Items referring to potential obligations are presented off-balance sheet. The triggering events for these obligations have not occurred and these facilities are not yet due. Those obligations for which trigger events have already occurred are presented in the statement of financial position.

a) Loan commitments

The following table shows a summary of the contractually determined values of loan commitments (overdrafts and credit lines, granted undrawn loans, revolving loans) that oblige the Group to provide loans to customers.

b) Guarantees and other financial facilities

The following table also includes guarantees and other financial facilities, arranged according to contractually determined maturity dates.

COMMITMENTS AND CONTINGENCIES

(Notes 2.1.3, 2.2.2.1, 2.2.3.1, 38)

As at 31 December 2016	Up to 1 year	From 1 to 5 years	Over 5 years	Total
Loan commitments	209,571	35,028	40,453	**285,052**
Guarantees and other financial facilities	93,811	57,556	14,575	**165,942**
– financial guarantees	32,912	12,774	4,795	**50,481**
– performance guarantees	57,831	41,710	9,622	**109,163**
– derivatives	1,819	3,072	158	**5,049**
– other	1,249	–	–	**1,249**
Total	**303,382**	**92,584**	**55,028**	**450,994**

As at 31 December 2015	Up to 1 year	From 1 to 5 years	Over 5 years	Total
Loan commitments	198,196	35,354	25,895	**259,445**
Guarantees and other financial facilities	122,479	67,834	18,899	**209,212**
– financial guarantees	52,319	13,033	5,418	**70,770**
– performance guarantees	53,344	52,213	10,734	**116,291**
– derivatives	1,723	920	2,747	**5,390**
– other	15,093	1,668	–	**16,761**
Total	**320,675**	**103,188**	**44,794**	**468,657**

Commitments and contingencies are reduced by the provisions for guarantees and commitments, and by the other provisions (Note 38).

Commitments and contingencies are carried at nominal value; the only exception is derivative financial instruments carried at market value. The counterparty credit risk exposure amounting to EUR 6,531 thousand at the end of 2016 (at the end of 2015: EUR 6,382 thousand) is the sum of the market value (current exposure) and the potential exposure of derivative financial instruments.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.4 Capital management

Capital management comprises monitoring the level of capital, capital adequacy ratios, drafting guidelines for achieving the planned capital adequacy ratios and following the implementation of measures aimed at keeping at least minimum capital adequacy ratios in compliance with the respective business policy of the Group.

The management and supervisory bodies regularly monitor and assess the effectiveness of the capital management system. The Group calculates its regulatory capital and capital adequacy at least quarterly.

The Group's capital must be at least equal the total sum of minimum capital requirements at all times.

2.4.1 Regulatory capital and capital adequacy

The regulatory capital of the Group is calculated on the basis of the Group's consolidated financial statements in accordance with the Part Two of Regulation (EU) No 575/2013. The Group's regulatory capital calculation takes into account capital components, prudential filters and deductible items. In calculating the capital adequacy and capital requirements of the Group, the Part Three of Regulation (EU) No 575/2013 is applied.

Regulatory capital includes Tier 1 capital and Tier 2 capital. The Tier 1 capital of the Group consists of the sum of the Common Equity Tier 1 capital and Additional Tier 1 capital of the Group. The Regulation (EU) No. 575/2013 stipulates the application of three ratios:

- a Common Equity Tier 1 capital ratio of at least 4.5%,
- a Tier 1 capital ratio of at least 6% and
- a total capital ratio of at least 8%.

Disclosures related to own funds are laid down in Article 437 of Regulation (EU) No 575/2013 and, with regard to disclosure of own funds set out in the implementing technical standards contained in Commission Implementing Regulation (EU) No 1423/2013. The disclosure related to own funds also includes transitional provisions of Article 492 of Regulation (EU) No 575/2013, prescribing additional information that has to be disclosed for the period from 1 January 2014 to 31 December 2021.

The following table shows regulatory capital components and capital adequacy ratios.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

REGULATORY CAPITAL AND CAPITAL ADEQUACY

As at 31 December	2016	2015
Paid up capital instruments	151,000	151,000
Share premium	282,459	282,459
Previous years retained earnings	23,628	5,851
Profit or loss eligible	–	–
Accumulated other comprehensive income	42,445	53,386
Other reserves	39,782	16,255
Adjustments to CET1 capital due to prudential filters	(1,274)	–
(-) Other intangible assets	(8,239)	(9,108)
(-) Deferred tax assets thar rely on future profitability and do not arise from temporary differences	(7,439)	(6,667)
(-) Excess of deduction from AT1 items over AT1 capital	(3,296)	(5,464)
(-) Other transitional adjustments to CET1 capital	(24,150)	(31,723)
(-) CET1 capital elements or deductions - other	–	(4,218)
Common Equity Tier 1 capital (CET1)	**494,916**	**451,771**
Additional Tier 1 capital (AT1)	**–**	**–**
Tier 1 capital (T1)	**494,916**	**451,771**
Tier 2 capital (T2)	**–**	**–**
Total regulatory capital (for solvency purposes)	**494,916**	**451,771**

Risk weighted exposure amounts for credit risk	1,614,129	1,681,789
Risk exposure amount for position and foreign-exchange risk	353	1,784
Risk exposure amounts for operational risk	251,902	277,698
Risk exposure amount for credit valuation adjustment	635	462
Settlement/delivery risk exposure amount	2	–
Total risk exposure amount	**1,867,021**	**1,961,733**

Common Equity Tier 1 capital ratio	**26.51%**	**23.03%**
Tier 1 capital ratio	**26.51%**	**23.03%**
Total capital ratio	**26.51%**	**23.03%**

The regulatory capital of the Group amounted to EUR 494,916 thousand as at 31 December 2016, which represents a year-on-year increase of EUR 43,145 thousand. As at the reporting date, the total risk exposure amount stood at EUR 1,867,021 thousand, or EUR 94,711 thousand less compared to 31 December 2015. The total capital ratio, i.e. capital adequacy, reached 26.51%, which was a good 3 percentage points higher than at the 2015 year-end. In 2016, regulatory capital was comprised solely of Common Equity Tier 1 capital. As a result, all three prescribed ratios were the same.

In accordance with Article 492(1) of Regulation (EU) No 575/2013, the following own funds requirements shall apply during the period from 1 January 2015 on: a Common Equity Tier 1 capital ratio of a level reaching or exceeding 4.5%; a Tier 1 capital ratio of a level reaching or exceeding 6%; and a total capital ratio of a level reaching or exceeding 8%. As at 31 December 2016, Common Equity Tier 1 capital surplus amounted to EUR 410,890 thousand, Tier 1 capital surplus to EUR 382,894 thousand and total regulatory capital surplus to EUR 345,554 thousand.

As at the reporting date, non-consolidated total capital ratio, Tier 1 capital ratio and Common Equity Tier 1 capital ratio stood at 26.35%.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
(continued)

2.4.1.1. Full harmonisation of own funds items disclosures with audited financial statements

Disclosures related to reconciliation of own funds items to audited financial statements are laid down in Article 437(1)(a) of Regulation (EU) No 575/2013.

In the first column, the amounts of individual items from the statement of financial position are shown. In the second column, the amounts of regulatory capital items not subject to the transitional provisions are shown. In the third column, the amounts of regulatory capital items subject to the transitional provisions are shown. In the fourth column, references to individual items from the transitional disclosure template are shown (the table in Section 2.4.1.3).

Due to the gradual introduction of individual transitional provisions, the regulatory capital as currently taken into account in the calculation of capital adequacy was EUR 27,446 thousand lower than it would be if all requirements were already fully implemented. The difference mainly arises from the accumulated other comprehensive income, as more unrealised gains than losses were temporarily excluded, and partly also from the deductible item for deferred tax.

RECONCILIATION OF OWN FUNDS ITEMS TO AUDITED FINANCIAL STATEMENTS

As at 31 December 2016	Consolidated audited financial statements items	Own funds items	Own funds items during the transitional period	Transitional own funds disclosure template reference
Assets				
Intangible assets	8,239	(8,239)	(8,239)	8
Tax assets	9,466	(7,439)	(4,463)	
– tax assets	–	–	–	
– deferred tax assets	9,466	(7,439)	(4,463)	
– deferred tax assets that rely on future profitability and do not arise from temporary differences	7,439	(7,439)	(4,463)	10
– deferred tax assets that rely on future profitability and arise from temporary differences	2,027	–	–	
Adjustments to CET1 capital due to prudential filters	–	(1,274)	(1,274)	7
Liabilities				
Equity				
Share capital	151,000	151,000	151,000	1
– capital instruments eligible as CET 1 capital	151,000	151,000	151,000	1
Share premium	282,459	282,459	282,459	1
Accumulated other comprehensive income	42,445	42,445	12,023	
– revaluation excesses in connection with RZP financial assets	42,645	42,645	12,143	26(a)
– revaluation excesses as a consolidation capital adjustment	–	–	–	
– other revaluation excesses	(200)	(200)	(120)	26(a)
Reserves from profit	47,467	39,782	39,782	3
Retained earnings (including profit from the current year)	93,457	23,628	23,628	
– retained profit	23,677	23,628	23,628	3
– net profit in the financial year	69,780	–	–	
Total equity	**616,828**	**522,362**	**494,916**	

2.4.1.2. Main features of Common Equity Tier 1 instruments

Disclosures related to the main features of the Common Equity Tier 1 instruments are laid down in Article 437(1)(b) of Regulation (EU) No 575/2013.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

CAPITAL INSTRUMENTS' MAIN FEATURES TEMPLATE

1	Issuer	Abanka d.d.
2	Unique identifier	ISIN SI0021116510
3	Governing law (s) of the instrument	Companies act (ZGD-1)
	Regulatory treatment	Regulation (EU) No 575/2013
4	Transitional CRR rules	Common Equity Tier 1 capital
5	Post-transitional CRR rules	Common Equity Tier 1 capital
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	solo and (sub-) consolidated
7	Instrument type	Common Equity Tier 1 capital
8	Amount recognised in regulatory capital	EUR 781 million
9	Nominal amount of instrument	"N/A"
9a	Issue price	EUR 348 million in december 2013 (Abanka Vipa d.d.), EUR 243 million in oktober 2014 (Abanka Vipa d.d.), EUR 190 million in december 2014 (banka Celje)
9b	Redemption price	EUR 348 million in december 2013, EUR 243 million in oktober 2014, EUR 190 million in december 2014
10	Accounting classification	shareholders' equity
11	Original date of issuance	on 19 December 2013 (15 million shares), on 21 Oktober 2014 (100 thousand shares), on 16 December 2014 (5 million shares)
12	Perpetual or dated	perpetual
13	Original maturity date	no maturity
14	Issuer call subject to prior supervisory approval	no
15	Optional call date, contingent call dates and redemption amount	"N/A"
16	Subsequent call dates, if applicable	"N/A"
	Coupons / dividends	"N/A"
17	Fixed or floating dividend/coupon	"N/A"
18	Coupon rate and any related index	"N/A"
19	Existence of a dividend stopper	no
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	mandatory
21	Existence of step up or other incentive to redeem	"N/A"
22	Noncumulative or cumulative	"N/A"
23	Convertible or non-convertible	"N/A"
24	If convertible, conversion trigger(s)	"N/A"
25	If convertible, fully or partially	"N/A"
26	If convertible, conversion rate	"N/A"
27	If convertible, mandatory or optional conversion	"N/A"
28	If convertible, specify instrument type convertible into	"N/A"
29	If convertible, specify issuer of instrument it converts into	"N/A"
30	Write-down features	"N/A"
31	If write-down, write-down trigger(s)	"N/A"
32	If write-down, full or partial	"N/A"
33	If write-down, permanent or temporary	"N/A"
34	If temporary write-down, description of write-up mechanism	"N/A"
35	Position in subordination hierarchy in liquidation	all other obligations
36	Non-compliant transitioned features	no
37	If yes, specify non-compliant features	"N/A"

Note: »N/A« the question is not applicable.

NOTES TO THE FINANCIAL STATEMENTS
(continued)

2.4.1.3. Disclosure of own funds – the nature and amounts of specific capital items

Disclosures relating to the information about the capital are laid down in Article 492(3) of Regulation (EU) No 575/2013 and the Commission Implementing Regulation (EU) No 1423/2013 (Annex VI – Transitional own funds disclosure template).

In the first column, the amounts subject to the transitional provisions are shown. In the third column, the amounts not subject to the transitional provisions are shown.

Due to the gradual introduction of individual transitional provisions, the regulatory capital as currently taken into account in the calculation of capital adequacy was EUR 27,446 thousand lower than it would be if all requirements were already fully implemented. The difference mainly arises from the accumulated other comprehensive income, as more unrealised gains than losses were temporarily excluded, and partly also from the deductible item for deferred tax.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

TRANSITIONAL OWN FUNDS DISCLOSURE TEMPLATE

	Common Equity Tier 1 capital: instruments and reserves	**Amount at disclosure date as at 31 December 2016**	**Regulation (EU) No 575/2013 article reference**	**Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) no 575/2013**
1	Capital instruments and the related share premium accounts	433,459	26(1), 27, 28, 29, 26(3), EBA list	433,459
	of which: Instrument type 1		26(3), EBA list	
	of which: Instrument type 2		26(3), EBA list	
	of which: Instrument type 3		26(3), EBA list	
2	Retained earnings	23,628	26(1)(c)	23,628
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	82,227	26(1)	82,227
3a	Funds for general banking risk		26(1)(f)	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1		486(2)	
	Public sector capital injections grandfathered until 1 January 2018		483(2)	
5	Minority Interests (amount allowed in consolidated CET1)		84, 479, 480	
5a	Independently reviewed interim profits net of any foreseeable charge or dividend		26(2)	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**539,314**		**539,314**
	Common Equity Tier 1(CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(1,274)	34, 105	(1,274)
8	Intangible assets (net of related tax liability) (negative amount)	(8,239)	36(1)(b), 37, 472(4)	(8,239)
9	Empty Set in the EU			
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	(7,439)	36(1)(c), 38, 472(5)	(7,439)
11	Fair value reserves related to gains or losses on cash flow hedges		33(a)	
12	Negative amounts resulting from the calculation of expected loss amounts		36(1)(d), 40, 159, 472(6)	
13	Any increase in equity that results from securitised assets (negative amount)		32(1)	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		33(b)	
15	Defined-benefit pension fund assets (negative amount)		36(1)(e), 41, 472(7)	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)		36(1)(f), 42, 472(8)	
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		36(1)(g), 44, 472(9)	
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)		36(1)(h), 43, 45, 46, 49(2) in (3), 79, 472(10)	

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
(continued)

	Common Equity Tier 1 capital: instruments and reserves	Amount at disclosure date as at 31 December 2016	Regulation (EU) No 575/2013 article reference	Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) no 575/2013
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36(1)(i), 43, 45, 47, 48(1)(b), 49(1) do (3), 79, 470, 472(11)	
20	Empty Set in the EU			
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative		36(1)(k)	
20b	of which: qualifying holdings outside the financial sector (negative amount)		36(1)(k)(i), 89 do 91	
20c	of which: securitisation positions (negative amount)		36(1)(k)(ii), 243(1)(b), 244(1)(b), 258	
20d	of which: free deliveries (negative amount)		36(1)(k)(iii), 379(3)	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)		36(1)(c), 38, 48(1)(a), 470, 472(5)	
22	Amount exceeding the 15% threshold (negative amount)		48(1)	
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		36(1)(i), 48(1)(b), 470, 472(11)	
24	CET1 capital elements or deductions - other			
25	of which: deferred tax assets arising from temporary differences		36(1)(c), 38, 48(1)(a), 470, 472(5)	
25a	Losses for the current financial year (negative amount)		36(1)(a), 472(3)	
25b	Foreseeable tax charges relating to CET1 items (negative amount)		36(1)(l)	
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment			
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468			
	Of which: …filter for unrealised loss 1	89	467	
	Of which: …filter for unrealised loss 2	6	467	
	Of which: …filter for unrealised gain 1	(8,109)	468	
	Of which: …filter for unrealised gain 2	(22,407)	468	
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR		481	
	Of which: …	2,975	481	
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)		36(1)(j)	
28	**Total regulatory adjustments to Common equity Tier 1 (CET1)**	**(44,398)**		**(16,952)**
29	**Common Equity Tier 1 (CET1) capital**	**494,916**		**522,362**
44	**Additional Tier 1 (AT1) capital**			
45	**Tier 1 capital (T1 = CET1 + AT1)**	**494,916**		**522,362**
58	**Tier 2 (T2) capital**			
59	**Total capital (TC = T1 + T2)**	**494,916**		**522,362**
60	Total risk weighted assets	**1,867,021**		**1,867,021**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
(continued)

	Common Equity Tier 1 capital: instruments and reserves	Amount at disclosure date as at 31 December 2016	Regulation (EU) No 575/2013 article reference	Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) no 575/2013
	Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	26.51%	92(2)(a), 465	27.98%
62	Tier 1 (as a percentage of risk exposure amount)	26.51%	92(2)(b), 465	27.98%
63	Total capital (as a percentage of risk exposure amount)	26.51%	92(2)(c)	27.98%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	0.63%	128, 129 in 130 (Capital Requirements Directive)	2.50%
65	of which: capital conservation buffer requirement	0.63%		2.50%
66	of which: countercyclical buffer requirement	0.00%		0.00%
67	of which: systemic risk buffer requirement			
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer		131 (Capital Requirements Directive)	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)		128 (Capital Requirements Directive)	
	Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	10,688	36(1)(h), 45, 46, 472(10), 56(c), 59, 60, 475(4), 66(c), 69, 70, 477(4)	10,688
73	Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		36(1)(i), 45, 48, 470, 472(11)	
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	2,027	36(1)(c), 38, 48, 470, 472(5)	

Note: Other items are not included in the template because the Group doesn't have them. The Group doesn't have Additional Tier 1 instruments and regulatory adjustments, Tier 2 instruments and regulatory adjustments, applicable caps on the inclusion of provisions in Tier 2 and capital instruments subject to phase-out arrangements.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.4.2 Minimum capital requirements

Disclosures relating to capital requirements are laid down in Article 438 of Regulation (EU) No 575/2013.
The following table shows the total risk exposure amount by risk type.

