THE UNAUDITED INTERIM REPORT
of the Abanka Group for the First Half of
2019

ABANKA
Your friendliest bank

CONTENTS

The Unaudited Interim Report of the Abanka Group for the First Half of 2019 is a translation of the original Unaudited Interim Report of the Abanka Group for the First Half of 2019 issued in Slovene. This translation is provided for reference purpose only.

BUSINESS REPORT

FINANCIAL HIGHLIGHTS AND PERFORMANCE INDICATORS

FINANCIAL HIGHLIGHTS AND PERFORMANCE INDICATORS – THE ABANKA GROUP

STATEMENT OF FINANCIAL POSITION (EUR thousand)	30 June 2019	31 Dec. 2018
Total assets	**3,755,425**	3,731,542
Total amount of deposits of the non-banking sector, measured at amortised cost	**2,999,328**	2,934,453
Total amount of loans to the non-banking sector (not held for trading)	**2,039,981**	1,952,759
Total equity	**544,672**	583,407

INCOME STATEMENT (EUR thousand)	Jan.-June 2019	Jan.-June 2018
Net interest income	**29,747**	29,899
Net non-interest income	**27,245**	33,854
Labour costs, general and administration costs	**(29,545)**	(30,868)
Depreciation	**(3,930)**	(3,948)
Impairment and provisions (credit losses)	**(3,472)**	14,358
Profit before tax from continuing operations	**29,080**	42,762
Tax expense related to profit from continuing operations	**(2,755)**	(3,889)
Profit after tax from continuing operations	**26,325**	38,873

STATEMENT OF COMPREHENSIVE INCOME (EUR thousand)	Jan.-June 2019	Jan.-June 2018
Other comprehensive income before tax	**1,963**	(136)
Income tax relating to components of other comprehensive income	**(373)**	26

INDICATORS		
	30 June 2019	31 Dec. 2018
Common Equity Tier 1 capital ratio	**23.2%**	23.7%
Tier 1 capital ratio	**23.2%**	23.7%
Total capital ratio	**23.2%**	23.7%
	Jan.-June 2019	Jan.-June 2018
Performance (in %)		
– return on assets after tax(1)	**1.40 ***	2.10 *
– return on equity after tax(2)	**9.13 ***	13.52 *
Operational costs (in %)		
– operating expenses in gross income (CIR)	**58.74**	54.61

* Annualized figures are calculated linearly on the basis of the first 6 months.

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.

(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.

LIQUIDITY	31 March 2019	30 June 2019
– Liquidity coverage ratio (in %)	437%	374%
– Liquidity buffer (EUR thousand)	1,330,277	1,241,330
– Net liquidity outflow (EUR thousand)	304,314	331,580

FINANCIAL HIGHLIGHTS AND PERFORMANCE INDICATORS – ABANKA

STATEMENT OF FINANCIAL POSITION (EUR thousand)	30 June 2019	31 Dec. 2018
Total assets	**3,756,882**	3,728,713
Total amount of deposits of the non-banking sector, measured at amortised cost	**3,001,461**	2,935,223
– from legal and other persons, who pursue a business activity[1]	**825,968**	847,605
– retail	**2,175,493**	2,087,618
Total amount of loans to the non-banking sector (not held for trading)	**2,045,295**	1,959,283
– to legal and other persons, who pursue a business activity[1]	**1,115,490**	1,053,585
– retail	**929,805**	905,698
Total equity	**544,499**	583,384
Value adjustments and provisions for credit losses	**108,860**	105,778
Off-balance sheet items (B.1 to B.4)	**1,197,842**	1,182,200

INCOME STATEMENT (EUR thousand)	Jan.-June 2019	Jan.-June 2018
Net interest income	**29,751**	29,466
Net non-interest income	**26,372**	35,078
Labour costs, general and administration costs	**(28,990)**	(30,049)
Depreciation	**(3,781)**	(3,563)
Impairment and provisions (credit losses)	**(3,492)**	14,374
Profit before tax from continuing operations	**28,895**	44,289
Tax expense related to profit from continuing operations	**(2,720)**	(3,875)
Profit after tax from continuing operations	**26,175**	40,414

STATEMENT OF COMPREHENSIVE INCOME (EUR thousand)	Jan.-June 2019	Jan.-June 2018
Other comprehensive income before tax	**1,963**	(136)
Income tax relating to components of other comprehensive income	**(373)**	26