TOTAL RISK EXPOSURE AMOUNT BY RISK TYPE

As at 31 December	2016	2015	2016
	Risk exposure amount		Capital requirements
Risk weighted exposure amounts for credit risk	1,614,129	1,681,789	129,130
Risk exposure amount for position and foreign-exchange risk	353	1,784	28
Risk exposure amounts for operational risk	251,902	277,698	20,152
Risk exposure amount for credit valuation adjustment	635	462	51
Settlement/delivery risk exposure amount	2	–	0.2
Total risk exposure amount	**1,867,021**	**1,961,733**	**149,362**

2.4.2.1 Risk weighted exposure amounts for credit risk

The risk weighted exposure amounts for the credit risk of the Group are calculated by applying the Standardised Approach. The following table shows risk weighted exposure amounts for credit risk per exposure category.

RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT RISK

As at 31 December	2016	2015	2016
	Risk exposure amount		Capital requirements
Standardised approach	**1,614,129**	**1,681,789**	**129,130**
Exposure classes excluding securitization positions	**1,614,129**	**1,681,789**	**129,130**
Exposures to central governments or central banks	17,633	15,435	1,411
Exposures to regional governments or local authorities	5,132	6,942	411
Exposures to public sector intities	14,259	15,035	1,141
Exposures to institutions	25,414	51,256	2,033
Exposures to corporates	563,379	539,025	45,070
Retail exposures	665,261	642,533	53,221
Exposures secured by mortgages on immovable property	71,588	118,327	5,727
Exposures in default	103,252	95,571	8,260
Exposures associated with particularly high risk	24,926	63,917	1,994
Exposures in the form of covered bonds	3,674	4,440	294
Exposures to institutions and corporates with a short-term credit assessment	36,188	43,438	2,895
Exposures in the form of units or shares in collective investment undertakings (CIUs)	6,268	7,703	501
Equity exposures	16,698	13,364	1,336
Other items	60,456	64,803	4,836

In 2016, the risk weighted exposure amounts for credit risk decreased by 4%, i.e. by EUR 67,660 thousand and, within that, the largest decrease in absolute amount was seen in exposures secured by mortgages on immovable property and exposures associated with particularly high risk.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.4.2.2 Risk exposure amount for market risk

The total market risk exposure amount is calculated by multiplying the own funds requirement for market risk by 12.5. The Group's own funds requirement for market risk is calculated by applying the Standardised Approach. The own funds requirement for market risk involves the calculation of the own funds requirement for position risk (specific and general risk due to price changes of financial instruments) and foreign exchange risk.

RISK EXPOSURE AMOUNT FOR MARKET RISK

As at 31 December	2016	2015	2016
	Risk exposure amount		Capital requirements
Standardised approach	**353**	**1,784**	**28**
Position and foreign-exchange risk	**353**	**1,784**	**28**
Debt based financial instruments	12	1,238	1
Equity based financial instruments	341	546	27
Foreign-exchange risk	–	–	–

2.4.2.3 Risk exposure amounts for operational risk

The total operational risk exposure amount is calculated by multiplying the own funds requirement for operational risk by 12.5. The Group's own funds requirement for operational risk is calculated by applying the Basic Indicator Approach. Therefore, the own funds requirement for operational risk is equal to 15% of the average annual gross income over the previous three years.

RISK EXPOSURE AMOUNTS FOR OPERATIONAL RISK

As at 31 December	2016	2015	2016
	Risk exposure amount		Capital requirements
Basic indicator approach	**251,902**	**277,698**	**20,152**

2.4.2.4 Risk exposure amount for credit valuation adjustment

The total risk exposure amount for credit valuation adjustment is calculated by multiplying the own funds requirement for credit valuation adjustment by 12.5. The Group's own funds requirement for credit valuation adjustment is calculated by applying the Standardised Approach. Credit Valuation Adjustment or CVA means an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty for all OTC derivative instruments.

RISK EXPOSURE AMOUNT FOR CREDIT VALUTATION ADJUSTMENT

As at 31 December	2016	2015	2016
	Risk exposure amount		Capital requirements
Standardised method	**635**	**462**	**51**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.4.2.5 Settlement/delivery risk exposure amount

The total settlement risk exposure amount is calculated by multiplying the own funds requirement for settlement risk by 12.5. This calculation is made in the case of transactions in which debt instruments, equities, foreign currencies and commodities are unsettled after their due delivery dates, for which an institution has to calculate the price difference to which it is exposed.

SETTLEMENT/DELIVERY RISK EXPOSURE AMOUNT

As at 31 December	2016	2015	2016
	Risk exposure amount		Capital requirements
In trading book	2	–	0.2

2.4.3 Leverage ratio

The disclosures of information regarding the leverage ratio are laid down in Article 451 of the Regulation (EU) No 575/2013 and the Commission Implementing Regulation 200/2016.

2.4.3.1 Reconciliation of accounting assets and the leverage ratio total exposure measure

The disclosures of information regarding a reconciliation of accounting assets and the leverage ratio total exposure measure are laid down in Article 451(1)(b) of Regulation (EU) 575/2013.

RECONCILIATION OF ACCOUNTING ASSETS AND THE LEVERAGE RATIO TOTAL EXPOSURE MEASURE

	As at 31 December	2016	2015
1	Total assets as per published financial statements	3,614,833	3,830,227
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	–	–
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")	–	–
4	Adjustments for derivative financial instruments	1,482	1,349
5	Adjustments for securities financing transactions "SFTs"	–	–
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	409,444	427,757
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)	–	–
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	–	–
7	Other adjustments	(12,703)	(11,774)
8	**Total leverage ratio exposure**	4,013,056	4,247,559

2.4.3.2 Breakdown of the leverage ratio total exposure measure

The disclosures of information regarding a breakdown of the leverage ratio total exposure measure are laid down in Article 451(1)(a)(b)(c) of Regulation (EU) 575/2013.

The breakdown of the leverage ratio total exposure measure in terms of exposure, capital measure, specified choice of the definition of the capital measure and fiduciary assets in the balance sheet is shown in the table below.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

BREAKDOWN OF THE LEVERAGE RATIO TOTAL EXPOSURE MEASURE

As at 31 December		2016	2015
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	3,609,784	3,824,837
2	(Asset amounts deducted in determining Tier 1 capital)	(12,703)	(11,774)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**3,597,081**	**3,813,063**
Derivative exposures			
4	Replacement cost associated with *all* derivatives transactions (ie net of eligible cash variation margin)	5,049	5,390
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	1,482	1,349
EU-5a	Exposure determined under Original Exposure Method	–	–
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	–	–
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	–	–
8	(Exempted CCP leg of client-cleared trade exposures)	–	–
9	Adjusted effective notional amount of written credit derivatives	–	–
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	–	–
11	**Total derivative exposures (sum of lines 4 to 10)**	**6,531**	**6,739**
Securities financing transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	–	–
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	–	–
14	Counterparty credit risk exposure for SFT assets	–	–
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	–	–
15	Agent transaction exposures	–	–
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	–	–
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**0**	**0**
Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount	445,960	463,279
18	(Adjustments for conversion to credit equivalent amounts)	(36,516)	(35,522)
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	409,444	427,757
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)			
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))		
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))		
Capital and total exposures			
20	**Tier 1 capital**	**494,916**	**451,771**
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**4,013,056**	**4,247,559**
Leverage ratio			
22	**Leverage ratio**	**12.33%**	**10.64 %**
Choice on transitional arrangements and amount of derecognised fiduciary items			
EU-23	Choice on transitional arrangements for the definition of the capital measure	the definition of Tier 1 capital in accordance with Article 499 (1) (b) of Regulation (EU) No 575/2013	the definition of Tier 1 capital in accordance with Article 499 (1) (b) of Regulation (EU) No 575/2013
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013		

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December		2016	2015
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	3,609,784	3,824,837
EU-2	Trading book exposures	176	3,402
EU-3	Banking book exposures, of which:	3,609,608	3,821,435
EU-4	Covered bonds	36,741	44,396
EU-5	Exposures treated as sovereigns	819,689	913,346
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	705,404	691,174
EU-7	Institutions	103,951	140,771
EU-8	Secured by mortgages of immovable properties	174,442	269,053
EU-9	Retail exposures	872,698	854,024
EU-10	Corporate	544,117	522,114
EU-11	Exposures in default	109,830	89,775
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	242,736	296,782

2.4.3.3 Disclosure of qualitative information on risk of excessive leverage

The disclosures of information regarding the processes used to manage the risk of excessive leverage are laid down in Article 451(1)(d) of Regulation (EU) 575/2013.

The process of excessive leverage risk management is performed in accordance with the adopted policy on excessive leverage risk management. It includes regular monitoring of the movement of the leverage ratio, which is within the competence of the Assets and Liabilities Committee. Considering the structure of the statement of financial position and the level of the leverage ratio, the Group assessed that the risk of excessive leverage was low. Such an assessment was made on the basis of achieving the tolerance value of the leverage ratio as set out in the Risk Management Strategy, as well as achieving the warning and limit values under the Recovery Plan.

2.4.3.4 Disclosure of qualitative information on risk of the factors impacting the leverage ratio

The disclosures of information regarding the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers are laid down in Article 451(1)(e) of Regulation (EU) 575/2013.

The leverage ratio is calculated as a Tier 1 measure of the Group divided by the total exposure measure of the Group.

KEY INFORMATION REGARDING LEVERAGE RATIO

As at 31 December	2016	2015
Tier 1 capital - transitional definition	494,916	451,771
Total leverage ratio exposures	4,013,056	4,247,559
Leverage Ratio - using a transitional definition of Tier 1	12.33 %	10.64 %

Tier 1 capital of the Group (transitional definition) amounted to EUR 494,916 thousand as at 31 December 2016, which represents a year-on-year increase of EUR 43,145 thousand. As at the reporting date, the total leverage ratio exposures of the Group stood at EUR 4,013,056 thousand, or EUR 234,503 thousand less compared to 31 December 2015. The leverage ratio of the Group (using a transitional definition of Tier 1), reached 12.33%, which was weak 2 percentage points higher than at the 2015 year-end.

In 2016, the bulk of Tier 1 measure was accounted for by:
- share premium accounts,
- capital instruments,
- accumulated other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Due to higher Common Equity Tier 1 items and lower reductions from Common Equity Tier 1 items, the Tier 1 measure improved in 2016 compared to 2015, positively impacting the level of the leverage ratio.

In the reporting period, the bulk of leverage ratio total exposure measure was accounted for by:
- retail exposures,
- exposures to central governments,
- exposures to regional governments and public sector entities,
- exposures to corporates.

Due to lower amounts of exposures secured by mortgages on immovable property and exposures to central governments, the leverage ratio total exposure measure decreased in 2016 compared to 2015, which had a positive impact on the level of the leverage ratio.

2.4.4 Capital buffers

The disclosures of information regarding capital buffers are laid down in Article 440 of Regulation (EU) 575/2013 and the Commission Delegated Regulation (EU) 2015/1555.

(All amounts in EUR thousand unless otherwise stated)

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(continued)

GEOGRAPHICAL DISTRIBUTION OF CREDIT EXPOSURES RELEVANT FOR THE CALCULATION OF THE COUNTERCYCLICAL CAPITAL BUFFER

	General credit exposures		Trading book exposure		Own funds requirements				
Country	Exposure value for SA	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Of which: General credit exposures	Of which: Trading book exposures	Total	Own funds requirement weights	Countercyclical capital buffer rate
Albania	0				0		0	0.00%	0.00%
Argentina	0				0		0	0.00%	0.00%
Austria	11,681				430		430	0.35%	0.00%
Australia	153				2		2	0.00%	0.00%
Azerbaijan	0				0		0	0.00%	0.00%
Bosnia and Herzegovina	2,270				174		174	0.14%	0.00%
Belgium	24,556				812		812	0.65%	0.00%
Bulgaria	14				1		1	0.00%	0.00%
Brazil	0				0		0	0.00%	0.00%
Belarus	0				0		0	0.00%	0.00%
Canada	150				2		2	0.00%	0.00%
Switzerland	11,906				309		309	0.25%	0.00%
Cameroon	0				0		0	0.00%	0.00%
China	4				0		0	0.00%	0.00%
Colombia	0				0		0	0.00%	0.00%
Cuba	0				0		0	0.00%	0.00%
Cyprus	0				0		0	0.00%	0.00%
Czech Republic	14				0		0	0.00%	0.00%
Germany	26,350				965		965	0.78%	0.00%
Denmark	54				2		2	0.00%	0.00%
Dominican Republic	0				0		0	0.00%	0.00%
Algeria	0				0		0	0.00%	0.00%
Ecuador	0				0		0	0.00%	0.00%
Egypt	54				3		3	0.00%	0.00%
Spain	4				0		0	0.00%	0.00%
Finland	8,012				64		64	0.05%	0.00%
France	13,244				125		125	0.10%	0.00%
Gabon	0				0		0	0.00%	0.00%
United Kingdom	10,190				344		344	0.28%	0.00%
Georgia	4				0		0	0.00%	0.00%
Ghana	0				0		0	0.00%	0.00%
Gibraltar	148				7		7	0.01%	0.00%
Hong Kong	3,073				49		49	0.04%	0.00%
Croatia	14,827				928		928	0.75%	0.00%
Hungary	60				2		2	0.00%	0.00%
Indonesia	0				0		0	0.00%	0.00%
Ireland	20				1		1	0.00%	0.00%
India	1				0		0	0.00%	0.00%
Italy	3,991				240		240	0.19%	0.00%
Japan	1,478				24		24	0.02%	0.00%
Kyrgyzstan	0				0		0	0.00%	0.00%
Korea, Republic of	0				0		0	0.00%	0.00%
Lebanon	0				0		0	0.00%	0.00%
Lithuania	0				0		0	0.00%	0.00%
Luxembourg	2				0		0	0.00%	0.00%

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
(continued)

Country	General credit exposures		Trading book exposure		Own funds requirements			Own funds requirement weights	Countercyclical capital buffer rate
	Exposure value for SA	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Of which: General credit exposures	Of which: Trading book exposures	Total		
Latvia	1				0		0	0.00%	0.00%
Libya	0				0		0	0.00%	0.00%
Monaco	0				0		0	0.00%	0.00%
Moldova, Republic of	0				0		0	0.00%	0.00%
Montenegro	31				2		2	0.00%	0.00%
Macedonia, the former Yugoslav Republic of	23				1		1	0.00%	0.00%
Myanmar	0				0		0	0.00%	0.00%
Mauritius	4				0		0	0.00%	0.00%
Nigeria	0				0		0	0.00%	0.00%
Netherlands	12,960				403		403	0.32%	0.00%
Norway	3,830				259		259	0.21%	0.63%
New Zealand	0				0		0	0.00%	0.00%
Philippines	0				0		0	0.00%	0.00%
Pakistan	1				0		0	0.00%	0.00%
Poland	943				38		38	0.03%	0.00%
Palestinian Territory, Occupied	0				0		0	0.00%	0.00%
Romania	0				0		0	0.00%	0.00%
Serbia	9,822				85		85	0.07%	0.00%
Russian Federation	62				4		4	0.00%	0.00%
Sweden	565				10		10	0.01%	0.63%
Slovenia	1,985,408		170		118,355	27	118,382	95.34%	0.00%
Slovakia	774				62		62	0.05%	0.00%
Thailand	0				0		0	0.00%	0.00%
Tajikistan	0				0		0	0.00%	0.00%
Turkey	10				1		1	0.00%	0.00%
Ukraine	6				0		0	0.00%	0.00%
United States	5,606				431		431	0.35%	0.00%
Venezuela, Bolivarian Republic of	12				1		1	0.00%	0.00%
Kosovo	8				0		0	0.00%	0.00%
Yemen	0				0		0	0.00%	0.00%
South Africa	0				0		0	0.00%	0.00%
	2,152,326	**–**	**170**	**–**	**124,136**	**27**	**124,163**		

Note: Exposures to securitisation positions are not included in the table as the Group has none.

AMOUNT OF INSTITUTION-SPECIFIC COUNTERCYCLICAL CAPITAL BUFFER

Stanje 31. december	2016
Total risk exposure amount	1,867,021
Institution specific conuntercyclical buffer rate	0.001%
Institution specific conuntercyclical buffer requirement	25

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.4.5 Indicators of global systemic importance

The disclosures of information regarding the indicators of global systemic importance are laid down in Article 441 of Regulation (EU) 575/2013 and the Commission Implementing Regulation (EU) 2016/818.

Institutions identified as G-SIIs disclose the values of the indicators of global systemic importance on an annual basis. Abanka d.d. is not defined as a G-SII bank.

2.4.6 Internal capital adequacy assessment process

The internal capital adequacy assessment process is defined by two variables. The first variable represents the risks to which the Group is exposed, going beyond the first pillar of capital requirements, while the second variable is the capital held by the Group for covering risks and potential losses arising from such risks. A comparison of the internal assessment of capital requirements and the internal assessment of capital indicates the Group's ability to cover all risks to which it is exposed.

Within the framework of the Internal Capital Adequacy Assessment Process (ICAAP), the Group upgraded existing methods for calculating the internal assessments of capital requirements; continued to regularly monitor its risk profile and evaluated risk-bearing capacity; set up and performed stress tests; and calculated the amount of its internal assessment of capital and internal assessment of capital requirements for all important types of risks on a quarterly basis. The findings of the ICAAP process are included in regular quarterly reports on the results of the Internal Capital Adequacy Assessment Process, which is communicated to the members of the Management Board, the members of the Risk Management Committee, consisting of senior management of the Bank, the members of the Risk Monitoring and Asset Liability Management Committee and the Supervisory Board members.

As at 31 December 2016, the consolidated total capital ratio, Common Equity Tier 1 ratio and Additional Tier 1 capital ratio were at 26.51% (non-consolidated 26.35%). In accordance with Regulation (EU) No 575/2013, the following own funds requirements shall apply in the period from 1 January 2015 on: a Common Equity Tier 1 capital ratio at 4.5% or higher; a Tier 1 capital ratio at 6% or higher; and a total capital ratio at 8% or higher. As at 31 December 2016, the Group's capital adequacy ratios were above the legally required levels. According to stress scenarios by the Bank of Slovenia the expected consolidated capital adequacy ratio was 13.5% and the expected Common Equity Tier 1 capital ratio equalled 10.8%. As at the reporting date, the Group's capital adequacy ratios were above the levels required by the Bank of Slovenia.

2.5 Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk, model risk and outsourcing risk, but excludes strategic risk and reputational risk. However, the realisation of operational risk may, as a consequence, compromise the Group’s reputation.

2.5.1 Operational risk management process

The operational risk strategy and management processes are set out in the Operational Risk Management Policy. In 2016, the Group continued with the activities formulated in the Policy, which was updated in 2016 with current amendments. The accompanying internal instructions were brought in line with the amended Policy, in order to involve all operational risk management steps and define the Group’s appetite and tolerance for operational risk.

The objective of the operational risk management process is to establish procedures for reducing risk and limiting the occurrence of losses from operational risk as well as to actively plan and implement measures aimed at reducing the frequency and severity of loss events.

The operational risk management process includes:
- procedures of operational risk identification, measurement/assessment, monitoring (controlling) and mitigation;
- operational risk internal reporting.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The Group regularly identifies and qualitatively assesses operational risk exposure, whilst also taking stock of preventive and corrective measures in the case that potential loss events occur. The system of operational risk internal reporting in the Group involves the entire staff and enables a quick reaction in the event of problems, since the Management Board and senior management are involved in such reporting. If necessary, after each loss event, additional measures are to be taken, and holders and implementation deadlines are to be set in order to prevent or reduce the possibility of reoccurrence, and with the aim of improving operational risk management. Risk Management Department monitors the implementation of measures and reports to the Risk Management Committee.

The structure and organisation of appropriate operational risk management in the Group involves employees at all levels with different responsibilities and duties. Operational risk management and risk mitigation measures are decentralised and take place in all organisational units. The Risk Management Department is in charge of coordinating the operational risk management function.

Working within the Group are the Operational Risk Commission, which is responsible for the development of the operational risk management system, and the Risk Management Committee, which is a collective decision-making body responsible for directing and controlling operational risk management. The latter includes all senior managers and is chaired by a member of the Management Board.

For the purpose of **operational risk internal reporting**, the Group uses an application developed in-house for recording loss events. The recording application enables the recording of loss events (also anonymously). In the framework of loss event reporting, the Group also collects information on legal risk. The risk management policy and processes are applied to legal risk in the same manner as other operational risk categories. The Group manages the legal risk arising from legal actions against the Group in the same manner as other legal risks, i.e. by prudent and careful consideration of each case (if not outsourced) and/or cautious selection of lawyers (if outsourced) to allow for quality representation of the Group. The Risk Management Department is responsible for the preparation of summary quarterly reports on loss events, which are discussed by the Operational Risk Commission and the Risk Management Committee. The Committee discusses major loss events in greater detail, takes appropriate measures as they occur and monitors implementation of these measures. It also investigates all operational risk profiles (assessed, realised, targeted) by organisational units and at the Group level. Moreover, the Management Board and senior management are promptly informed of all major loss events. The Supervisory Board discusses quarterly reports on exposure to various risks, including operational risk.

2.5.1.1 Operational risk mitigation

The operational risk measurement system includes operational risk identification and assessment and/or measurement through the recording of potential loss events. For each identified potential loss event, the probability of its occurrence and the seriousness of the consequences resulting from its occurrence are assessed.For assessment purposes a qualitative approach is taken. Existing controls for reducing loss event occurrence have to be defined for each recorded potential loss event. For significant loss events preventive measures, holders and implementation deadlines are also defined.

2.5.1.2. Operational risk mitigation

The Group carries out activities within the framework of **operational risk hedging and reduction**, which are based on the identification, measurement, assessment, monitoring and internal reporting on operational risk. In addition, the Group performs activities to mitigate the consequences of occurred loss events. The implementation of these activities is the responsibility of individual organisational units. An analysis of the loss events which occurred during the last year was performed, indicating that the human factor was the main source of losses arising from operational risks. Therefore, the Group is continuously introducing measures for constant risk mitigation.

The Group has developed business continuity plans and disaster recovery plans, which are regularly updated, upgraded and tested.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable given the circumstances.

(a) Impairment losses on loans and advances

The Group constantly monitors the quality of its credit portfolio and assesses credit risk losses. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans, before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating a decline in the solvency of debtors, or a deterioration in economic conditions that correlates with defaults on assets in the group of loans. Future cash flows are estimated on the basis of historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group. Individual assessments of losses arising from credit risk are made on the basis of projected future cash flows, taking into account all relevant information regarding the financial position and payment status of the debtor. Cash flow projections are verified by the Risk Management Department. Minor exposures, including loans to individuals, are collectively assessed. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Group regularly measures the impact of the deterioration of the credit portfolio on the basis of the amount of credit risk losses, on profit or loss, as well as on regulatory capital and the capital adequacy ratio of the Group. It employs sensitivity analyses to provide additional information on potential credit risk losses and necessary impairments of financial assets. Two of the analyses used to determine the impact of credit portfolio deterioration on the amount of credit risk loss are presented below.

The first sensitivity analysis assumes that 2% of A, B, C and D loans are downgraded by one credit rating category. Based on data at the end of 2016, credit risk losses would increase by 2.2% (2015: 2.3%) or EUR 6 million (2015: EUR 7.5 million). The second sensitivity analysis was conducted in accordance with the assumption that 1% of A, B and C loans are downgraded by one credit rating category, 1% of these loans are downgraded by two credit rating categories and 2% of D-rated loans are downgraded by one credit rating category. The result of this sensitivity analysis has shown that, based on data at the end of 2016, credit risk losses would rise by 3.9% (2015: 3.9%) or EUR 10.5 million (2015: EUR 12.9 million).

(b) Impairment of available-for-sale equity investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in their fair value below their cost.

In addition, the Group estimates the usual fluctuation in share prices. Impairment may also be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows. In 2016, this category contained no securities with a fair value lower than the cost.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(c) Held-to-maturity investments

The Group follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances (e.g. selling an insignificant amount close to maturity) the Bank is required to reclassify the entire category as available-for-sale. The investments would therefore be measured at fair value and not at amortised cost.

If all held-to-maturity investments were to be so reclassified, the carrying value would increase by EUR 1,948 thousand (2015: a EUR 2,754 thousand increase), with a corresponding entry in accumulated other comprehensive income in equity.

(d) Fair value of financial assets and liabilities

Financial instruments carried at fair value

Fair value is defined as the price achieved on the sale of an asset or paid to transfer a liability in an orderly transaction in the principal (or, if not existent, in the most advantageous) market under current market conditions between participants at the measurement date. Such a definition of price requires the market participants to be independent and unrelated, informed and capable, willing and not forced to enter into a transaction.

When measuring fair value, it is assumed that an asset or liability is exchanged in an orderly transaction between market participants under current market conditions at the measurement date, whether or not the price can be directly observed or estimated by applying other valuation techniques.

Fair value hierarchy

In line with IFRS 13, the Group categorises financial instruments into three fair value levels based on the nature of inputs used to determine fair value. Higher levels contain financial instruments whose fair value was measured by using directly observable inputs (directly observable prices). Financial instruments, for which the fair value was also measured by using unobservable inputs, are categorised into lower fair value levels. The level of inputs having the strongest impact on determining the fair value of a financial instrument is taken into consideration. In cases where several types of inputs impact the determination of fair value, the lowest level in the hierarchy of inputs is used.

- Level 1: The Group categorises financial instruments, for which the fair value was measured through direct price observation at markets for identical financial instruments, to which the Group had access at the measurement date, into fair value Level 1. Debt instruments must meet the detailed liquidity criteria stipulated in internal acts, while equity instruments listed on the Ljubljana Stock Exchange are required to comply with the liquidity rules determined by the Ljubljana Stock Exchange.

- Level 2: The Group categorises financial instruments, for which the fair value was measured through direct price observation at markets for similar financial instruments, into fair value Level 2. The Group categorises debt instruments into fair value level 2 if the fair value was measured using the direct observation of quoted prices by third parties (e.g. BGN, BVAL, etc.). In addition, the Group categorises into fair value level 2 those financial instruments whose fair value was measured using inputs which make it impossible to categorise a financial instrument into fair value Level 1, whilst the inputs are accessible at the market and indirectly indicate the market conditions, or are derived from observable market prices or from observable quoted prices for equal financial instruments from market participants or third parties, provided orderly transaction pricing and a binding quote of a third party.

- Level 3: The Group categorises financial instruments, for which the fair value was measured using unobservable inputs, into fair value Level 3. Unobservable inputs comprise assumptions and anticipations. In using this valuation technique, the Group forms assumptions and anticipations in compliance with other market participants. In addition, the Group categorises into fair value Level 3 the financial instruments whose fair value was measured by using insufficient or unknown inputs in applying the selected valuation technique and those financial instruments whose fair value was measured on the basis of third party quoted prices that do not indicate an orderly transaction or a binding quote of a third party. Equity securities and equity holdings for which the fair value was measured using internal valuation methods are also classified into fair value level 3.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Valuation techniques for financial instruments measured at fair value

Valuation techniques used in the measurement of fair value encourage maximising the use of relevant observable inputs and minimising the use of unobservable inputs. The markets where inputs for the valuation of financial instruments can be observed include organised exchange markets, dealer markets, brokered markets and principal-to-principal markets.

The Group measures the fair value of financial instruments by using directly observable market prices for identical assets or liabilities, accessible to the Group at the measurement date. As a rule, in such cases the Group makes use of closing market prices on the valuation cut-off date. The Group may further use quoted prices provided by market participants or third parties to measure the fair value of financial instruments, provided that inputs stem from orderly transaction pricing and constitute a binding quote of a third party. In case of several quotations, the Group may use the most favourable quotation.

If directly observable market prices for identical assets or liabilities are not available and, at the same, there are no quoted prices available from market participants or third parties (provided orderly transaction pricing, and a binding quote of a third party, or when the Group estimates that there is no active market for a financial instrument), a market approach or an income approach valuation technique is used to determine fair value.

The fair value of equity securities for which there is no active market, or no market price is available, is mainly determined using a yield-based valuation technique, namely the discounted cash flow method. When a sufficient number of similar listed companies exists, the Group uses a market-based valuation method, namely the method of similar listed companies.

The valuation of debt securities is based on a market-based valuation method using the method of similar companies.

Valuation of derivatives is based on discounting the expected future cash flows estimated on the basis of market information, such as interest rates and exchange rates. The Group applies the Garman-Kohlhagen model for the valuation of European-style currency options, and the Barone-Adesi and Whaley model for American currency options valuation. The Blacks model is used for the valuation of interest options.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
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Internal environment for valuations

The Group has created an internal environment for the proper implementation of the valuation activity. The valuation of financial instruments that are measured at fair value is carried out by an organisational unit that is completely independent of the assets and liabilities management unit. The valuation of financial instruments received as collateral for the Group's investments is carried out by the organisational unit that is not the owner of claims collateralised with financial instruments subject to valuation.

Valuation models, modes of application and types of inputs are defined in the internal rules of the Group, which also hereby restricts any subjective judgement in fair value measurement. On a daily basis, the Group performs independent verification of recorded exchange rates and prices used in the valuation of financial instruments.

VALUATION METHODOLOGY FOR FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

As at 31 December 2016	Quoted prices in active markets (level 1)	Valuation techniques based on observable market data (level 2)	Valuation techniques incorporating information other than observable market data (level 3)	Total
Financial assets measured at fair value				
Financial assets held for trading	–	5,055	170	**5,225**
– equity securities	–	–	170	**170**
– derivatives	–	5,049	–	**5,049**
– other	–	6	–	**6**
Financial assets designated at fair value through profit or loss	2,412	–	–	**2,412**
– unit linked investments	2,412	–	–	**2,412**
Available-for-sale financial assets	413,311	841,910	5,397	**1,260,618**
– debt securities	401,054	817,143	–	**1,218,197**
– equity securities	12,257	2	674	**12,933**
– equity holdings	–	–	4,723	**4,723**
– Bank Resolution Fund	–	24,765	–	**24,765**
Total financial assets	**415,723**	**846,965**	**5,567**	**1,268,255**

Financial liabilities measured at fair value				
Financial liabilities held for trading	–	4,933	–	**4,933**
– derivatives	–	4,913	–	**4,913**
– spot transactions	–	20	–	**20**
Total financial liabilities	**–**	**4,933**	**–**	**4,933**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
(continued)

As at 31 December 2015	Quoted prices in active markets (level 1)	Valuation techniques based on observable market data (level 2)	Valuation techniques incorporating information other than observable market data (level 3)	Total
Financial assets measured at fair value				
Financial assets held for trading	3,477	5,074	5	**8,556**
– debt securities	3,119	–	–	**3,119**
– equity securities	–	268	5	**273**
– derivatives	358	4,796	–	**5,154**
– other	–	10	–	**10**
Financial assets designated at fair value through profit or loss	2,452	–	–	**2,452**
– unit linked investments	2,452	–	–	**2,452**
Available-for-sale financial assets	401,548	1,046,066	10,154	**1,457,768**
– debt securities	390,634*	1,015,188*	–	**1,405,822**
– equity securities	10,914	714	10,058	**21,686**
– equity holdings	–	5,428	96	**5,524**
– Bank Resolution Fund	–	24,736	–	**24,736**
Derivatives - hedge accounting	–	237	–	**237**
Total financial assets	**407,477**	**1,051,377**	**10,159**	**1,469,013**
Financial liabilities measured at fair value				
Financial liabilities held for trading	–	4,742	–	**4,742**
– derivatives	–	4,735	–	**4,735**
– spot transactions	–	7	–	**7**
Total financial liabilities	**–**	**4,742**	**–**	**4,742**

* Due to changes in the fair value hierarchy methodology for debt securities for which fair value is based on the market consensus price by Bloomberg (BGN), the Group has adjusted the distribution between levels of the fair value, as these debt securities are classified in 2016.

FAIR VALUE TRANSFERS OF FINANCIAL INSTRUMENTS AVAILABLE FOR SALE

2016	Level 1		Level 2		Level 3	
	from	to	from	to	from	to
Carrying amount as at the transfer date						
Available-for-sale financial assets (equity securities)	2	–	6,142	2	–	3,072
As at 31 december 2016	**2**	**–**	**6,142**	**2**	**–**	**3,072**

Due to the changed valuation technique, the Group transferred two items of available-for-sale equity securities (amounting to EUR 3,072 thousand) in total from level 2 to level 3 in 2016. The Group has shifted from a market-based valuation model to a yield-based valuation technique. Due to market illiquidity, the Group has transferred one available-for-sale equity security amounting to EUR 2 thousand from level 1 to level 2.

In 2015, there were no transfers between the levels of fair value.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE AT LEVEL 3 OF THE FAIR VALUE HIERARCHY

	Financial assets held for trading	Available-for-sale financial assets	Total
	Equity securities	Equity holdings	
As at 1 January 2016	**5**	**10,154**	**10,159**
Total gains/(losses)	–	22	**22**
– in profit or loss	–	–	**–**
– in other comprehensive income	–	22	**22**
Purchases	–	–	**–**
Sales, redemptions, settlements, other	–	(7,851)	**(7,851)**
Transfers to level 3	165	3,072	**3,237**
Transfers from level 3	–	–	**–**
As at 31 December 2016	**170**	**5,397**	**5,567**
Gains/(losses) in profit or loss for assets/liabilities held as at 31 December 2016	**–**	**9,910**	**9,910**

	Financial assets held for trading	Available-for-sale financial assets	Total
	Equity securities	Equity holdings	
As at 1 January 2015	**5**	**485**	**490**
Total gains/(losses)	–	9,880	**9,880**
– in profit or loss	–	–	**–**
– in other comprehensive income	–	9,880	**9,880**
Purchases	–	–	**–**
Sales, redemptions, settlements	–	(211)	**(211)**
Transfers to level 3	–	–	**–**
Transfers from level 3	–	–	**–**
As at 31 December 2015	**5**	**10,154**	**10,159**
Gains/(losses) in profit or loss for assets/liabilities held as at 31 December 2015	**–**	**–**	**–**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Unobservable inputs used in measuring fair value

The table below contains information on significant unobservable inputs used in the fair value measurement of financial instruments categorised in fair value Level 3 as at 31 December 2016.

Type of financial instruments	Fair values as at 31 December 2016	Valuation technique	Significant unobservable input	Range of estimates for unobservable input	Fair value measurement sensitivity to unobservable inputs
Equity securities	5	At cost	–	–	A change in the measurement technique might to a certain extent change the fair value.
Equity holdings	96	At cost	–	–	A change in the measurement technique might to a certain extent change the fair value.

The unobservable inputs for fair value measurement of financial instruments which were categorised in fair value Level 3 as at 31 December 2016 arise from the application of cost model valuation in cases in which obstacles existed in fair value measurement and the values of the relevant assets are low.

Effect of unobservable inputs on fair value measurement

Although the Group believes the fair values to be adequate, the application of various valuation techniques or assumptions may lead to different fair value measurements. In the case of the fair value measurement of the financial instruments categorised in Level 3, any changes in the selection of unobservable inputs or assumptions and application of reasonably different inputs or assumptions could, to a certain extent, change the measured fair value.

2016	Effect on profit or loss		Effect on other comprehensive income	
Financial asset	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Equity securities	–	(5)	–	–
Equity holdings	–	–	–	(96)

The adverse impact on profit or loss due to fair value measurement of Level 3 equity financial instruments and equity holdings was measured to show the possibility that the transit from the cost valuation model to some other fair value measurement technique would result in zero value.

2015	Effect on profit or loss		Effect on other comprehensive income	
Financial asset	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Equity securities	–	(5)	–	–
Equity holdings	–	–	–	(96)

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Financial instruments not measured at fair value

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's statement of financial position at their fair value.

FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

As at 31 December 2016	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Cash, cash balances with the central bank and other demand deposits with banks	344,259	344,259	–	–	344,259
Loans and receivables	1,884,134	–	77,799	1,901,194	1,978,993
– loans to banks	65,489	–	65,627	–	65,627
– loans to non-bank customers	1,806,473	–	–	1,901,194	1,901,194
– retail customers	835,023	–	–	885,364	885,364
– corporate entities	971,450	–	–	1,015,830	1,015,830
– other financial assets	12,172	–	12,172	–	12,172
Held-to-maturity investments	32,032	33,980	–	–	33,980
Financial liabilities					
Financial liabilities measured at amortised cost	2,928,606	–	2,912,738	–	2,912,738
– deposits from banks and the central bank	19,706	–	19,291	–	19,291
– deposits from non-bank customers	2,774,878	–	2,756,947	–	2,756,947
– retail customers	1,925,799	–	1,901,091	–	1,901,091
– corporate entities	849,079	–	855,856	–	855,856
– loans from banks and the central bank	89,658	–	92,136	–	92,136
– loans from non-bank customers	521	–	521	–	521
– debt securities issued	21,047	–	21,047	–	21,047
– other financial liabilities	22,796	–	22,796	–	22,796

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
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As at 31 December 2015	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Cash, cash balances with the central bank and other demand deposits with banks	281,289	281,289	–	–	281,289
Loans and receivables	1,960,263	–	109,526	1,960,115	2,069,641
– loans to banks	97,218	–	96,865	–	96,865
– loans to non-bank customers	1,850,384	–	–	1,960,115	1,960,115
– retail customers	819,157	–	–	924,873	924,873
– corporate entities	1,031,227	–	–	1,035,242	1,035,242
– other financial assets	12,661	–	12,661	–	12,661
Held-to-maturity investments	32,126	34,880	–	–	34,880
Financial liabilities					
Financial liabilities measured at amortised cost	3,204,933	36,108	3,146,038	–	3,182,146
– deposits from banks and the central bank	15,422	–	15,413	–	15,413
– deposits from non-bank customers	2,844,884	–	2,814,671	–	2,814,671
– retail customers	1,835,260	–	1,864,703	–	1,864,703
– corporate entities	1,009,624	–	949,968	–	949,968
– loans from banks and the central bank	263,312	–	270,524	–	270,524
– loans from non-bank customers	558	–	558	–	558
– debt securities issued	61,860	36,108	25,975	–	62,083
– other financial liabilities	18,897	–	18,897	–	18,897

The following summarises major methods and assumptions used in estimating the fair values of financial instruments carried at other than fair value in the financial statements.

- Loans to banks and to non-bank customers
  Estimating the fair value of loans is based on the income approach valuation technique by applying the discounted cash flow method. It takes into account the sum of the individual contractual future cash flows (principal and interest), which are discounted with the rates of return on risk-free interest rates for each currency, increased by the level of credit spreads applicable to the industry with a rating of BBB. The calculation takes into account the residual maturity of each cash flow. The discount factor is linearly interpolated as a function of residual maturity in days.

- Held-to-maturity investments
  Held-to-maturity investments comprise debt securities. The fair value of these debt securities is determined on the basis of direct observation of market prices for identical financial instruments available to the Group on the day of valuation. If these debt securities also meet the liquidity criteria stipulated in the Bank's internal acts, they are classified into fair value level 1; if not, they are classified into fair value level 2, provided that the fair value was based on the direct observation of quoted prices provided by third parties (e.g. Bloomberg Generic (BGN), Bloomberg Valuation (BVAL)).

- Deposits and loans from banks, the central bank and non-bank customers
  Estimating the fair value of loans is based on the income approach valuation technique by applying the discounted cash flow method. It takes into account the sum of the individual contractual future cash flows (principal and interest), which are discounted with the rates of return on risk-free interest rates for each currency. The calculation takes into account the residual maturity of each cash flow. The discount factor is linearly interpolated as a function of residual maturity in days.

- Debt securities issued
  Total fair value is calculated on the basis of the prices quoted in an active securities market or by applying the discounted cash flow method.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4 SEGMENT ANALYSES

(a) By business segment

The Group provides services in three business segments:

- Retail banking – incorporating personal accounts (of residents and non-residents), savings accounts, domestic and foreign currency fixed-term deposits, annuity and dedicated savings, online banking, mobile banking, AbaSMS mobile service, loans, account overdrafts, insurance services, funds, payment cards, Abacent, gold bullion, safe deposit boxes, MoneyGram, “design your own card” (Oblikuj si kartico!), payment transactions and payment instruments, e-account;
- Corporate banking – incorporating transaction accounts, account overdrafts, loans and deposits with different terms, payment cards, certificates of deposit, documentary operations, guarantees, letters of credit, payment transactions and payment instruments, Abatočka, cash management, Abakredit, e-account, online banking, mobile banking, on-line payment service, AbaSMS mobile service; and
- Financial markets – incorporating trading with financial instruments, liquidity management, investment banking and inter-bank operations.

The “Other” segment includes the activities of the Group that relate to custody and administrative services, activities of subsidiaries (leasing, factoring and other activities), the impact of inter-company transactions and the valuation of associates in the consolidated statements.

For the purpose of intra-company accounting, transactions between segments were treated on the basis of an agreed and harmonised set of transfer instruments to account for the transfers of various effects (internal transfers/allocation of indirect costs by business segment, debiting overheads to commercial segments, internal transfers of earnings between business segments).

Liabilities, interest expenses and other non-interest expenses from financing were allocated to those business segments that generated them.

Assets and liabilities by business segment represent a majority of the statement of financial position assets and liabilities, but they exclude tax receivables that are disclosed at the group level and not allocated to business segments.

Business segment results depend on the system of opportunity interest rates, which is based on alternative/opportunity interest rates applied to interest-bearing assets and liabilities items, aimed at establishing opportunity income and expenses. This serves as a basis for calculating opportunity interest margins for individual segments of assets (as the difference between earned income and opportunity income) as well as opportunity interest margins for individual segments of liabilities (as the difference between opportunity expenses and incurred expenses). This is also the basis for establishing positive and negative opportunity interest margins and consequently positive or negative contributions to the performance of individual business segments.

Business segments are reported to the Management Board of the Bank.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

PRIMARY SEGMENT INFORMATION OF THE GROUP

As at 31 December 2016	Retail banking	Corporate banking	Financial markets	Other	Total
External net income[1]	46,064	49,940	18,963	3,374	118,341
Revenues from other segments	–	–	–	–	–
Segment result	7,045	46,114	5,574	24,878	83,611
Operating profit					83,611
Profit before tax					83,611
Income tax					(6,097)
Net profit for the year					**77,514**
Segment assets	872,723	1,019,753	1,675,031	47,326	3,614,833
Investments in subsidiaries	–	–	4,483	(4,483)	–
Unallocated assets					–
Total assets					**3,614,833**
Segment liabilities	1,994,932	748,086	223,397	31,590	2,998,005
Unallocated liabilities					–
Total liabilities					**2,998,005**
Other segment items					
Capital expenditure	762	35	7	6,494	7,298
Depreciation and amortisation	2,242	315	64	5,761	8,382
Net impairment and provision	6,578	22,895	(1,210)	1,920	30,183
Other material non-cash items	–	–	–	–	–
[1]Including					
– interest income	30,796	35,999	23,467	1,279	91,541
– interest expenses	(6,194)	(850)	(5,782)	(1)	(12,827)
– dividend income	–	–	753	–	753
– fee and commission income	28,857	21,254	1,029	2,161	53,301
– fee and commission expenses	(7,395)	(6,463)	(504)	(65)	(14,427)

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
(continued)

As at 31 December 2015	Retail banking	Corporate banking	Financial markets	Other	Total
External net income[1]	44,685	57,871	14,572	2,950	120,078
Revenues from other segments	–	–	–	–	–
Segment result	209	33,057	10,736	4,984	48,986
Operating profit					48,986
Profit before tax					48,986
Income tax					(7,264)
Net profit for the year					**41,722**
Segment assets	869,483	1,060,907	1,851,295	46,890	3,828,575
Investments in subsidiaries and associates	–	–	6,024	(4,372)	1,652
Unallocated assets					–
Total assets					**3,830,227**
Segment liabilities	1,897,946	841,754	509,599	30,549	3,279,848
Unallocated liabilities					–
Total liabilities					**3,279,848**
Other segment items					
Capital expenditure	124	511	15	11,296	11,946
Depreciation and amortisation	2,745	1,855	349	5,072	10,021
Net impairment and provision	(4,564)	4,791	(8,336)	(871)	(8,980)
Other material non-cash items	–	–	–	–	–
[1]Including					
– interest income	34,143	47,410	29,662	652	111,867
– interest expenses	(12,806)	(4,165)	(17,783)	1	(34,753)
– dividend income	–	–	1,089	–	1,089
– fee and commission income	29,381	24,326	2,751	2,201	58,659
– fee and commission expenses	(6,033)	(9,700)	(1,147)	96	(16,784)

Capital expenditure relates to the purchases of tangible and intangible assets in the current business year.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

(b) Geographical concentration

Country risk is also part of the credit risk assumed by the Group. In order to facilitate country risk management, the Bank produced a set of rules and methodology stipulating procedures for establishing and monitoring risk exposures to foreign countries as well as procedures for setting and monitoring the respective risk exposure limits. According to the methodology, the credit risk related to any foreign country is determined on a quarterly basis using credit ratings by external rating institutions and key macroeconomic indicators. Foreign countries are classified into ten internal credit classes and this classification serves as the basis for the establishment of exposure limits for individual countries in accordance with the internal act. In this way, the adequate spreading of risk to achieve the highest possible return is ensured.

GEOGRAPHICAL CONCENTRATIONS OF NON-CURRENT ASSETS AND REVENUES

	Group	
As at 31 December 2016	**Total non-current non-financial assets**	**Revenues**
Slovenia	60,959	138,604
Other European Union countries	–	5,527
Europe (without the EU member states)	–	912
Other countries	–	552
	60,959	**145,595**

	Group	
As at 31 December 2015	**Total non-current non-financial assets**	**Revenues**
Slovenia	60,304	149,805
Other European Union countries	–	19,566
Europe (without the EU member states)	–	1,240
Other countries	–	1,004
	60,304	**171,615**

Revenues consist of interest income, fee and commission income and dividend income.

The Group operates principally in Slovenia, where it is based. Inter-bank exposures account for more than 50% of all international transactions, whilst the rest are transactions with foreign companies and at the level of central government.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

ADDITIONAL DISCLOSURE IN ACCORDANCE WITH THE COUNTRY-BY-COUNTRY REPORTING REQUIREMENT PURSUANT TO ARTICLE 89 OF DIRECTIVE 2013/36/EU (CRD IV)

INFORMATION FOR THE FINANCIAL YEAR 2016 ON A CONSOLIDATED BASIS BY EU MEMBER STATE AND BY THIRD COUNTRY

States	Name(s) and nature of activities	Turnover*	Profit or loss before tax	Tax on profit or loss	Number of employees on a full time equivalent basis
EU Member States:					
Slovenia	ABANKA d.d. (bank), ALEASING d.o.o. (leasing), ANEPREMIČNINE d.o.o. (real property management)	145,595	83,630	(6,097)	1,172.10
Third countries:					
Montenegro	Anekretnine d.o.o. (real property management)	–	(19)	–	0.50
TOTAL ABANKA GROUP		**145,595**	**83,611**	**(6,097)**	**1,172.60**

In 2016 and 2015, the Group did not receive any public subsidies.

INFORMATION FOR THE FINANCIAL YEAR 2015 ON A CONSOLIDATED BASIS BY EU MEMBER STATE AND BY THIRD COUNTRY

States	Name(s) and nature of activities	Turnover*	Profit or loss before tax	Tax on profit or loss	Number of employees on a full time equivalent basis
EU Member States:					
Slovenia	ABANKA d.d. (bank), AFAKTOR d.o.o. (factoring), ALEASING d.o.o. (leasing), ANEPREMIČNINE d.o.o. (real property management)	171,615	49,604	(7,264)	1,256.66
Croatia	Afaktor - faktoring d.o.o. (factoring)	–	(5)	–	–
Third countries:					
Serbia	Afaktor - faktoring finansiranje d.o.o. (factoring)	–	(583)	–	–
Montenegro	Anekretnine d.o.o. (real property management)	–	(30)	–	0.50
TOTAL ABANKA GROUP		**171,615**	**48,986**	**(7,264)**	**1,257.16**

***** including interest income, fee and commission income and dividend income by country in which an individual member company of the Abanka Group is registered

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 NET INTEREST INCOME

	Abanka		Group	
	2016	2015	2016	2015
Interest income				
Loans and advances	67,344	81,666	68,481	82,318
– to banks	366	113	366	113
– to customers	66,978	81,553	68,115	82,205
Available-for-sale securities	20,609	23,094	20,609	23,094
Financial assets held to maturity	1,196	1,191	1,196	1,191
Financial assets held for trading	1,154	4,016	1,154	4,016
Derivatives - hedge accounting	–	1,190	–	1,190
Other assets	101	58	101	58
	90,404	**111,215**	**91,541**	**111,867**
Interest expenses				
Deposits	8,029	21,648	8,029	21,648
– from banks	56	30	56	30
– from customers	7,973	21,618	7,973	21,618
Debt securities issued	1,318	4,326	1,318	4,326
Financial liabilities held for trading	1,113	3,936	1,113	3,936
Derivatives - hedge accounting	–	7	–	7
Loans from banks and the central bank	1,347	4,378	1,347	4,378
Other liabilities	1,024	465	1,020	458
	12,831	**34,760**	**12,827**	**34,753**
Net interest income	**77,573**	**76,455**	**78,714**	**77,114**

In 2016, interest income accrued on impaired financial assets of the Group amounted to EUR 1,787 thousand (2015: EUR 2,158 thousand).

6 DIVIDEND INCOME

	Group	
	2016	2015
Held-for-trading securities	14	10
Available-for-sale securities	739	1,079
	753	**1,089**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 NET FEE AND COMMISSION INCOME

BREAKDOWN BY TYPE OF TRANSACTION:

	Abanka		Group	
	2016	2015	2016	2015
Fee and commission income				
Payment transactions	19,145	20,270	19,145	20,268
Transaction account management	6,660	7,593	6,650	7,580
Card and ATM operations	18,968	20,946	18,968	20,946
Lending operations and guarantees granted	4,455	5,283	4,450	5,279
Other services	4,083	4,528	4,088	4,586
	53,311	**58,620**	**53,301**	**58,659**
Fee and commission expenses				
Payment transactions	2,278	2,429	2,279	2,431
Card and ATM operations	11,442	13,486	11,442	13,486
Other services	643	728	706	867
	14,363	**16,643**	**14,427**	**16,784**
Net fee and commission income	**38,948**	**41,977**	**38,874**	**41,875**

8 REALISED GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Abanka		Group	
	2016	2015	2016	2015
Net realised gains from available-for-sale financial assets	10,063	17,356	10,063	17,356
Realised losses from loans and other financial assets and liabilities	(13)	(132)	(13)	(132)
Realised gains from loans and other financial assets and liabilities	4,689	14,869	4,708	14,916
	14,739	**32,093**	**14,758**	**32,140**

When Visa Europe Limited was sold to Visa Inc., Abanka as a Principal Member of Visa Europe Limited was entitled to a participating share and newly issued Class C preference shares of Visa Inc., thus earning a profit of EUR 9,910 thousand in June 2016.

Realised gains from loans in 2015 in the amount of EUR 9,714 thousand referred to the repayment of loans of ASA Aleasing.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

9 NET GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	Group	
	2016	2015
Foreign exchange transaction gains	1,309	2,150
Net losses from derivatives	–	(323)
Realised gains from debt securities	1,044	535
Unrealised (losses)/gains from trading securities	(103)	9
	2,250	**2,371**

10 FAIR VALUE ADJUSTMENTS IN HEDGE ACCOUNTING

	Group	
	2016	2015
Net profit from hedged instruments	238	999
Net loss from hedging derivatives	–	(1,115)
	238	**(116)**

The transaction related to fair value hedging matured in February 2016 (Note 18).

11 NET OTHER OPERATING EXPENSES

	Abanka		Group	
	2016	2015	2016	2015
Other operating income				
– income from non-banking services	7	6	7	6
– income from sale of vehicles, real estate and other	–	–	1,774	1,783
– other operating income	1,312	1,189	2,219	1,478
	1,319	**1,195**	**4,000**	**3,267**
Other operating expenses				
– financial services tax	(4,465)	(4,947)	(4,502)	(4,983)
– other taxes, contributions and other duties	(28)	(60)	(44)	(85)
– membership fees and similar	(113)	(160)	(118)	(173)
– Single Resolution Fund (SRF)	(825)	(2,998)	(825)	(2,998)
– other operating expenses	(3,316)	(5,699)	(4,794)	(6,244)
	(8,747)	**(13,864)**	**(10,283)**	**(14,483)**
Net other operating expenses	**(7,428)**	**(12,669)**	**(6,283)**	**(11,216)**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 ADMINISTRATIVE EXPENSES

	Abanka		Group	
	2016	2015	2016	2015
Staff costs	39,626	40,477	40,756	41,834
– gross salaries	34,514	35,324	35,490	36,489
– social security costs	2,139	2,246	2,201	2,323
– pension costs	2,759	2,665	2,843	2,776
– provisions for employee benefits (Note 33)	214	242	222	246
Professional services	15,444	17,198	16,280	18,101
Advertising and marketing	2,028	2,498	2,125	2,549
Other administrative expenses	2,659	2,525	2,742	2,585
IT and software costs	6,655	7,247	6,655	7,295
Rent payable	1,202	1,419	1,295	1,567
Other costs	632	640	818	834
	68,246	**72,004**	**70,671**	**74,765**

	Abanka		Group	
Amount spent[1] for the auditor of the annual report:	2016	2015	2016	2015
– auditing of the annual report	139	77	156	98
– other assurance services	–	–	–	–
– other non-auditing services	32	2	35	2
– tax advisory services	–	–	–	–
	171	**79**	**191**	**100**

[1] Include amounts paid in each reporting year.
[2] Compared to the previous year, the amount spent for auditing of the annual report is higher due to the different dynamics of payments.

Within the administrative expenses in 2016, EUR 2,091 thousand referred to costs of restructuring of the Bank and EUR 2,063 thousand to costs of restructuring of the Group (2015: EUR 2,568 thousand).

13 DEPRECIATION AND AMORTISATION

		Abanka		Group	
	Note	2016	2015	2016	2015
Property and equipment	25	4,149	4,624	4,933	5,240
Investment property	25	15	126	384	224
Intangible assets	25	3,021	4,471	3,065	4,557
		7,185	**9,221**	**8,382**	**10,021**

Within the depreciation and amortisation costs in 2016, EUR 708 thousand referred to costs of restructuring (2015: EUR 471 thousand).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 PROVISIONS

		Abanka		Group	
	Note	2016	2015	2016	2015
Restructuring provisions	33	–	849	–	849
Provisions for legal proceedings	33, 38	774	1,592	769	1,613
Provisions for employee benefits	33	(324)	(591)	(324)	(588)
Other provisions	33	(225)	(12,950)	(225)	(12,950)
Provisions for guarantees and commitments	33	(4,207)	(21,472)	(4,175)	(21,472)
Net release of provisions		**(3,982)**	**(32,572)**	**(3,955)**	**(32,548)**

A significant part of the income from the cancelled provisions for guarantees and commitments of the Group in 2016 and 2015 refers to performance bonds that had been either called or paid as well as guarantees that expired in 2016.