NUMBER OF EMPLOYEES	30 June 2019	31 Dec. 2018
	1,000	1,010

SHARES	30 June 2019	31 Dec. 2018
Number of shareholders	**1**	1
Number of shares	**15,100,000**	15,100,000
Proportion of par-value shares in share capital (in EUR)	**10.00**	10.00
Book value per share (in EUR)	**36.06**	38.63

Note:

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

INDICATORS

	30 June 2019	31 Dec. 2018
Common Equity Tier 1 capital ratio	**23.2%**	23.6%
Tier 1 capital ratio	**23.2%**	23.6%
Total capital ratio	**23.2%**	23.6%
Quality of assets and contingent liabilities (in %)		
Non-performing (on-balance sheet and off-balance sheet) exposures / classified on-balance sheet and off-balance sheet exposures	**2.70**	3.06
Non-performing loans and other financial assets / classified loans and other financial assets	**3.75**	4.37
Value adjustments and provisions for credit losses / non-performing exposures	**51.78**	43.91
Received insurance / non-performing exposures	**36.61**	33.05
	Jan.-June 2019	**Jan.-June 2018**
Performance (in %)		
– interest margin[(1)]	**1.58 ***	1.60 *
– financial intermediation margin[(2)]	**2.97 ***	3.50 *
– return on assets after tax[(3)]	**1.39 ***	2.19 *
– return on equity before tax[(4)]	**9.92 ***	15.55 *
– return on equity after tax[(5)]	**8.98 ***	14.19 *
Operational costs (in %)		
– operational costs/average assets	**1.74 ***	1.82 *
– operating expenses in gross income (CIR)	**58.39**	52.08

* Annualized figures are calculated linearly on the basis of the first 6 months.

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.

(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 7 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 7 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 7 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 7 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 7 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.

LIQUIDITY

	31 Mar. 2019	30 June 2019
– Liquidity coverage ratio (in %)	435%	373%
– Liquidity buffer (EUR thousand)	1,330,277	1,241,330
– Net liquidity outflow (EUR thousand)	305,757	332,475

PRESENTATION OF THE BANK AND THE ABANKA GROUP

ABOUT THE BANK

Abanka 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 30 June 2019, Abanka's market share in terms of total assets was 9.4%. On 20 June 2019, an agreement was signed to sell the 100% stake of the Republic of Slovenia in Abanka d.d. to Nova Kreditna banka Maribor d.d.

Abanka is a universal bank with authorisation to provide all banking and other financial services. Through its extensive network of 53 branches across Slovenia, e-banking, advisory services and a personal approach, the Bank provides integrated financial services, ranging from traditional banking to bancassurance. 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 subsidiary Anepremičnine d.o.o. complements Abanka's offering by providing trading in own real property.

SERVICES OF THE BANK

As at 30 June 2019 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 (lease) is leasing of assets where all of the material risks and benefits derived from the property right of the leased asset are transferred to the lessee; the transfer of the property right is possible, but not required;	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 to companies on the capital structure, business strategy and related matters, and advice and services relating to the mergers and acquisitions of companies;	YES
10. Money intermediation on inter-bank markets;	NO
11. Investment management and advice in relation thereto;	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;	NO
3. Pension fund management in accordance with the law governing pension and disability insurance;	NO
4. Custody services in accordance with the law governing investment funds and management companies;	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
Website:	http://www.abanka.si
E-mail:	info@abanka.si
Facebook Abanka:	https://www.facebook.com/abanka.vipa/
Facebook Akeš:	https://www.facebook.com/akes.abanka/
LinkedIn Abanka:	https://www.linkedin.com/company/87740/
YouTube Abanka:	https://www.youtube.com/user/abankavipa
YouTube Akeš:	https://www.youtube.com/user/abankaakes
Instagram Abanka:	https://www.instagram.com/abanka.si/

ABOUT THE GROUP

As at 30 June 2019, in addition to Abanka as the parent company, the Abanka Group included the subsidiary Anepremičnine d.o.o. Abanka is a 100% owner of Anepremičnine d.o.o. As at the reporting date, the nominal value of Abanka's equity stake in Anepremičnine d.o.o. amounted to EUR 8,278 thousand, which is the same as at the 2018 year-end.