15 IMPAIRMENT

		Abanka		Group	
	Note	2016	2015	2016	2015
Impairment of financial assets:					
– available-for-sale financial assets	20	–	39	–	39
– loans to non-bank customers	22	(25,231)	38,811	(24,743)	39,687
– other financial assets		(29)	89	(41)	100
Impairment of investments in subsidiaries	26	1,435	2,789	(166)	605
Impairment of non-financial assets:					
– investment property	25	–	–	–	244
– intangible assets	25	–	302	47	302
– other non-financial assets		–	419	(1,325)	551
		(23,825)	**42,449**	**(26,228)**	**41,528**

In 2016, the reversal of impairments for loans to non-bank customers was primarily the result of an improved financial position of the companies which have been in the process of financial restructuring, regular loan repayment and income from debt collection.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 INCOME TAX

	Note	Abanka		Group	
		2016	2015	2016	2015
Current tax		(6,517)	(2,466)	(6,547)	(2,466)
Deferred tax credit/(charge)	34	726	(4,784)	450	(4,798)
		(5,791)	**(7,250)**	**(6,097)**	**(7,264)**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the parent as follows:

	Abanka		Group	
	2016	2015	2016	2015
Profit before tax	82,447	50,025	83,611	48,986
Tax calculated at the prescribed tax rate of 17% (2015: 17%)	(14,016)	(8,504)	(14,214)	(8,327)
17% of tax-exempted income	730	4,209	1,269	5,253
17% of non-deductible expenses	(476)	(742)	(662)	(1,000)
Tax reliefs and tax loss covering	7,245	2,571	7,275	2,571
	(6,517)	**(2,466)**	**(6,332)**	**(1,503)**
Effect of not recognised deferred taxes on the tax loss of the current year	–	–	(203)	(940)
Net deferred taxes	(505)	(4,784)	(788)	(4,798)
Effect of the tax rate change from 17% to 19% (2015: /)	1,231	–	1,238	–
Effect of tax rate differences between states	–	–	(12)	(23)
Total	**(5,791)**	**(7,250)**	**(6,097)**	**(7,264)**

In accordance with local regulations, the tax authorities may at any time inspect the Bank's books and records covering the period of five years subsequent to the reported tax year and may impose additional tax assessments and penalties. In 2015, a tax inspection was initiated. The subject of the inspection was the corporate income tax for the period 1 January 2009 to 31 December 2014. Inspection activities only started at the end of 2016.

In 2016, the amendments to the Corporate Income Tax Act were adopted, setting the 19% corporate income tax rate effective as of 1 January 2017. Due to the change in the corporate income tax rate, as at 31 December 2016 the effect of the change in the tax rate arising from deferred taxes from transactions in securities, deferred tax losses, transactions in provisions, impairments of property and equipment and impairments of loans and receivables was recognised.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

17 CASH, CASH BALANCES WITH THE CENTRAL BANK AND OTHER DEMAND DEPOSITS WITH BANKS

	Abanka		Group	
	2016	2015	2016	2015
Cash in hand	35,859	30,878	35,859	30,878
Settlement account and obligatory reserve	235,406	162,236	235,406	162,236
Demand deposits with banks	72,976	88,153	72,994	88,175
Total cash, cash balances with the central bank and other demand deposits with banks	**344,241**	**281,267**	**344,259**	**281,289**
Included in cash and cash equivalents (Note 37)	344,241	281,267	344,259	281,289

The balance in the settlement account increased compared to at 31 December 2015, mainly as a result of surplus system liquidity and negative interest rates in the money market.

An interest rate analysis of cash, cash balances with the central bank and other demand deposits with banks is disclosed in Note 2.2.3.3. Fair value is disclosed in Note 3(d).

18 FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING AND HEDGING DERIVATIVES

	Group	
	2016	2015
Debt securities (listed)	–	3,119
Equity securities (unlisted)	170	273
Derivatives	5,049	5,154
Other	6	10
Total financial assets held for trading	**5,225**	**8,556**
Current	1,995	1,801
Non-current	3,230	6,755

An interest rate analysis of financial assets and liabilities held for trading is disclosed in Note 2.2.3.3. Additional information about fair value is disclosed in Note 3(d).

Derivative financial instruments
The Group uses the following derivative instruments for economic hedging purposes:

Currency forwards represent an obligation to buy or sell a certain amount of a currency in accordance with the provisions of the forward contract.

Foreign currency and interest rate futures are contractual rights and obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted interest rate and the current market rate, based on a notional principal amount.

An **interest rate cap** is an interest rate option in which the buyer has the right (but no obligation) to call upon the issuer (seller) of the option to pay the difference between the strike price and the actual interest rate as at the relevant maturity dates. The purpose of the interest rate cap is to provide a hedge against rising interest rates, for which the buyer pays a premium in advance.

An **interest rate floor** is an interest rate option in which the buyer has the right (but no obligation) to call upon the issuer (seller) of the option to pay the difference between the strike price and the actual interest rate as at the relevant maturity dates. The purpose of the interest rate floor is to provide a hedge against falling interest rates, for which the buyer pays a premium in advance.

An **interest rate collar** is an interest rate option: a combination of purchasing an interest rate cap and selling an interest rate floor.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. No exchange of principal takes place, except for certain currency swaps. The Group's credit risk is the potential cost of replacing the swap contracts if the counterparties fail to perform their obligations. This risk is monitored on an on-going basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Foreign currency options are contractual agreements under which the seller (issuer) grants the buyer (owner) the right, but not the obligation, to buy (call option) or to sell (put option) foreign currency on or by a specified date or within a specified period in accordance with the provisions of the contract (amount, price in a specified amount at a pre-determined rate). The buyer of the option pays and the seller receives a premium to compensate for the currency risk assumed. The Group negotiates foreign currency options with its clients (OTC market). The Group is exposed to credit risk only if it purchases such options and up to their carrying amount that is equal to their fair value.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly over time. The fair values of derivative instruments held by the Group are set out as follows.

DERIVATIVES HELD FOR TRADING

	Group		
	Notional contract amount	Fair values	
As at 31 December 2016		Assets	Liabilities
Derivatives held for trading			
Foreign exchange derivatives (OTC):			
– currency forwards	88,387	1,720	1,645
– currency swaps	2,349	6	5
Interest rate derivatives (OTC):			
– interest rate swaps	50,279	819	759
– OTC interest rate options	70,933	2,504	2,504
Total derivative assets/liabilities held for trading		**5,049**	**4,913**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2016, financial liabilities held for trading also included (besides derivatives) spot transactions in the amount of EUR 20 thousand (2015: EUR 7 thousand).

	Group		
	Notional contract	Fair values	
As at 31 December 2015	amount	Assets	Liabilities
Derivatives held for trading			
Foreign exchange derivatives (OTC):			
– currency forwards	46,902	296	271
– gold options	1,101	358	–
Interest rate derivatives (OTC):			
– interest rate swaps	187,602	1,868	1,832
– OTC interest rate options	74,667	2,632	2,632
Total derivative assets/liabilities held for trading		**5,154**	**4,735**

HEDGING DERIVATIVES

The transaction related to fair value hedging - hedge accounting matured in 2016, since it was linked to the hedging of the issued bonds BCE 15 which matured on 15 February 2016. Abanka settled all liabilities arising from issued bonds in full.

	Group		
	Notional contract	Fair values	
As at 31 December 2015	amount	Assets	Liabilities
Hedging derivatives			
Fair value hedge – hedge accounting (Note 10)	34,150	237	–
Total hedging derivatives		**237**	**–**

19 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2016	2015
Unit-linked investment	2,412	2,452
Total financial assets designated at fair value through profit or loss (non-current)	**2,412**	**2,452**

Financial assets designated at fair value through profit or loss comprise structured products referring to the unit-linked investment. Structured products are derived from an underlying instrument, which defines their return. The interest payments are equity-indexed, which results in dissimilar risks inherent in the host and embedded derivative. The Group therefore designates compound financial instruments as financial assets at fair value through profit or loss. Underlying instruments may be shares, indices, funds, commodities, etc.

There were no significant gains or losses attributable to changes in the credit risk for those financial assets designated at fair value through profit or loss in 2016 and 2015. In 2016, losses related to market risk amounted to EUR 33 thousand (2015: gains of EUR 98 thousand).

An interest rate analysis of financial assets designated at fair value through profit or loss is disclosed in Note 2.2.3.3. Additional information on fair value is disclosed in Note 3(d).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2016	2015
Debt securities	**1,218,197**	**1,405,822**
Treasury bills – listed	–	58,378
Treasury bills – unlisted	–	14,999
Other debt securities – listed	1,218,197	1,332,445
Shares and equity holdings	**17,656**	**27,210**
Equity holdings* – unlisted	2,694	5,524
Shares:	14,962	21,686
– listed	12,259	10,914
– unlisted	2,703	10,772
Bank Resolution Fund	**24,765**	**24,736**
Total available-for-sale financial assets	**1,260,618**	**1,457,768**
Current	764,233	241,259
Non-current	496,385	1,216,509

* investments in limited liability companies

A decrease in debt securities of EUR 187,625 thousand mostly resulted from EUR 73,377 thousand of treasury bills that fell due.

An interest rate analysis of available-for-sale financial assets is disclosed in Note 2.2.3.3. Additional information about fair value is disclosed in Note 3(d). Pledged assets are disclosed in Note 28.

MOVEMENTS IN AVAILABLE-FOR-SALE TREASURY BILLS ARE AS FOLLOWS:

	Group	
	2016	2015
As at 1 January	**73,377**	**135,984**
Additions (purchases)	–	37,669
Disposals (maturity and sale)	(73,455)	(100,505)
Gains/(losses) from changes in fair value	–	34
Amortisation of discount	78	195
As at 31 December	**–**	**73,377**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

MOVEMENTS IN OTHER AVAILABLE-FOR-SALE SECURITIES ARE AS FOLLOWS:

	Group	
	2016	2015
As at 1 January	**1,384,391**	**1,614,091**
Exchange differences on monetary assets	1,244	1,584
Additions (purchases)	134,301	222,179
Disposals (sale)	(23,120)	(181,058)
Disposals (maturity and redemption)	(268,417)	(301,842)
Amortisation of discount and premium, interest accrued	20,545	16,467
Gains from changes in fair value	11,674	13,009
Impairment losses (Note 15)	–	(39)
As at 31 December	**1,260,618**	**1,384,391**

21 LOANS TO BANKS

	Abanka		Group	
	2016	2015	2016	2015
Placements with other banks	–	16,316	–	16,316
Loans and deposits to other banks	65,489	80,197	65,489	80,902
Gross loans	**65,489**	**96,513**	**65,489**	**97,218**
Provision for impairment	–	–	–	–
Net loans	**65,489**	**96,513**	**65,489**	**97,218**
Current	50,624	82,353	50,624	83,058
Non-current	14,865	14,160	14,865	14,160
Included in cash and cash equivalents (Note 37)	41,519	63,095	41,519	63,095

A decrease in loans and deposits to other banks is primarily the result of a reduction in deposits due to negative interest rates on short-term assets in the interbank market.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 LOANS TO NON-BANK CUSTOMERS

	Abanka		Group	
	2016	2015	2016	2015
Corporate entities	1,230,823	1,328,241	1,196,610	1,300,877
Retail customers	833,689	831,807	857,941	854,588
Gross loans	**2,064,512**	**2,160,048**	**2,054,551**	**2,155,465**
Provision for impairment	(237,988)	(290,713)	(248,078)	(305,081)
Net loans	**1,826,524**	**1,869,335**	**1,806,473**	**1,850,384**
Current	282,246	393,442	233,389	351,395
Non-current	1,544,278	1,475,893	1,573,084	1,498,989

The decrease in the volume of loans to corporate entities at the 2016 year-end compared to the 2015 year-end is mainly the result of regular loan repayment and accelerated deleveraging of companies.

Receivables for interest are recognised together with the underlying financial instrument.

The Group accepted listed securities at a fair value of EUR 18,062 thousand (2015: EUR 13,716 thousand) as collateral for loans, which it is permitted to sell or re-pledge.

MOVEMENTS IN PROVISIONS FOR IMPAIRMENT ARE AS FOLLOWS:

		Abanka			Group		
	Note	Corporate entities	Retail customers	Total	Corporate entities	Retail customers	Total
As at 1 January 2015		**252,507**	**30,679**	**283,186**	**263,544**	**35,980**	**299,524**
Provision for impairment	15	39,613	(802)	38,811	40,620	(933)	39,687
Transfer to off-balance sheet records, write-offs, sales, debt to equity		(31,964)	555	(31,409)	(34,560)	305	(34,255)
Exchange differences		46	79	125	46	79	125
As at 31 December 2015		**260,202**	**30,511**	**290,713**	**269,650**	**35,431**	**305,081**
Other adjustments		5,329	–	5,329	5,329	–	5,329
Provision for impairment	15	(16,486)	(8,745)	(25,231)	(15,819)	(8,924)	(24,743)
Transfer to off-balance sheet records, write-offs, sales, debt to equity		(29,647)	(3,182)	(32,829)	(34,000)	(3,595)	(37,595)
Exchange differences		–	6	6	–	6	6
As at 31 December 2016		**219,398**	**18,590**	**237,988**	**225,160**	**22,918**	**248,078**

All loans were written down to their recoverable amounts.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

MOVEMENTS IN LOANS TEMPORARILY WRITTEN OFF AND HELD IN OFF-BALANCE-SHEET RECORDS ARE AS FOLLOWS:

	Group		
	Corporate entities	Retail customers	Total
As at 1 January 2015	**205,229**	**3,662**	**208,891**
Increase	91,877	722	92,599
Decrease due to final write-offs – completion of the collection process	(40)	(489)	(529)
Decrease due to repayments, sale, debt to equity, transfer to loans	(40,322)	(256)	(40,578)
As at 31 December 2015	**256,744**	**3,639**	**260,383**
Increase	28,273	7,659	35,932
Decrease due to final write-offs – completion of the collection process	(29,484)	(259)	(29,743)
Decrease due to repayments, sale, debt to equity, transfer to loans	(10,683)	(184)	(10,867)
As at 31 December 2016	**244,850**	**10,855**	**255,705**

Loans assessed (as described in Note 1.11) as unrecoverable by the Group were removed from the statement of financial position, but are kept in the off-balance-sheet records until the legal basis for the completion of the collection process has been obtained.

Loans to banks and non-bank customers are further analysed in the following notes: Credit risk (Note 2.1), Foreign exchange risk (Note 2.2.2), Interest rate risk (Note 2.2.3), Liquidity risk (Note 2.3), Fair value (Note 3(d)) and Related-party transactions (Note 42).

Loans to non-bank customers also include finance lease receivables as disclosed in Note 39 Leases.

23 OTHER FINANCIAL ASSETS

	Abanka		Group	
	2016	2015	2016	2015
Receivables from customers	33	57	367	265
Receivables from card and ATM operations	6,874	5,685	6,874	5,685
Receivables from settlements	1,720	3,510	1,720	3,510
Other receivables	3,190	3,196	3,211	3,201
Total other financial assets	**11,817**	**12,448**	**12,172**	**12,661**
Current	11,330	12,415	11,691	12,628
Non-current	487	33	481	33

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

24 HELD-TO-MATURITY INVESTMENTS

	Group	
	2016	2015
Debt securities – at amortised cost – listed	**32,032**	**32,126**
Current	17,217	1,051
Non-current	14,815	31,075

In the years 2016 and 2015, the Group did not reclassify any financial assets out of held-to-maturity investments.

Debt securities have fixed interest rates.

An interest rate analysis of held-to-maturity investments is additionally disclosed in Note 2.2.3.3. Fair value is disclosed in Note 3(d).

MOVEMENTS IN HELD-TO-MATURITY INVESTMENTS ARE AS FOLLOWS:

	Group	
	2016	2015
As at 1 January	**32,126**	**32,226**
Disposals (maturity)	(1,290)	(1,291)
Amortisation of discount	1,196	1,191
As at 31 December	**32,032**	**32,126**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

25 PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS, INVESTMENT PROPERTY AND NON-CURRENT ASSETS HELD FOR SALE – ABANKA

	Land and buildings	Computers	Other equipment	Assets under construction	**Total property and equipment**	**Intangible assets**	**Investment property**	**Non-current assets held for sale**
Cost								
As at 1 January 2015	**78,145**	**31,486**	**21,452**	**192**	**131,275**	**41,480**	**2,557**	**4**
Additions	436	943	513	95	1,987	4,704	–	–
Transfer between groups	(2,181)	–	–	–	(2,181)	(61)	206	1,975
Impairment charge (Note 15)	–	–	–	–	–	(455)	–	–
Disposals	(111)	(1,105)	(1,596)	–	(2,812)	(4,418)	(2,250)	–
Transfer to inventories	–	–	–	–	–	–	–	(4)
As at 31 December 2015	**76,289**	**31,324**	**20,369**	**287**	**128,269**	**41,250**	**513**	**1,975**
Depreciation								
As at 1 January 2015	**43,389**	**26,415**	**17,111**	**–**	**86,915**	**32,035**	**177**	**–**
Depreciation and amortisation	1,828	2,006	808	–	4,642	4,471	126	–
Transfer between groups	(1,316)	–	–	–	(1,316)	–	147	1,169
Impairment charge (Note 15)	–	–	–	–	–	(153)	–	–
Disposals	(84)	(1,093)	(1,539)	–	(2,716)	(3,973)	(117)	–
As at 31 December 2015	**43,817**	**27,328**	**16,380**	**–**	**87,525**	**32,380**	**333**	**1,169**
Net book amount as at 31 December 2015	**32,472**	**3,996**	**3,989**	**287**	**40,744**	**8,870**	**180**	**806**
Cost								
As at 1 January 2016	**76,289**	**31,324**	**20,369**	**287**	**128,269**	**41,250**	**513**	**1,975**
Additions	557	816	569	321	2,263	3,195	–	–
Transfer between groups	–	–	–	–	–	(105)	–	–
Disposals	(88)	(2,646)	(1,878)	–	(4,612)	(4,303)	–	–
As at 31 December 2016	**76,758**	**29,494**	**19,060**	**608**	**125,920**	**40,037**	**513**	**1,975**
Depreciation								
As at 1 January 2016	**43,817**	**27,328**	**16,380**	**–**	**87,525**	**32,380**	**333**	**1,169**
Depreciation and amortisation (Note 13)	1,751	1,680	718	–	4,149	3,021	15	–
Transfer between groups	–	13	–	–	13	900	–	–
Disposals	(74)	(2,583)	(1,808)	–	(4,465)	(4,296)	–	–
As at 31 December 2016	**45,494**	**26,438**	**15,290**	**–**	**87,222**	**32,005**	**348**	**1,169**
Net book amount as at 31 December 2016	**31,264**	**3,056**	**3,770**	**608**	**38,698**	**8,032**	**165**	**806**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS, INVESTMENT PROPERTY AND NON-CURRENT ASSETS HELD FOR SALE – GROUP

	Land and buildings	Computers	Other equipment	Assets under construction	**Total property and equipment**	**Intangible assets**	**Investment property**	**Non-current assets held for sale**
Cost								
As at 1 January 2015	**78,516**	**31,486**	**24,399**	**3,081**	**137,482**	**42,178**	**4,703**	**215**
Additions	436	943	2,925	2,938	7,242	4,704	–	–
Disposals	(111)	(1,105)	(2,846)	–	(4,062)	(4,202)	–	(211)
Impairment charge (Note 15)	–	–	–	–	–	(455)	(244)	–
Transfer between groups	(2,177)	–	–	–	(2,177)	(61)	202	1,975
Transfer from loans	–	–	–	–	–	–	–	39
Transfer to loans	–	–	–	–	–	–	–	(39)
Transfer from inventories	–	–	–	–	–	–	1,109	–
Transfer to inventories	–	–	–	(5,732)	(5,732)	–	–	(4)
As at 31 December 2015	**76,664**	**31,324**	**24,478**	**287**	**132,753**	**42,164**	**5,770**	**1,975**
Depreciation								
As at 1 January 2015	**43,613**	**26,415**	**18,572**	**–**	**88,600**	**32,614**	**154**	**–**
Depreciation and amortisation	1,836	2,006	1,416	–	5,258	4,557	224	–
Disposals	(84)	(1,093)	(2,105)	–	(3,282)	(3,962)	–	–
Impairment charge (Note 15)	–	–	–	–	–	(153)	–	–
Transfer between groups	(1,308)	–	–	–	(1,308)	–	139	1,169
As at 31 December 2015	**44,057**	**27,328**	**17,883**	**–**	**89,268**	**33,056**	**517**	**1,169**
Net book amount as at 31 December 2015	**32,607**	**3,996**	**6,595**	**287**	**43,485**	**9,108**	**5,253**	**806**
Cost								
As at 1 January 2016	**76,664**	**31,324**	**24,478**	**287**	**132,753**	**42,164**	**5,770**	**1,975**
Additions	736	816	2,159	321	4,032	3,216	4,890	–
Disposals	(107)	(2,646)	(3,526)	–	(6,279)	(4,694)	(1,147)	–
Impairment charge (Note 15)	–	–	–	–	–	–	(47)	–
Transfer between groups	–	–	–	–	–	(105)	(101)	90
Transfer from inventories	–	–	–	–	–	–	370	77
As at 31 December 2016	**77,293**	**29,494**	**23,111**	**608**	**130,506**	**40,581**	**9,735**	**2,142**
Depreciation								
As at 1 January 2016	**44,057**	**27,328**	**17,883**	**–**	**89,268**	**33,056**	**517**	**1,169**
Depreciation and amortisation (Note 13)	1,767	1,680	1,486	–	4,933	3,065	384	–
Additions	22	–	24	–	46	7	199	–
Disposals	(83)	(2,583)	(2,818)	–	(5,484)	(4,687)	(54)	–
Transfer between groups	–	13	–	–	13	900	(11)	–
As at 31 December 2016	**45,763**	**26,438**	**16,575**	**–**	**88,776**	**32,341**	**1,035**	**1,169**
Net book amount as at 31 December 2016	**31,530**	**3,056**	**6,536**	**608**	**41,730**	**8,240**	**8,700**	**973**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

All investment property generates income and expenses. There was EUR 32 thousand of rental income from investment property (2015: EUR 297 thousand) and EUR 14 thousand of direct expenses recognised in the income statement of the Bank in 2016 (2015: EUR 126 thousand). In 2016, the Bank's income from other operating leases totalled EUR 82 thousand (2015: EUR 118 thousand).

The Group recognised EUR 809 thousand of rental income from investment property (2015: EUR 552 thousand) and EUR 384 thousand of direct expenses in the consolidated income statement in 2016 (2015: EUR 224 thousand). In 2016, the Group's income from other operating leases totalled EUR 1,032 thousand (2015: EUR 888 thousand). As at 31 December 2016, the fair value of investment property approximates the carrying amount. The Group holds a building right on one of the investment properties.

26 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	Abanka		Group	
	2016	2015	2016	2015
Subsidiaries				
As at 1 January	**6,024**	**5,955**	**1,652**	**2,257**
Additions	–	3,737	545	–
Disposals	(106)	–	(106)	–
Impairment (Note 15)	(1,435)	(2,789)	166	(605)
Acquisition of subsidiary AB58 to the parent bank	–	(879)	–	–
Acquisition of subsidiary Posest by subsidiary Anepremičnine	–	–	(2,257)	–
As at 31 December	**4,483**	**6,024**	**–**	**1,652**

THE SUBSIDIARIES, WHICH ARE UNLISTED, ARE:

2016 Name	Carrying amount	Assets	Liabilities	Equity	Revenues	Net profit/ (loss)	% Interest held
Aleasing d.o.o. (Slovenia)	640	41,160	39,122	2,038	5,019	451	100
Anepremičnine Group (Slovenia)	3,843	24,502	19,867	4,635	8,038	(690)	100

In April 2016, the subsidiary Posest d.o.o. was acquired by the subsidiary Anepremičnine d.o.o. As a result of this acquisition, the total assets of Anepremičnine increased by EUR 6,512 thousand, while its net profit decreased by EUR 64 thousand.

In the income statement, the following items increased: income from services by EUR 71 thousand, income from rent by EUR 67 thousand, interest income by EUR 32 thousand, other operating income by EUR 2 thousand, costs of material and services by EUR 106 thousand, depreciation costs by EUR 33 thousand, costs of salaries by EUR 74 thousand, interest expenses by EUR 34 thousand and other expenses by EUR 5 thousand. The positive difference in the sale of real property amounted to EUR 16 thousand.

On the assets side in the statement of financial position, property and equipment increased by EUR 153 thousand, investment property by EUR 4,289 thousand, loans to third parties by EUR 109 thousand, receivables from customers and others by EUR 130 thousand and inventories by EUR 1,831 thousand. On the liabilities side, liabilities to Abanka increased by EUR 4,520 thousand, provisions by EUR 22 thousand, liabilities to suppliers and others by EUR 167 thousand and equity of Anepremičnine by EUR 1,803 thousand (share premium increased by EUR 2,124 thousand, loss brought forward by EUR 257 thousand and net loss for the period by EUR 64 thousand).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
(continued)

In 2016, the subsidiary Anepremičnine d.o.o. increased the share capital of its subsidiary Anekretnine d.o.o. in an amount of EUR 120 thousand.

In 2016, Abanka impaired its equity stakes in the following subsidiaries: in Anepremičnine d.o.o. by EUR 961 thousand and in Aleasing d.o.o. by EUR 474 thousand. In 2016, the subsidiary Anepremičnine d.o.o. made an impairment of its equity stake in its subsidiary Anekretnine d.o.o. in the amount of EUR 150 thousand.

In the reporting period, the Bank sold its subsidiary Afaktor d.o.o. in Slovenia, while the subsidiary Aleasing d.o.o. sold its equity stake in the associate Agradnja d.o.o. in Bosnia and Herzegovina. The Group realised EUR 79 thousand of profit upon the sale of subsidiary Afaktor. Following the sale of Afaktor d.o.o., the Bank allocated EUR 173 thousand for provisions for legal proceedings relating to the present disputable obligations (Note 33). In addition, the Bank for a limited period after the sale committed to settle all possible contingent liabilities that could arise from some business events occurred prior to the closing of the sale of Afaktor.

In 2016, in line with the Bank's strategy, the procedures to sell Aleasing d.o.o. continued. Considering the interest expressed by potential investors, further measures will be taken in 2017.

2016 Name	Country of incorporation	Assets	Liabilities	Equity	Revenues	Net profit/ (loss)	% Interest held
Anepremičnine Group							
Anepremičnine d.o.o.	Slovenia	24,261	19,619	4,642	8,158	(701)	100
Anekretnine d.o.o.	Montenegro	3,858	3,835	23	–	(138)	100

2015 Name	Carrying amount	Assets	Liabilities	Equity	Revenues	Net profit/ (loss)	% Interest held
Afaktor d.o.o. (Slovenia)	106	12,770	12,225	545	1,056	(731)	100
Aleasing d.o.o. (Slovenia)	1,114	40,966	39,378	1,588	4,672	16	100
Anepremičnine Group (Slovenia)	3,152	21,212	17,750	3,462	3,989	(1,610)	100
Posest d.o.o. (Slovenia)	1,652	13,635	11,767	1,868	671	(1,215)	100

2015 Name	Country of incorporation	Assets	Liabilities	Equity	Revenues	Net profit/ (loss)	% Interest held
Anepremičnine Group							
Anepremičnine d.o.o.	Slovenia	21,223	17,742	3,481	4,248	(1,762)	100
Anekretnine d.o.o.	Montenegro	3,833	3,792	41	–	(289)	100

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

THE ASSOCIATES, WHICH ARE UNLISTED, ARE:

The Group has no investments in associates in 2016.

Agradnja d.o.o., an associate owned by subsidiary Aleasing d.o.o., was sold in October 2016. The Group realised EUR 2 thousand of profit upon the sale.

For 2015 the Group has no data for the disclosure of assets, liabilities, equity and profit or loss of the associate Agradnja d.o.o.

27 OTHER ASSETS

	Abanka		Group	
	2016	2015	2016	2015
Inventories of material and small tools	11	15	11	15
Other inventories (real properties)	115	–	13,667	14,632
Precious metals	1,315	1,082	1,315	1,082
Deferred costs	635	978	646	1,010
Prepaid taxes	16	19	636	730
Prepayments	332	246	769	620
Total other assets (current)	**2,424**	**2,340**	**17,044**	**18,089**

28 PLEDGED ASSETS

	Group	
	2016	2015
Available-for-sale financial assets	–	140,212
Loans to banks	10,357	10,556
Loans to non-bank customers	–	56,918
Held-to-maturity investments	–	10,420
Total pledged assets	**10,357**	**218,106**

Assets are pledged as collateral for the Eurosystem (ECB) claims, for claims from VISA and Mastercard card transactions and claims by counterparties arising from derivative financial instruments.

The balance as at 31 December 2016 was substantially lower than as at 31 December 2015, as in 2016 the methodology of pledged assets was changed, i.e. pledging of debt securities for the purpose of ensuring liquid assets for the payment of guaranteed deposits is no longer needed.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

29 DEPOSITS AND LOANS FROM BANKS AND THE CENTRAL BANK

DEPOSITS FROM BANKS AND THE CENTRAL BANK

	Group	
	2016	**2015**
Deposits from banks	19,706	15,422
Deposits from the central bank	–	–
Total deposits from banks and the central bank (current)	**19,706**	**15,422**

All deposits from banks had fixed interest rates in 2016 and 2015.

LOANS FROM BANKS AND THE CENTRAL BANK

	Group	
	2016	**2015**
Loans from banks	89,658	163,154
Loans from the central bank	–	100,158
Total loans from banks and the central bank	**89,658**	**263,312**
Current	198	1,068
Non-current	89,460	262,244

A decrease in loans from banks compared to the 2015 year-end is the result of repayments to the SID Bank. A decrease in loans from the central bank refers to the early repayment of the TLTRO (targeted longer-term refinancing operations) in June 2016 in the amount of EUR 100 million.

Fixed and variable interest rate loans from banks and the central bank account for 16.6% (2015: 38.0%) and 83.4% (2015: 62.0%) of the total, respectively.

An interest rate analysis of deposits and loans from banks and the central bank is additionally disclosed in Note 2.2.3.3. Fair value is disclosed in Note 3(d).

Deposits and loans from banks and the central bank are further analysed as part of the statement of financial position in the following notes: Foreign exchange risk (Note 2.2.2), Interest rate risk (Note 2.2.3), Liquidity risk (Note 2.3), Fair value (Note 3(d)) and Related-party transactions (Note 42).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
(continued)

30 DEPOSITS FROM NON-BANK CUSTOMERS

	Abanka		Group	
	2016	2015	2016	2015
Corporate entities	850,220	1,011,628	849,079	1,009,623
Retail customers	1,925,799	1,835,261	1,925,799	1,835,261
Total deposits from non-bank customers	**2,776,019**	**2,846,889**	**2,774,878**	**2,844,884**
Current	1,541,723	1,795,462	1,540,582	1,793,457
Non-current	1,234,296	1,051,427	1,234,296	1,051,427

Fixed and variable interest rate deposits from non-bank customers account for 83.4% (2015: 92.4%) and 16.6% (2015: 7.6%) of the total, respectively.

Certificates of deposit provided as collateral for loans granted in 2016 totalled EUR 15,896 thousand (2015: EUR 22,986 thousand). The fair value of those deposits approximates the carrying amount.

An interest rate analysis of deposits from non-bank customers is additionally disclosed in Note 2.2.3.3. Fair value is disclosed in Note 3(d).

Deposits from non-bank customers are further analysed as part of the statement of financial position in the following notes: Foreign exchange risk (Note 2.2.2), Interest rate risk (Note 2.2.3), Liquidity risk (Note 2.3), Fair value (Note 3(d)) and Related-party transactions (Note 42).

31 DEBT SECURITIES ISSUED

	Interest rate on 31 December	Group	
		2016	2015
Certificates of deposit (falling due: 2017 to 2020)	4.70–5.95%	20,999	25,975
Bonds – BCE 15th issue, due 15 February 2016	5.00%	–	35,885
Other securities	7.95%	48	–
Total debt securities issued		**21,047**	**61,860**
Current		12,118	42,310
Non-current		8,929	19,550

The final, fifth coupon of the 15th issue BCE15 bonds of EUR 1,050.00 matured on 15 February 2016. The total settled amount of the matured BCE15 principal and interest coupons was EUR 35,858 thousand.

Fair value is disclosed in Note 3(d).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

32 OTHER FINANCIAL LIABILITIES

	Abanka		Group	
	2016	2015	2016	2015
Liabilities from card operations	830	2,671	830	2,671
Liabilities to suppliers	1,433	1,545	1,776	2,268
Liabilities for unexecuted payments	4,074	1,474	4,074	1,474
Liabilities for salaries	3,076	2,941	3,165	3,042
Accrued costs	4,205	4,221	4,285	4,296
Other financial liabilities	8,590	4,455	8,666	5,146
Total other financial liabilities	**22,208**	**17,307**	**22,796**	**18,897**
Current	21,592	16,845	22,185	18,435
Non-current	616	462	611	462

33 PROVISIONS

ABANKA

	Restructuring provisions	Provisions for legal proceedings	Provisions for employee benefits	Provisions for guarantees and commitments	Other provisions	Total
As at 1 January 2015	**5,780**	**7,899**	**6,647**	**56,731**	**15,385**	**92,442**
Additional/(released) provisions through profit or loss (Note 12 and 14)	849	1,592	(349)	(21,472)	(12,950)	(32,330)
Additional provisions through equity – actuarial losses	/	/	414	/	/	414
Utilised during the year	(20)	(259)	(735)	(34)	(2,047)	(3,095)
As at 31 December 2015	**6,609**	**9,232**	**5,977**	**35,225**	**388**	**57,431**
Additional/(released) provisions through profit or loss (Note 12 and 14)	–	774	(110)	(4,207)	(225)	(3,768)
Released provisions through equity – actuarial gains	/	/	(71)	/	/	(71)
Utilised during the year	(2,227)	(74)	(489)	(10)	–	(2,800)
As at 31 December 2016	**4,382**	**9,932**	**5,307**	**31,008**	**163**	**50,792**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

GROUP

	Restructuring provisions	Provisions for legal proceedings	Provisions for employee benefits	Provisions for guarantees and commitments	Other provisions	Total
As at 1 January 2015	**5,780**	**7,918**	**6,764**	**56,655**	**15,385**	**92,502**
Additional/(released) provisions through profit or loss (Note 12 and 14)	849	1,613	(342)	(21,472)	(12,950)	(32,302)
Additional provisions through equity – actuarial losses	/	/	413	/	/	413
Utilised during the year	(20)	(259)	(760)	–	(2,047)	(3,086)
As at 31 December 2015	**6,609**	**9,272**	**6,075**	**35,183**	**388**	**57,527**
Additional/(released) provisions through profit or loss (Note 12 and 14)	–	769	(102)	(4,175)	(225)	(3,733)
Released provisions through equity – actuarial gains	/	/	(66)	/	/	(66)
Utilised during the year	(2,227)	(109)	(491)	(10)	–	(2,837)
As at 31 December 2016	**4,382**	**9,932**	**5,416**	**30,998**	**163**	**50,891**

Provisions for retirement benefits and jubilee payments were set aside by the Group as at 31 December 2016. The calculation is based on the following key assumptions:
- a discount rate of 1.43% (2015: 1.56%),
- a staff fluctuation rate of 2.5%,
- average salary growth: 1.49% per annum.

Employees are also entitled to jubilee payments for every decade of service in the Group.

34 DEFERRED INCOME TAX

Deferred income tax is calculated on all temporary differences under the liability method using effective tax rates according to the tax rate valid in the year the elimination of temporary differences is projected, i.e. 19% (2015: 17% or up to the amount recoverable against future profits).

The tax base reduction due to unused tax losses is permitted to a maximum of 50 percent of the tax base for the current period. In 2016, the tax loss from previous years amounting to EUR 40,476 thousand was used in the corporate tax return of the Bank.