Activities of Subsidiaries

The Anepremičnine Group

Anepremičnine, trgovanje z lastnimi nepremičninami, d.o.o. (abbreviated company name: Anepremičnine d.o.o.), which was entered in the Companies Register on 31 May 2013, was established by assuming a portion of assets from Aleasing d.o.o. Gregor Žvipelj is Director of Anepremičnine d.o.o. The Supervisory Board is composed of the Chairman of the Supervisory Board Davorin Leskovar, Vice-Chair of the Supervisory Board Maja Bogdanoski, and the Supervisory Board Member Dejan Grum, which is the same as at the end of 2018. Anepremičnine is headquartered in Ljubljana, and its operations are geographically limited to Slovenia and, until recently, to Montenegro, where the company's wholly-owned subsidiary Anekretnine d.o.o. was based in Podgorica.

On 28 June 2019, the agreement to sell Anekretnine d.o.o. was signed and the purchase price was paid. Anekretnine was established on 6 June 2014, with the purpose of participating in the auction and the subsequent purchase of the land in Montenegro which was under Abanka's mortgage to secure its claims. In April 2019, Anekretnine received the last instalment of the purchase price for said land, thereby ending the reasons for the company's continued operations. Until the sale, the subsidiary was managed by Director Slobodan Radović and had no Supervisory Board.

Anepremičnine performs the full range of real property portfolio management activities, which include conducting sales procedures, leasing and selling real property, analysing real property development projects, construction and completion of projects, acquiring new real property portfolio in the market, selling to third parties and optimising real property management. With the aim of ensuring transparency and price maximisation, Anepremičnine established a procedure for selling commercial real property at public auctions.

In the first half of 2019, Anepremičnine d.o.o. sold several real properties and completed the sale of eight houses, where it acted as the investor. At the same time it was engaged in developing complex land into construction-ready housing sites. The company actively participated in the sale of real property in its portfolio and was regularly involved in the decision-making procedures regarding the acquisition of real property or receivables in an auction in line with the strategy of both the company and the Abanka Group. Anepremičnine d.o.o. is strongly involved in the valuation and revaluation procedures of real property pledged as collateral to the Bank.

MAJOR BUSINESS EVENTS IN THE FIRST HALF OF 2019 AND AFTER THE FIRST HALF OF 2019

Major Business Events in the First Half of 2019

Major business events in the first half of 2019 included:

- **Changes to the Management Board:**
  - On 18 March 2019, the Supervisory Board adopted a resolution on the consensual termination of term of office Matevž Slapničar as member of the Management Board as of 30 June 2019.
  - On 16 April 2019, the Supervisory Board appointed Nada Mertik a new member of the Management Board, whose term of office commenced after having obtained the authorisation of the regulator.

- **Changes to the Supervisory Board Committees**
  - In early 2019, the Risk Monitoring and Asset Liability Management Committee had the following composition: Alenka Vrhovnik Težak served as its Chairman and Marko Garbajs, Dejan Kaisersberger Varja Dolenc as its members. On 5 February 2019, the Supervisory Board adopted a resolution appointing Miha Košak as a member of the Risk Monitoring and Asset Liability Management Committee as of 1 April 2019, whereas Dejan Kaisersberger's membership in that committee ended. From 1 April 2019, the Risk Monitoring and Asset Liability Management Committee had the following composition: Alenka Vrhovnik Težak as its Chairman, and Marko Garbajs, Varja Dolenc and Miha Košak as its members.

- **Exclusion from membership of the Ljubljana Stock Exchange:**
  - At the request of the stock exchange member ABANKA d.d., Slovenska cesta 58, 1000 Ljubljana, with the ABALJ ticker symbol, the said stock exchange member was excluded from membership of the Ljubljana Stock Exchange as of 1 February 2019.

- **Activities relating to the sale of the Bank:**
  - On 20 June 2019, an agreement was signed to sell the 100% stake of the Republic of Slovenia in Abanka d.d. to Nova Kreditna banka Maribor d.d.