As at 31 December 2016, the unused tax losses for which deferred tax assets were not recognised in the statement of financial position amounted to EUR 791,549 thousand for the Bank and EUR 800,337 thousand for the Group. In accordance with the Slovene Corporate Income Tax Act, the tax losses can be carried forward indefinitely.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

MOVEMENTS IN THE DEFERRED INCOME TAX ACCOUNT ARE AS FOLLOWS:

	Abanka			Group		
	2015	Movement	2016	2015	Movement	2016
Deferred income tax assets						
Impairment of equity investments	881	(71)	810	881	(71)	810
Impairment of property and equipment, intangible assets and investment property	84	9	93	84	9	93
Provisions for employee benefits	603	35	638	603	35	638
Restructuring provisions	562	(146)	416	562	(146)	416
Impairment on loans and receivables	–	–	–	346	(276)	70
Tax losses carried forward	6,667	772	7,439	6,667	772	7,439
	8,797	**599**	**9,396**	**9,143**	**323**	**9,466**
Deferred income tax liabilities						
Different depreciation rates for accounting and tax purposes	79	9	88	79	9	88
Available-for-sale investments	8,774	(1,069)	7,705	8,774	(1,069)	7,705
	8,853	**(1,060)**	**7,793**	**8,853**	**(1,060)**	**7,793**

INCLUDED IN THE INCOME STATEMENT:

		Abanka		Group	
	Note	2016	2015	2016	2015
Available-for-sale investments		136	(3,662)	136	(3,662)
Impairment of equity investments		(71)	(81)	(71)	(81)
Different depreciation rates for accounting and tax purposes		(9)	2	(9)	2
Provisions for employee benefits		35	(6)	35	(6)
Restructuring provisions		(146)	71	(146)	71
Impairment on loans and receivables		–	–	(276)	(14)
Impairment of property and equipment, intangible assets and investment property		9	–	9	–
Tax losses carried forward		772	(1,108)	772	(1,108)
	16	**726**	**(4,784)**	**450**	**(4,798)**

INCLUDED IN EQUITY:

	Group	
	2016	2015
Available-for-sale investments – unrealised gains	4,163	5,443
Available-for-sale investments – unrealised losses	(3,231)	(7,255)
	932	**(1,812)**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

35 SHARE CAPITAL, SHARE PREMIUM, ACCUMULATED OTHER COMPREHENSIVE INCOME AND RESERVES FROM PROFIT

2016	Share
The Republic of Slovenia	100%

2015	Share
The Republic of Slovenia	100%

MOVEMENTS IN SHARE CAPITAL:

	Number of shares	Total
As at 1 January 2015	**15,100,000**	**151,000**
Acquisition of Banka Celje d.d.	/	50,000
Acquisition of Banka Celje d.d. – transfer of share capital to share premium	/	(50,000)
As at 1 January 2015 – adjusted after acquisition	**15,100,000**	**151,000**
As at 31 December 2015 and 31 December 2016	**15,100,000**	**151,000**

MOVEMENTS IN SHARE PREMIUM:

	2016	2015
As at 1 January	**282,459**	**87,296**
Acquisition of Banka Celje d.d. – opening balance	/	166,221
Acquisition of Banka Celje d.d. – transfer of share capital to share premium	/	50,000
As at 1 January – adjusted after acquisition	**282,459**	**303,517**
Covering of the loss brought forward	–	(21,058)
As at 31 December	**282,459**	**282,459**

The amounts of the share capital and share premium are equal for the Bank and the Group.

Accumulated other comprehensive income of the Bank amounted to EUR 42,466 thousand (2015: EUR 53,124 thousand) arising from the valuation of financial assets available for sale of EUR 42,644 thousand (2015: EUR 53,386 thousand) and actuarial losses on provisions for retirement benefits of EUR 178 thousand (2015: actuarial losses of EUR 262 thousand).

Accumulated other comprehensive income of the Group to the amount of EUR 42,445 thousand (2015: EUR 53,108 thousand) refers to the valuation of available-for-sale financial assets, which totalled EUR 42,644 thousand (2015: EUR 53,386 thousand) and actuarial losses on provisions for retirement benefits to the amount of EUR 199 thousand (2015: actuarial losses of EUR 278 thousand).

Reserves from profit include legal reserves, statutory reserves and other reserves from profit. In the past, the Group created legal reserves in accordance with the Companies Act.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

RESERVES FROM PROFIT

	Abanka		Group	
	2016	2015	2016	2015
Legal reserves	16,213	16,213	16,233	16,213
Statutory reserves	11,943	4,278	11,943	4,278
Other reserves from profit	19,292	42	19,292	42
Total reserves from profit	**47,448**	**20,533**	**47,468**	**20,533**

Share premium, legal and statutory reserves may be used for covering loss after tax for the year, if it cannot be covered from retained earnings or other reserves from profit.

36 DISTRIBUTABLE PROFIT

	Abanka	
	2016	2015
Net profit from the current year	76,656	42,775
Distribution of net profit from the current year:		
– for statutory reserves	(7,665)	(4,278)
– for other reserves from profit	–	(19,249)
Retained earnings	22,087	2,852
Distributable profit	**91,078**	**22,100**

The allocation of distributable profit is subject to a decision by the Bank's Annual General Meeting.

37 CASH FLOW STATEMENT

The indirect method was used to prepare the cash flow statement.

CASH AND CASH EQUIVALENTS

	Abanka		Group	
	2016	2015	2016	2015
Cash, cash balances with the central bank and other demand deposits with banks (Note 1.15 and 17)	344,241	281,267	344,259	281,289
Loans to banks (Note 1.15 and 21)	41,519	63,095	41,519	63,095
	385,760	**344,362**	**385,778**	**344,384**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

CASH FLOWS FROM INTEREST AND DIVIDENDS

	Abanka		Group	
	2016	2015	2016	2015
Interest paid	17,034	42,701	17,034	42,701
Interest received	108,566	125,222	111,436	128,270
Dividends received	753	1,089	753	1,089

OTHER ITEMS IN THE CASH FLOW STATEMENT

Other gains from investing activities totalling EUR 4,224 thousand relate to held-to-maturity investments (EUR 1,196 thousand) and non-current assets held for sale (EUR 3,028 thousand). In 2016, the Group received EUR 3,402 thousand in cash from the successful restructuring of a large company and the sale of this investment, disclosed under non-current assets held for sale, and thus earned profit in the amount of EUR 3,028 thousand.

38 COMMITMENTS AND CONTINGENCIES

a) *Legal proceedings*
As at 31 December 2016, the Group and the Bank are involved as defendants in several judicial proceedings and other disputes. The total amount of pecuniary claims filed against the Bank on the reporting date stands at EUR 25,226 thousand excluding default interest (as at 31 December 2015: EUR 13,148 thousand) and against the Group EUR 25,629 thousand (as at 31 December 2015: EUR 13,602 thousand). Based on the assessment of the likely outcome of disputes, respective provisions were made (Note 33).

In the field of intellectual property rights, the Bank is involved in several disputes brought against it by ABANCA CORPORACION BANCARIA S.A. from Spain, who is seeking the annulment of two international brands ABANKA no. 860 632 and no. 860 561. Proceedings have been initiated in Spain, Portugal, France, the United Kingdom, Germany and Switzerland, with the claimant opposing the use of the abovementioned brands in these countries. Proceedings are at various stages and are pending.

b) *Credit-related commitments*
The primary purpose of these instruments is to ensure that funds are available to customers upon request. Guarantees and standby letters of credit (which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet their obligations to third parties) carry the same credit risk as loans, documentary and commercial letters of credit (which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions) are collateralised by the underlying shipments of goods to which they relate, or cash deposits, and therefore carry less risk than direct borrowing. Cash requirements under guarantees and standby letters of credit are considerably lower than the amount of the commitment, because the Group does not generally expect the third party to draw the funds under the agreement.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Whilst there is some credit risk associated with the remainder of commitments, the risk is viewed as modest, since it results from the possibility of unused portions of loan authorisations being drawn by the customer and, secondly, from these drawings subsequently not being repaid when due. The Group monitors the term to maturity of credit commitments, because long-term commitments generally involve greater credit risk than short-term ones. The total outstanding contractual amount of credit commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments may expire or terminate without being funded.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
(continued)

The following table indicates the contractual amounts of the Bank's and the Group's guarantees and commitments to extend credit to customers.

GUARANTEES AND COMMITMENTS

		Abanka		Group	
	Note	**2016**	**2015**	**2016**	**2015**
Performance bonds		127,892	141,324	127,761	141,316
Financial guarantees		57,013	75,888	57,013	75,888
Loan commitments		292,238	261,954	290,896	263,958
Derivatives		5,049	5,391	5,049	5,391
Other		1,437	17,450	1,437	17,450
		483,629	**502,007**	**482,156**	**504,003**
Provisions:	33				
– provisions for guarantees and commitments		(31,008)	(35,225)	(30,998)	(35,183)
– other provisions					
– national housing savings scheme (NHSS)		(163)	(163)	(163)	(163)
– other		–	(225)	–	(225)
		452,458	**466,394**	**450,995**	**468,432**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

39 LEASES

	Group	
	2016	2015
Gross investment in finance leases, receivable:	**51,479**	**53,440**
– no later than 1 year	23,242	25,206
– later than 1 year and no later than 5 years	27,869	27,400
– later than 5 years	368	834
Unearned future finance income on finance leases	5,019	6,133
Net investment in finance leases:	**46,460**	**47,307**
– no later than 1 year	21,213	22,816
– later than 1 year and no later than 5 years	24,913	23,776
– later than 5 years	334	715

Regardless of the Note 1.25, the amount of finance lease receivables relates only to the receivables of subsidiaries.

	Abanka		Group	
	2016	2015	2016	2015
Investment in operating leases, receivable:	**82**	**101**	**8,055**	**8,102**
– no later than 1 year	14	14	1,697	2,185
– later than 1 year and no later than 5 years	58	58	5,128	4,225
– later than 5 years	10	29	1,230	1,692

	Group	
	2016	2015
Operating lease liabilities:	**634**	**1,602**
– no later than 1 year	154	532
– later than 1 year and no later than 5 years	399	951
– later than 5 years	81	119

	Abanka		Group	
	2016	2015	2016	2015
Finance lease liabilities:	**691**	**813**	**646**	**689**
– no later than 1 year	85	99	57	57
– later than 1 year and no later than 5 years	247	312	230	230
– later than 5 years	359	402	359	402

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

40 TRANSACTIONS IN THE NAME AND FOR THE ACCOUNT OF THIRD PARTIES

Pursuant to the Regulation on the Books of Account and Annual Reports of Banks and Savings Banks issued by the Bank of Slovenia, the Bank discloses transactions in the name and for the account of third parties.

	Abanka	
	2016	2015
Assets	**3,721,480**	**3,721,450**
Claims of settlement and transaction accounts for customer assets	**3,595,045**	**3,653,013**
– from financial instruments	3,590,476	3,652,167
– investment services and transactions (Financial Instruments Market Act - ZTFI)	626,645	479,665
– reception, transmission and execution of orders	626,645	476,180
– management of financial instruments	–	3,485
– custody operations (Investment Trusts and Management Companies Act - ZISDU)	2,963,831	3,172,502
– against the CSCC (Central Securities Clearing Corporation) or the bank's clearing account for sold financial instruments	355	148
– against other settlement systems and institutions for sold financial instruments (buyers)	4,128	648
– against the brokerage for purchased financial instruments and net receivables from the CSCC (ZISDU)	86	50
Customers' cash	**6,290**	**2,566**
– in the settlement account for customer assets	616	309
– in banks' transaction accounts (ZTFI)	771	635
– in banks' transaction accounts (ZISDU)	4,903	1,622
Other transactions authorised by the customer	**120,145**	**65,871**

Liabilities	**3,721,480**	**3,721,450**
Liabilities of settlement and transaction accounts for customer assets	**3,600,980**	**3,655,432**
– to customers from cash and financial instruments	3,595,061	3,654,143
– investment services and transactions (ZTFI)	628,141	480,639
– reception, transmission and execution of orders	628,141	477,023
– management of financial instruments	–	3,616
– custody operations (ZISDU)	2,966,920	3,173,504
– to the CSCC (Central Securities Clearing Corporation) or the bank's clearing account for purchased financial instruments	86	50
– to other settlement systems and institutions for purchased financial instruments (sellers)	5,679	1,158
– to the bank or the bank's settlement account for commission, fees, etc.	105	81
– to the brokerage for sold financial instruments and income from transactions in the name and for the account of third parties (ZISDU)	49	–
Other transactions authorised by the customer	**120,500**	**66,018**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

	Abanka	
	2016	2015
Income from fees and commissions related to (ancillary) investment services and transactions for customers	**2,975**	**3,068**
Reception, transmission and execution of orders	412	396
Management of financial instruments	–	7
Custody and related services	2,096	1,971
Maintenance of customers' dematerialised securities accounts	186	199
Safekeeping of financial instruments for customers' account	–	2
Advice to undertakings on capital structure, business strategy and related matters and advice and services relating to mergers and acquisitions of undertakings	281	493
Expenses from fees and commissions related to (ancillary) investment services and transactions for customers	**258**	**221**
Fees and commissions in connection with the CSCC (Central Securities Clearing Corporation) and similar organisations	180	159
– from investment banking operations (ZTFI)	180	159
Fees and commissions in connection with the stock exchange and similar organisations	16	18
Other transactions	62	44

41 MANAGED FUNDS

In June 2016, the management of Abanka's AIII mutual pension fund (hereinafter: AIII VPS) was transferred to Banka Koper d.d. On 7 June 2016, AIII VPS was merged with Banka Koper's Open-ended mutual pension fund (hereinafter: OVPS) as at the accounting date of 31 May 2016. As of 7 June 2016, the insured of AIII VPS have become the insured of OVPS, while AIII VPS ceased to exist.

42 RELATED-PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise a significant influence over the other party in making financial or operational decisions.

Related parties of the Bank include: subsidiaries, key management personnel (the Management Board of the Bank, executive directors of the Bank, members of the Supervisory Board of the Bank, all of these persons' close family members) and other related companies (individual companies in which key management personnel have significant influence).

Related parties of the Group include: associates, key management personnel (the Management Board of the Bank, executive directors of the Bank, members of the Supervisory Board of the Bank, directors of subsidiaries, all of these persons' close family members) and other related companies (individual companies in which key management personnel have significant influence).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
(continued)

A number of banking transactions have been entered into with related parties in the normal course of business. The volume of transactions involving related parties for the year-end and related expenses and income for the year are as follows:

TRANSACTIONS WITH RELATED PARTIES OF THE BANK

Type of related party	Subsidiaries		Key management personnel		Other related companies	
	2016	2015	2016	2015	2016	2015
Financial assets						
Loans	56,899	77,699	339	323	–	17
Equity securities						
– financial assets designated at fair value through profit or loss	–	–	–	–	–	2,452
– investments in subsidiaries and associates	4,483	6,024	–	–	–	–
Financial liabilities						
Deposits	1,140	2,008	1,078	972	553	18,047
Loans from non-bank customers	43	69	–	–	–	–
Debt securities issued	–	–	–	–	–	16,287
Other financial liabilities	5	28	–	–	–	28
Off-balance sheet records						
Nominal amount of loan commitments and financial guarantees issued	1,474	1,769	37	55	–	5,213
Comfort letters	–	–	–	–	–	–
Allowances for impairment losses on financial assets	421	634	1	1	–	–
Provisions for guarantees and commitments	10	42	–	–	–	2
Fiduciary activities	–	–	–	–	–	–

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Type of related party	Subsidiaries		Key management personnel		Other related companies	
	2016	2015	2016	2015	2016	2015
Interest income	2,027	3,000	11	11	5	6
Interest expenses	–	1	4	11	841	878
Dividend income	–	–	–	–	–	–
Fee and commission income	11	6	3	4	12	18
Fee and commission expenses	–	–	–	–	–	–
Net gains on financial assets held for trading	–	–	–	–	–	19
Net gains on hedge accounting	–	–	–	–	11	36
Net gains on financial assets and liabilities designated at fair value through profit or loss	–	–	–	–	48	98
Net gains on derecognition of investments in subsidiaries	79	–	–	–	–	–
Net other operating income	96	38	–	–	–	19
Administrative expenses	198	109	–	–	–	–
Impairment (expenses)/income from the reversal of impairment of financial assets	214	(34)	–	–	–	–
Impairment of investments in subsidiaries	(1,435)	(2,789)	–	–	–	–
Income on provisions for guarantees and commitments	32	2	–	–	1	2

In terms of transactions that have an impact on profit or loss, related parties include all parties that meet the definition of related parties in the reporting period.

TRANSACTIONS WITH RELATED PARTIES OF THE GROUP

Type of related party	Key management personnel		Other related companies	
	2016	2015	2016	2015
Financial assets				
Loans	343	328	–	17
Equity securities				
– financial assets designated at fair value through profit or loss	–	–	–	2,452
– investments in associates	–	–	–	–
Financial liabilities				
Deposits	1,249	1,325	553	18,049
Loans from non-bank customers	–	–	–	–
Debt securities issued	–	–	–	16,287
Other financial liabilities	–	–	–	28
Off-balance sheet records				
Nominal amount of loan commitments and financial guarantees issued	40	64	–	5,213
Comfort letters	–	–	–	–
Allowances for impairment losses on financial assets	1	1	–	–
Provisions for guarantees and commitments	–	–	–	2
Fiduciary activities	–	–	–	–

As at 31 December 2016 and 31 December 2015, the Group had no assets or liabilities to the associated company.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
(continued)

Type of related party	Associates		Key management personnel		Other related companies	
	2016	2015	2016	2015	2016	2015
Interest income	112	–	11	11	5	6
Interest expenses	–	–	5	15	841	878
Dividend income	–	–	–	–	–	–
Fee and commission income	–	–	3	4	12	18
Fee and commission expenses	–	–	–	–	–	–
Net gains on financial assets held for trading	–	–	–	–	–	19
Net gains on hedge accounting	–	–	–	–	11	36
Net gains on financial assets and liabilities designated at fair value through profit or loss	–	–	–	–	48	98
Net other operating income	–	–	–	–	–	19
Administrative expenses	–	–	–	–	–	–
Income from the reversal of impairment of financial assets	3,488	–	–	–	–	–
Income on provisions for guarantees and commitments	–	–	–	–	1	2

In terms of transactions that have an impact on profit or loss, related parties include all parties that meet the definition of related parties in the reporting period.