- **Credit ratings by the rating agency Fitch Ratings:**
  - On 16 April 2019, the international rating agency Fitch Ratings affirmed Abanka's Long-Term Issuer Default Rating of "BB+" with a stable outlook. Furthermore, it affirmed the Bank's Short-Term Issuer Default Rating at "B", Viability Rating at "bb+", Support Rating at "5" and Support Rating Floor at "No Floor". The Agency published the ratings on 18 April 2019. The Agency based its Long-Term Issuer Default Rating and Viability Rating on the Bank's strong financial position, general profile and market position, backed by further improved quality of its assets and profitability, stable capital, sources of financing and liquidity. The Bank's favourable Viability Rating is also influenced by the favourable conditions in Slovenia's economic environment. High economic growth and rising real property prices support the rapid decline in the volume of NPLs and the improved quality of the Bank's assets. The recovery of lending, especially retail lending, over the last two years has contributed to improving the profitability of the banking sector.
  - On 27 June 2019, the international rating agency Fitch Ratings increased Abanka's outlook from stable to positive. It also affirmed its "BB+" Long-Term Issuer Default Rating, "bb+" Viability Rating and "B" Short-Term Issuer Default Rating. The ratings were published on 28 June 2019. Following the announcement of Nova KBM d.d. of 20 June 2019 relating to the signing of the agreement to purchase a 100 % stake of Abanka d.d., the Agency revised and adjusted the rating of both banks as a future merged bank. Support ratings will be cancelled after the formal completion of Abanka's privatisation.

- **The activities related to the subsidiaries of the Abanka Group:**
  - On 28 June 2019, an agreement was signed to sell the company Anekretnine d.o.o., which was 100% owned by the subsidiary Anepremičnine d.o.o.

Major Business Events After the First Half of 2019

The following business events occurred after the reporting period:

- **Credit ratings by Moody's Investors Service:**
  - Following the announcement of Nova KBM d.d. of 20 June 2019 relating to the signing of the agreement to purchase a 100% stake of Abanka d.d., the rating agency Moody's Investors Service revised Abanka's rating. On 12 July 2019, the Agency published the unchanged Long-Term Issuer Default Rating of "Baa2" with a positive outlook.

- **Changes to the Management Board:**
  - On 23 July 2019, the European Central Bank issued an authorisation to Nada Mertik to serve on the Management Board of Abanka. Thus, as of 24 July 2019 the Abanka's Management Board was composed of Jože Lenič as its President and Nada Mertik and Matej Golob Matzele as its members.

FINANCIAL RESULTS OF THE GROUP AND THE BANK

The unaudited consolidated financial statements of the Abanka Group for the first six months of 2019 include the Anepremičnine Group, in addition to Abanka as the parent bank.

In addition to Abanka as the parent bank, the unaudited consolidated financial statements of the Abanka Group for the first six months of 2018 include the subsidiaries Aleasing (income statements for the year until as at 31 March 2018) and the Anepremičnine Group.

The semi-annual report including the unconsolidated and consolidated financial statements has not been audited.

Due to the immateriality of subsidiaries only data for Abanka are presented in the figures.

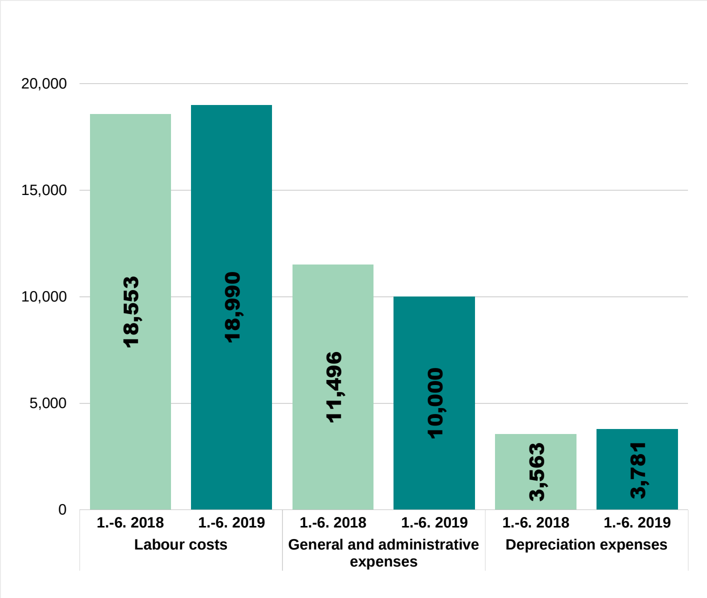
PERFORMANCE AS VIEWED THROUGH THE INCOME STATEMENT

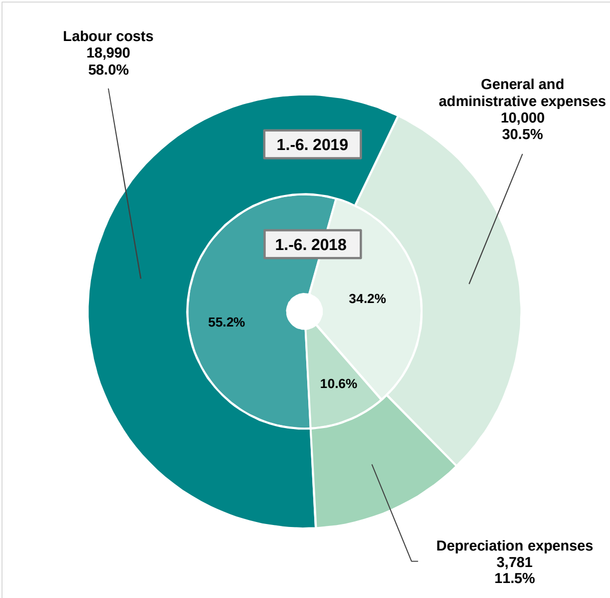
In the highly competitive and extremely low interest rate environment characterised by high liquidity, Abanka performed well within the framework of the set strategic objectives. The **Abanka Group's interest income** earned in the first six months of 2019 totalled EUR 33,332 thousand, **interest expenses of the Group** amounted to EUR 3,585 and **net interest income** reached 29,747 thousand. **Abanka's interest income** totalled EUR 33,335 thousand and its **interest expenses** equalled EUR 3,584 thousand, whilst its **net interest income** amounted to EUR 29,751 thousand, up by 1.0% or EUR 285 thousand compared to the respective period last year. Higher net interest income resulted primarily from higher interest income from loans to non-bank customers in the first half of 2019 compared with the same period last year.

In the first six months of 2019, the **Abanka Group** posted EUR 20,229 thousand in **net fee and commission income**, while **Abanka** posted EUR 20,245 thousand in net fee and commission income, up by 9.2% compared with the same period last year. The bulk of net fee and commission income was generated by payment transactions and card and ATM operations.

In the first half of 2019, the **Abanka Group’s operating expenses** amounted to EUR 33,475 thousand and those of **Abanka** totalled EUR 32,771 thousand. They decreased by 2.5% or EUR 841 thousand nominally compared to the respective period of the previous year. Cost to income ratio of Abanka stood at 58.4%, whereas in the respective period of last year it was 52.1%. Operating expenses, excluding restructuring costs, amounted to EUR 32,431 thousand, having decreased by 1.8% or EUR 590 thousand compared to H1 2018.

OPERATING EXPENSES OF ABANKA IN H1 2019 AND H1 2018 (amounts in EUR thousand)

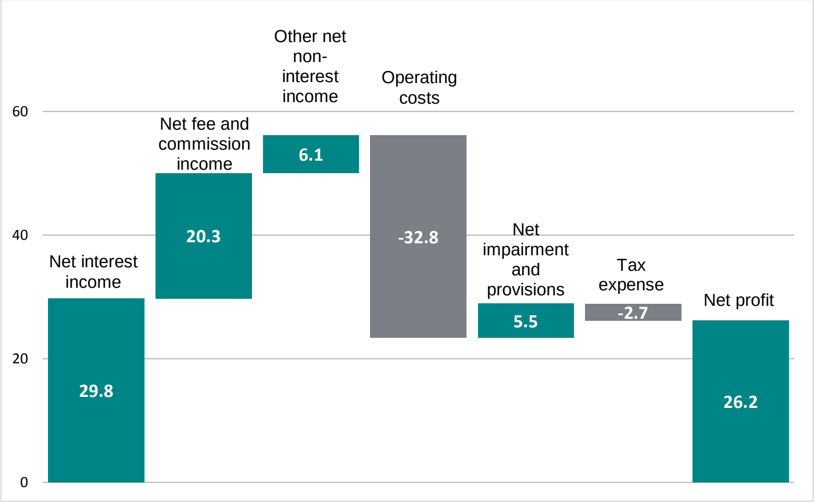




Other net non-interest income (excluding net fee and commission income) of the **Abanka Group** in the first six months of 2019 amounted to EUR 7,016 thousand and that of **Abanka** totalled EUR 6,127 thousand compared to EUR 16,538 thousand in the corresponding period last year. In the first half of 2019 non-interest income was lower due to one-off gains on the sale of the non-performing loans in the first half of 2018.