As at 31 December 2016, the Bank's available-for-sale financial assets included available-for-sale debt securities of the Republic of Slovenia in the amount of EUR 429,718 thousand (2015: EUR 561,557 thousand), while the Bank's held-to-maturity financial assets included debt securities of the Republic of Slovenia in the amount of EUR 32,032 thousand (2015: EUR 32,126 thousand). As at 31 December 2016, the Bank had no debt securities of the Republic of Slovenia held for trading (2015: EUR 1,115 thousand). As at 31 December 2016, purchased receivables from the state amounted to EUR 970 thousand (2015: EUR 1,432 thousand). Interest income from these transactions totalled EUR 9,709 thousand in 2016 (2015: EUR 11,392 thousand). In 2016, net gains from available-for-sale financial assets totalled EUR 0 thousand (2015: EUR 1,222 thousand), while net gains from trading with debt securities reached EUR 1,076 thousand (2015: EUR 531 thousand). As at 31 December 2016, deposits of the Ministry of Finance amounted to EUR 10,009 thousand (2015: EUR 27,998 thousand), with interest expenses from these deposits totalling EUR 300 thousand in 2016 (2015: EUR 3,353 thousand).

The Bank also has contractual relations with state-related companies.

Individually significant transactions with state-related companies include debt securities available for sale, given loans and received long-term loans and deposits. As at 31 December 2016, individually significant debt securities available for sale totalled EUR 555,346 thousand (2015: EUR 556,137 thousand), given long-term loans EUR 194,046 thousand (7 contracts) (2015: 3 contracts amounting to EUR 130,000 thousand), received long-term loans EUR 31,285 thousand (2 contracts) (2015: 6 contracts amounting to EUR 87,053 thousand) and received deposits EUR 11,000 thousand (1 contract) (2015: 5 contracts amounting to EUR 134,398 thousand).

As at 31 December 2016, the remaining (individually insignificant) debt securities available for sale totalled EUR 26,574 thousand (2015: EUR 19,382 thousand), given loans EUR 35,913 thousand (2015: EUR 51,450 thousand), received long-term loans EUR 55,689 thousand (2015: EUR 73,004 thousand) and received deposits EUR 32,555 thousand (2015: EUR 42,922 thousand).

In the reporting year, interest income from transactions with state-related companies amounted to EUR 10,709 thousand (2015: EUR 11,738 thousand) and interest expenses totalled EUR 1,647 thousand (2015: EUR 4,511 thousand).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

DISCLOSURE ON RELATED PARTIES BASED ON OTHER REGULATIONS

LOANS AND REPAYMENTS OF THE MANAGEMENT BOARD AND DIRECTORS OF SUBSIDIARIES, MEMBERS OF THE SUPERVISORY BOARD AND MANAGEMENT PERSONNEL

	Members of the Management Board and directors of subsidiaries		Members of the Supervisory Board		Management personnel of the Group	
	2016	2015	2016	2015	2016	2015
Loan balance as at 31 December	–	5	–	83	1,092	999
Average interest rate						
– reference IR	/	/	/	*6M Euribor spread 2.15%*	*6M Euribor spread 1.99%*	*6M Euribor spread 2.06%*
– nominal IR	/	4%	/	/	6.68%	5.91%
Repayments in the year	3	33	28	10	213	222

The balance of loans includes all loans that were previously granted by the Group to those Management Board members, the Supervisory Board members, directors of subsidiaries and management personnel, who performed these functions as at 31 December 2016 or 31 December 2015, regardless of whether the persons concerned had also been performing these functions at the time of loan approval.

The average interest rate is calculated on the basis of the balance of loans and other interest-bearing exposures and the applicable contractual interest rates as at 31 December 2016 or 31 December 2015.

BREAKDOWN OF EARNINGS AND BENEFITS OF THE MANAGEMENT AND SUPERVISORY BOARD MEMBERS, MANAGEMENT PERSONNEL AND DIRECTORS OF SUBSIDIARIES

TOTAL EARNINGS AND BENEFITS RECEIVED BY THE MANAGEMENT BOARD FROM 1 JANUARY TO 31 DECEMBER 2016

	Jože Lenič	Aleksander Vozel	Matej Golob Matzele	Total in EUR
Fixed part of the salary (gross)	129,476.89	126,750.34	123,260.32	379,487.55
Variable part of the salary (gross)	19,700.16	18,529.60	9,765.00	47,994.76
Profit sharing	–	–	–	–
Options and other remuneration	–	–	–	–
Reimbursements	871.47	836.68	954.67	2,662.82
Insurance premiums[1]	172.68	172.68	197.34	542.70
Benefits[2]	14,321.09	7,608.39	4,050.53	25,980.01
Fees and commissions	–	–	–	–
Other additional earnings	–	–	–	–
Total earnings	**164,542.29**	**153,897.69**	**138,227.86**	**456,667.84**
Total net earnings	**63,470.42**	**74,103.56**	**65,480.94**	**203,054.92**
Other rights under the contract[3]	**1,841.32**	**509.55**	**4,948.66**	**7,299.53**

[1] voluntary supplementary pension insurance premium
[2] company car, liability insurance, voluntary pension insurance and other insurance
[3] medical examinations, education, other insurance and membership fees

As at 31 December 2016, no member of the Management Board served as a member of the Supervisory Board of any related or unrelated company.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
(continued)

TOTAL EARNINGS AND BENEFITS RECEIVED BY THE MANAGEMENT BOARD FROM 1 JANUARY TO 31 DECEMBER 2015

	Jože Lenič	Davorin Leskovar[1]	Aleksander Vozel[2]	Stojan Hostnik[3]	Igor Stebernak[4]	Total in EUR
Fixed part of the salary (gross)	132,125.17	108,131.82	124,321.46	46,082.08	54,736.26	465,396.79
Variable part of the salary (gross)	–	–	–	–	–	–
Profit sharing	–	–	–	–	–	–
Options and other remuneration	–	–	–	–	–	–
Reimbursements	959.64	690.29	2,273.21	752.79	377.27	5,053.20
Insurance premiums	–	–	–	–	–	–
Benefits[5]	19,533.53	5,270.55	3,999.52	470.58	6,179.35	35,453.53
Fees and commissions	–	–	–	–	–	–
Other additional earnings	–	–	–	–	26,245.60	26,245.60
Total earnings	**152,618.34**	**114,092.66**	**130,594.19**	**47,305.45**	**87,538.48**	**532,149.12**
Total net earnings	**52,225.48**	**53,628.49**	**68,860.55**	**23,360.10**	**33,026.15**	**231,100.77**
Other rights under the contract[6]	**11,201.99**	**1,212.27**	**1,559.74**	**426.67**	**29.13**	**14,429.80**

[1] President of the Management Board of Banka Celje d.d. until 4 October 2015
[2] Member of the Management Board of Banka Celje d.d. until 17 May 2015 and Member of the Management Board of Abanka from 18 May 2015
[3] Member of the Management Board of Banka Celje d.d. from 12 May 2015 to 4 October 2015
[4] Member of the Management Board of Abanka until 30 April 2015
[5] company car, liability insurance, voluntary pension insurance and other insurance
[6] medical examinations, education, other insurance and membership fees

TOTAL EARNINGS AND BENEFITS RECEIVED BY DIRECTORS OF DIRECT SUBSIDIARIES FROM 1 JANUARY TO 31 DECEMBER 2016

	Nikolaj Fišer (Aleasing d.o.o.)	Gregor Žvipelj (Anepremičnine d.o.o.)	Davorin Zavasnik (Posest d.o.o.)[4]	Total in EUR
Fixed part of the salary (gross)	73,814.64	72,648.66	28,877.69	175,340.99
Variable part of the salary (gross)	–	–	–	–
Reimbursements	956.16	1,149.14	707.40	2,812.70
Insurance premiums[1]	370.68	332.78	–	703.46
Benefits[2]	2,701.21	2,655.75	–	5,356.96
Total earnings	**77,842.69**	**76,786.33**	**29,585.09**	**184,214.11**
Total net earnings	**39,862.77**	**39,964.16**	**16,535.55**	**96,362.48**
Other rights under the contract[3]	**870.08**	**605.12**	**–**	**1,475.20**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
(continued)

TOTAL EARNINGS AND BENEFITS RECEIVED BY DIRECTORS OF DIRECT SUBSIDIARIES FROM 1 JANUARY TO 31 DECEMBER 2015

	Matjaž Kaštrun (Afaktor d.o.o.)	Nikolaj Fišer (Aleasing d.o.o.)	Gregor Žvipelj (Anepremičnine d.o.o.)	Davorin Zavasnik (Posest d.o.o.)	Total in EUR
Fixed part of the salary (gross)	73,165.89	73,330.72	68,251.56	77,382.08	292,130.25
Variable part of the salary (gross)	–	–	–	–	–
Reimbursements	2,948.26	961.43	922.98	1,668.99	6,501.66
Insurance premiums[1]	2,537.16	–	–	–	2,537.16
Benefits[2]	1,757.41	4,029.60	4,004.16	107.00	9,898.17
Total earnings	**80,408.72**	**78,321.75**	**73,178.70**	**79,158.07**	**311,067.24**
Total net earnings	**40,687.68**	**39,619.67**	**36,175.58**	**44,416.70**	**160,899.63**
Other rights under the contract[3]	**–**	**881.68**	**229.42**	**–**	**1,111.10**

[1] voluntary supplementary pension insurance premium
[2] company car, life insurance and liability insurance
[3] education
[4] director of subsidiary Posest until 18 April 2016 (acquisition of subsidiary Posest by subsidiary Anepremičnine)

TOTAL EARNINGS AND BENEFITS RECEIVED BY DIRECTORS OF INDIRECT SUBSIDIARIES FROM 1 JANUARY TO 31 DECEMBER 2016

	Slobodan Radović (Anekretnine d.o.o., Montenegro)
Fixed part of the salary (gross)	4,029.72
Variable part of the salary (gross)	–
Total earnings	**4,029.72**
Total net earnings	**2,700.00**
Other rights under the contract	**–**

TOTAL EARNINGS AND BENEFITS RECEIVED BY DIRECTORS OF INDIRECT SUBSIDIARIES FROM 1 JANUARY TO 31 DECEMBER 2015

	Slobodan Radović (Anekretnine d.o.o., Montenegro)
Fixed part of the salary (gross)	4,029.72
Variable part of the salary (gross)	–
Total earnings	**4,029.72**
Total net earnings	**2,700.00**
Other rights under the contract	**–**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

PROVISIONS, ACCRUED COSTS AND DEFERRED REMUNERATION FOR THE BANK'S MANAGEMENT BOARD AND DIRECTORS OF SUBSIDIARIES

	Abanka		Group	
	2016	2015	2016	2015
Provisions for retirement benefits and jubilee payments	112	39	125	72
Accrued costs for unused leave	32	29	45	41
Deferred part of the variable remuneration	55	–	55	–
	199	**68**	**225**	**113**

TOTAL EARNINGS AND BENEFITS RECEIVED BY MANAGEMENT PERSONNEL

	Abanka		Group	
	2016	2015	2016	2015
Salaries	2,865	2,867	2,931	3,077
Retirement, severance and jubilee payments	3	4	3	27
	2,868	**2,871**	**2,934**	**3,104**

PROVISIONS, ACCRUED COSTS AND DEFERRED REMUNERATION FOR MANAGEMENT PERSONNEL

	Abanka		Group	
	2016	2015	2016	2015
Provisions for retirement benefits and jubilee payments	715	987	729	994
Accrued costs for unused leave	123	130	130	130
Deferred part of the variable remuneration	133	–	133	–
	971	**1,117**	**992**	**1,124**

TOTAL EARNINGS AND BENEFITS RECEIVED BY MEMBERS OF THE SUPERVISORY BOARD FROM 1 JANUARY TO 31 DECEMBER 2016

	Service remuneration	Attendance fees	Reimbursements	Total in EUR (gross)	Total in EUR (net)	Other benefits[6]
Marko Garbajs	33,455.20	7,095.00	1,644.83	42,195.03	30,597.27	423.61
Janko Gedrih[1]	6,136.90	935.00	128.16	7,200.06	5,236.61	–
Vid Leskovec[2]	11,310.48	1,540.00	798.68	13,649.16	9,835.77	423.61
Melita Malgaj	23,646.45	6,611.00	–	30,257.45	21,915.07	423.61
Rok Pivk[3]	12,026.16	2,772.00	806.52	15,604.68	11,258.04	423.61
Andrej Slapar[4]	12,121.98	3,080.00	–	15,201.98	11,056.39	–
Blaž Šterk	24,375.00	6,996.00	–	31,371.00	22,724.91	423.61
Matjaž Trebše[5]	15,841.70	4,411.00	–	20,252.70	14,729.80	–
Alenka Vrhovnik Težak	24,450.55	5,995.00	–	30,445.55	22,051.84	423.61
	163,364.42	**39,435.00**	**3,378.19**	**206,177.61**	**149,405.70**	**2,541.66**

[1] Member of the Supervisory Board until 9 February 2016
[2] Member of the Supervisory Board since 31 May 2016
[3] Member of the Supervisory Board since 13 May 2016
[4] Member of the Supervisory Board until 30 May 2016
[5] Member of the Supervisory Board until 8 August 2016
[6] liability insurance and education

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

TOTAL EARNINGS AND BENEFITS RECEIVED BY MEMBERS OF THE SUPERVISORY BOARD FROM 1 JANUARY TO 31 DECEMBER 2015

	Service remuneration	Attendance fees	Reimbursements	Total in EUR (gross)	Total in EUR (net)	Other benefits[7]
Marko Garbajs	23,727.16	7,205.00	–	30,932.16	21,865.13	2,316.94
Janko Gedrih	31,131.81	8,525.00	1,214.10	40,870.91	29,093.56	2,791.03
Barbara Kürner Čad[1]	8,666.62	3,300.00	–	11,966.62	8,703.40	–
Melita Malgaj[2]	13,974.74	3,849.95	381.55	18,206.24	13,135.72	1,551.59
Andrej Slapar	21,802.03	7,480.00	–	29,282.03	21,191.24	387.50
Blaž Šterk	21,350.66	7,645.00	–	28,995.66	20,456.73	2,316.94
Matjaž Trebše[3]	2,655.11	990.00	–	3,645.11	2,545.42	387.50
Alenka Vrhovnik Težak[3]	2,655.11	770.00	–	3,425.11	2,385.41	387.50
Jure Peljhan[4]	5,774.76	343.74	152.62	6,271.12	4,561.00	–
Marko Simoneti[5]	8,666.67	1,485.00	228.93	10,380.60	7,549.81	575.31
Barbara Smolnikar[4]	4,537.32	1,099.96	152.62	5,789.90	4,211.00	–
Tomaž Subotič[6]	11,191.43	3,033.38	5,246.85	19,471.66	15,090.50	1,092.44
Bojan Šrot[4]	4,537.32	–	–	4,537.32	3,300.00	–
Zdenko Zanoški[4]	4,537.32	–	–	4,537.32	3,300.00	–
	165,208.06	**45,727.03**	**7,376.67**	**218,311.76**	**157,388.92**	**11,806.75**

[1] Member of the Supervisory Board of Abanka d.d. until 12 June 2015
[2] Member of the Supervisory Board of Banka Celje d.d. until 4 October 2015, Member of the Supervisory Board of Abanka since 2 October 2015
[3] Member of the Supervisory Board of Abanka d.d. since 8 October 2015
[4] Member of the Supervisory Board of Banka Celje d.d. until 27 May 2015
[5] Member of the Supervisory Board of Banka Celje d.d. from 28 May 2015 to 4 October 2015
[6] Member of the Supervisory Board of Banka Celje d.d. until 4 October 2015
[7] liability insurance and education

TOTAL EARNINGS AND BENEFITS RECEIVED BY EXTERNAL MEMBERS TO THE SUPERVISORY BOARD COMMITTEES FROM 1 JANUARY TO 31 DECEMBER 2015

	Service remuneration	Attendance fees	Reimbursements	Total in EUR (gross)	Total in EUR (net)	Other benefits
Renata Eržen Potisek[1]	1,935.28	825.00	–	2,760.28	2,007.60	–
Tomaž Kuntarič[2]	648.06	–	–	648.06	471.34	–
Peter Ribarič[1]	1,715.28	550.00	–	2,265.28	1,647.58	–
Blanka Vezjak[3]	–	4,199.92	577.48	4,777.40	3,474.60	–
	4,298.62	**5,574.92**	**577.48**	**10,451.02**	**7,601.12**	**–**

[1] external member of Abanka's Supervisory Board Committee until 10 June 2015
[2] external member of Abanka's Supervisory Board Committee until 12 February 2015
[3] external member of Banka Celje's Supervisory Board Committee until 4 October 2015

NOTES TO THE FINANCIAL STATEMENTS (continued)

43 EVENTS AFTER THE REPORTING DATE

There were no events after the reporting period that might have an impact on business decisions of the Report's users made on the presented financial statements.

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT
to the owners of ABANKA d.d.

Opinion

We have audited the accompanying financial statements of Abanka d.d. (hereinafter 'the Company'), which comprise the statement of financial position as at 31 December 2016, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA). 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 (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information.

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

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

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

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

Responsibilities of Management and the Supervisory Board for the Financial Statements

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

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

The Supervisory Board and the Audit Committee are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

DELOITTE REVIZIJA d.o.o.

Anja Gorenc Certified Auditor	Yuri Sidorovich President of the Board

For signature please refer to the original Slovenian version.

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

Ljubljana, 22 March 2017

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

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INDEPENDENT AUDITOR'S REPORT
to the owners of ABANKA D.D.

Opinion

We have audited the accompanying consolidated financial statements of the company ABANKA d.d. and its subsidiaries (hereinafter 'the Group'), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA). Our responsibilities under those standards are further described in *the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information.

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

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

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

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

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements

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

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

The Supervisory Board and the Audit Committee are responsible for overseeing the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a 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 Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required

to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence concerning the financial statements of group companies or their business activities in order to express an opinion on the consolidated financial statements. We are responsible for conducting, overseeing and performing the audit of the Group. We have sole responsibility for the audit opinion expressed.

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

DELOITTE REVIZIJA d.o.o.

Anja Gorenc
Certified Auditor

Yuri Sidorovich
President of the Board

For signature please refer to the original Slovenian version.

Deloitte.

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

Ljubljana, 22 March 2017

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