In the first half of 2019, **the Abanka Group** recorded EUR 5,563 thousand in **net provisioning and impairment income**, of which EUR 8,117 thousand was accounted for by **net provisioning income** and EUR 2,554 thousand by **net impairment expenses**. **Abanka's net impairment and provisions cancelled** amounted to EUR 5,543 thousand (in the corresponding period of 2018: EUR 13,357 thousand). In the reporting period, the Bank formed impairment of financial assets of EUR 2,573 thousand and impairment of non-financial assets of EUR 1 thousand and cancelled provisions of EUR 8,117 thousand (cancellation of provisions for pending legal proceedings in the amount of EUR 9,036 thousand and formed provisions in the amount of EUR 919 thousand for off-balance sheet liabilities). Increased impairment in the first half of 2019 primarily resulted from ensuring the portfolio's required minimum impairment for non-performing exposures of the Bank in accordance with the applicable regulations. Income from cancelled provisions for pending legal proceedings in the first half of 2019 largely relates to final legal proceeding.

NET PROFIT OF ABANKA IN H1 2019 and H1 2018 (amounts in EUR million)

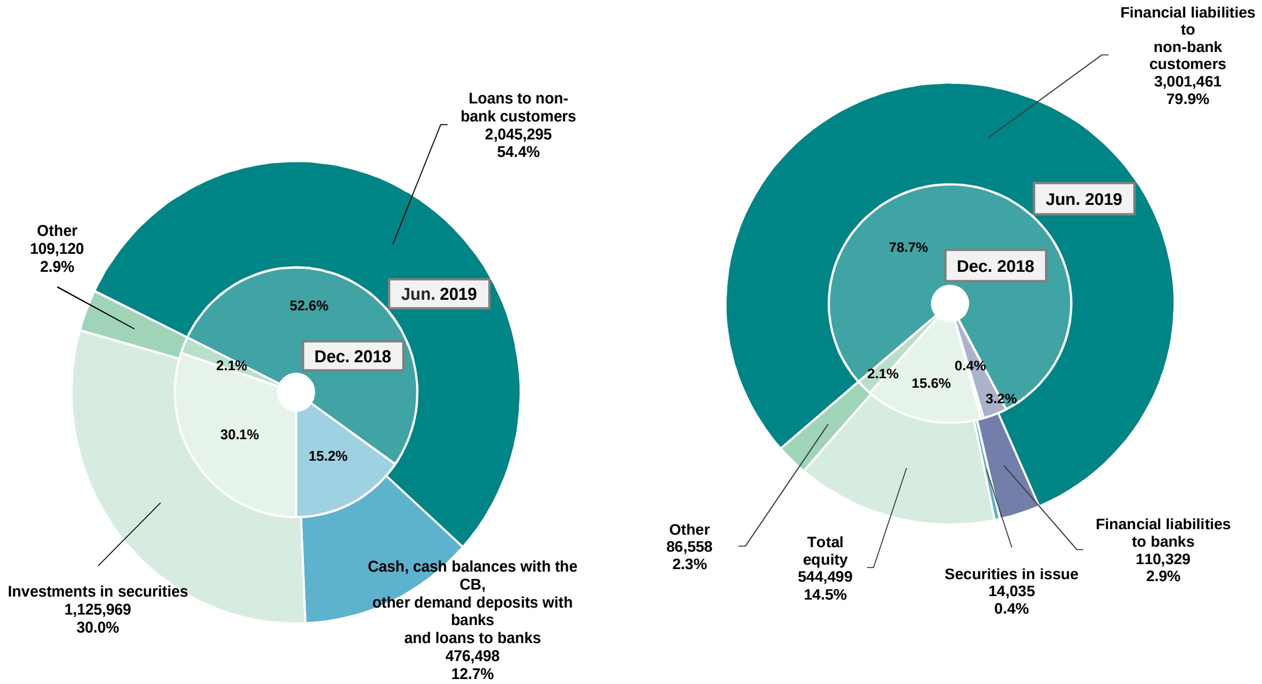


In the first half of 2019, **the Abanka Group** generated a **profit before tax** of EUR 29,080 thousand**,** whilst **consolidated profit after tax** equalled EUR 26,325 thousand. **Abanka** alone reported EUR 28,895 thousand in **profit before tax** and a **return on equity** of 9.9%. In the first half of 2019, **Abanka** posted a **profit after tax** in the amount of EUR 26,175 thousand, taking into account the **corporate income tax** of EUR 2,720 thousand, which is EUR 14,239 less compared to the corresponding period of 2018 due to the abovementioned reasons. In the reporting period, **return on equity after tax** was 9.0%.

PERFORMANCE AS VIEWED THROUGH THE STATEMENT OF FINANCIAL POSITION

Consolidated total assets as at 30 June 2019 amounted to EUR 3,755,425 thousand, which was EUR 23,883 thousand or 0.6% above the level posted at the 2018 year-end. Total assets of the subsidiary amounted to EUR 17,423 thousand, accounting for 0.5% of consolidated total assets. After the elimination of inter-company transactions between Abanka and the subsidiary, the consolidated total assets of the Abanka Group were lower by EUR 1,457 thousand than the **total assets of Abanka**, which amounted to EUR 3,756,882 thousand as at the reporting date, up by 0.8% or EUR 28,169 thousand compared to the 2018 year-end. As at 30 June 2019, Abanka's market share stood at 9.4%.

ASSETS AND LIABILITIES OF ABANKA AS AT 30 JUNE 2019 AND 31 DECEMBER 2018 (amounts in EUR thousand)



Note: Loans to non-bank customers include also loans under the item A. 3.

In **total assets** as at 30 June 2019, **loans to non-bank customers** amounted to EUR 2,028,003 thousand and **loans** included in item A. 3.[1] due to IFRS 9 amounted to EUR 17,292 thousand, which means that **loans to the non-banking sector** totalled EUR 2,045,295 thousand. Compared to the 2018 year-end, they increased by EUR 86,012 thousand. Loans increased as a result of higher loans to corporate customers and sole proprietors by 5.9% or EUR 61,905 million nominally and higher loans to retail customers by 2.7% or EUR 24,107 million. In total loans to the non-banking sector as at the reporting date, retail loans accounted for the bulk with 45.5%, followed by loans to large companies with 25.2%, loans to SMEs with 17.1% and other loans with small shares. As at 30 June 2019, the **Abanka Group's loans to the non-banking sector** totalled EUR 2,039,981 thousand.

As at 30 June 2019, the **Abanka Group's cash, cash balances with the central bank, other demand deposits with banks and loans to banks** totalled EUR 476,498 thousand, accounting for 12.7% of consolidated balance sheet assets. The abovementioned **Abanka's** balance sheet items as at the reporting date reached the same figure and were 16.1% lower or EUR 91,555 thousand nominally compared to the 2018 year-end. The decrease resulted from lower balance of the settlement account with the central bank and cash, whereas the remaining abovementioned balance sheet items increased in the reporting period.

[1] Non-trading financial assets mandatorily at fair value through profit or loss.

As at the reporting date, the **Abanka Group's investments in securities** amounted to EUR 1,125,969 thousand and equalled **those of Abanka**, as the subsidiary did not disclose securities operations in its balance sheets. Compared to the end of 2018, they rose by EUR 3,779 thousand or 0.3%. As at 30 June 2019, the equities portfolio of Abanka amounted to EUR 34,642 thousand, down by 20.3% or EUR 8,821 thousand in nominal terms compared to the 2018 year-end. The equities portfolio includes EUR 24,895 thousand paid into the Bank Resolution Fund. The debt securities portfolio of Abanka as at the end of June 2019 totalled EUR 1,091,327 thousand and accounted for 96.9% of total securities held by the Bank. Compared to the end of 2018, debt securities rose by 1.2% or nominally by EUR 12,600 thousand.

Abanka's equity investments in subsidiaries, accounting for 0.2%, totalled EUR 8,278 thousand as at the reporting date, thus remaining at the same level as at the 2018 year-end.

As at the reporting date, **tangible and intangible assets of the Abanka Group** totalled EUR 46,478 thousand and **those of Abanka** equalled EUR 42,296 thousand, up by 0.8% or EUR 333 thousand compared to the 2018 year-end.

As at 30 June 2019, **consolidated balance sheet liabilities** were composed of EUR 3,210,753 thousand in total liabilities and EUR 544,672 thousand in total equity. In **Abanka's balance sheet liabilities**, which were higher by EUR 1,457 thousand than consolidated balance sheet liabilities, total liabilities amounted to EUR 3,212,383 thousand and total equity to EUR 544,499 thousand.

The Abanka Group's deposits from non-bank customers accounted for over 75% of **the Group's total liabilities** and reached EUR 2,996,748 thousand as at the reporting date. Together with **loans from customers** of EUR 2,580 thousand they amounted to EUR 2,999,328 thousand. **Deposits from non-bank customers in Abanka** amounted to EUR 2,998,881 thousand. Together with **loans from customers** of EUR 2,580 thousand they reached EUR 3,001,461 thousand. Compared to the 2018 year-end, retail deposits grew by 4.2% (or EUR 87,875 thousand nominally) and deposits of corporate customers and sole proprietors dropped by 2.9% (or EUR 24,212 thousand nominally), which means that customer deposits in total increased by 2.2% (or EUR 63,663 thousand), whilst loans from customers increased by EUR 2,575 thousand.

As at 30 June 2019, **the Abanka Group's financial liabilities to banks** were equal to **those of Abanka** and amounted to EUR 110,329 thousand, down by 7.4% or EUR 8,794 thousand compared to the 2018 year-end as the result of a decrease in loans from banks by 7.6% or EUR 7,840 thousand and a decrease in deposits from banks by 5.8% or EUR 954 thousand.

Securities in issue of the Abanka Group equalled **those of Abanka.** As at the reporting date, certificates of deposit amounted to EUR 14,035 thousand, accounting for the Bank's total securities in issue, which increased by EUR 391 thousand or 2.9% in the first half of 2019.

As at the reporting date, **the total equity of the Abanka Group** amounted to EUR 544,672 thousand and that of **Abanka** to EUR 544,499 thousand, down by 6.7% or EUR 38,885 thousand compared to the 2018 year-end. Total equity decreased as the result of the dividend payment in May 2019 in the amount of EUR 66,737 thousand. On contrast, total equity increased due to the H1 2019 profit in the amount of EUR 26,175, accumulated other comprehensive income of EUR 1,590 thousand and retained profit for other changes in the amount of EUR 87 thousand.

PERFORMANCE OF THE GROUP IN THE FIRST HALF OF 2019

Corporate Banking and Sole Proprietors

In the reporting period, there were no significant fluctuations in the corporate banking segment. Economic growth in the euro area is low but stable, which has a significant impact on economic developments in Slovenia. Despite uncertainty surrounding world trade, domestic demand is growing. Favourable conditions in the construction industry are observed in Slovenia, which is to a significant extent a consequence of increased government investment. Both industrial production and export of goods strengthened, and the service sector continues to be in a favourable position. The employment rate and gross salaries grew, in addition to the increasing purchasing power.

Interest rates, both debit and credit, continued to be at very low levels and slightly declined in the first half of 2019, resulting in a decrease in the interest margin. The European Central Bank announced at its June meeting that its key interest rates would not increase at least until mid-2020. Due to the negative effects of trade war and several signs of economic slowdown on both sides of the Atlantic, increasingly more analysts revised their estimates about financial prospects of the Eurosystem in the second half of June. New expansionary measures by the ECB were announced so as to further stimulate the euro area's economic activity.

In the first half of 2019, corporate demand for investment loans and loans for financing working capital was slightly less intensive compared with 2018, while still taking advantage of the period of very favourable interest rates. Apart from that, a trend of taking out long-term loans with increasingly long maturities was observed. Despite moderate growth, businesses are more cautious as they are aware that it is a matter of time before there will be a turnaround in the economic cycle, resulting in recession. According to businesses, lower economic growth is expected to first occur in the EU's leading countries, which will then spill over to Slovenia through a reduction in orders in the supply chain with a six-month or a one-year delay. In the automotive industry, a slight drop in orders has already been seen this year.

The trend of loan refinancing as a result of improved credit ratings of businesses, combined with an excess supply of liquid assets on the market, has slowed this year, as successful businesses refinanced their loans to a more affordable interest rate already in the last two or three years.

The SME segment continues to remain the strategic segment of the Bank. To this end, special attention will continue to be paid to this segment so as to increase the volume of products and services used by both the existing and new customers. The Bank will continue to work intensively with large companies with the goal of maintaining the achieved market shares. In order to ensure professional and quality monitoring for all customers and provide custom-tailored solutions, further training and motivation of employees is a high priority. In addition to retaining the existing customers, the Bank is very active in attracting new customers by focusing on comprehensive customer management and launching modern banking products with great emphasis on digital products. The Bank continues to pursue the strategic guideline of establishing or increasing cooperation with customers having a good credit rating, which is reflected in an improved credit portfolio.

In the reporting period, business digitalisation activities continued with the aim of taking into account customers' wishes and achieving their satisfaction with the services. In May, the Abadenarnica mobile wallet for corporate customers was upgraded with the option of paying with Visa cards. Furthermore, the ordering process for the Abasms com, Abamobi com and Abanet com services was updated to make digital products faster and simpler.

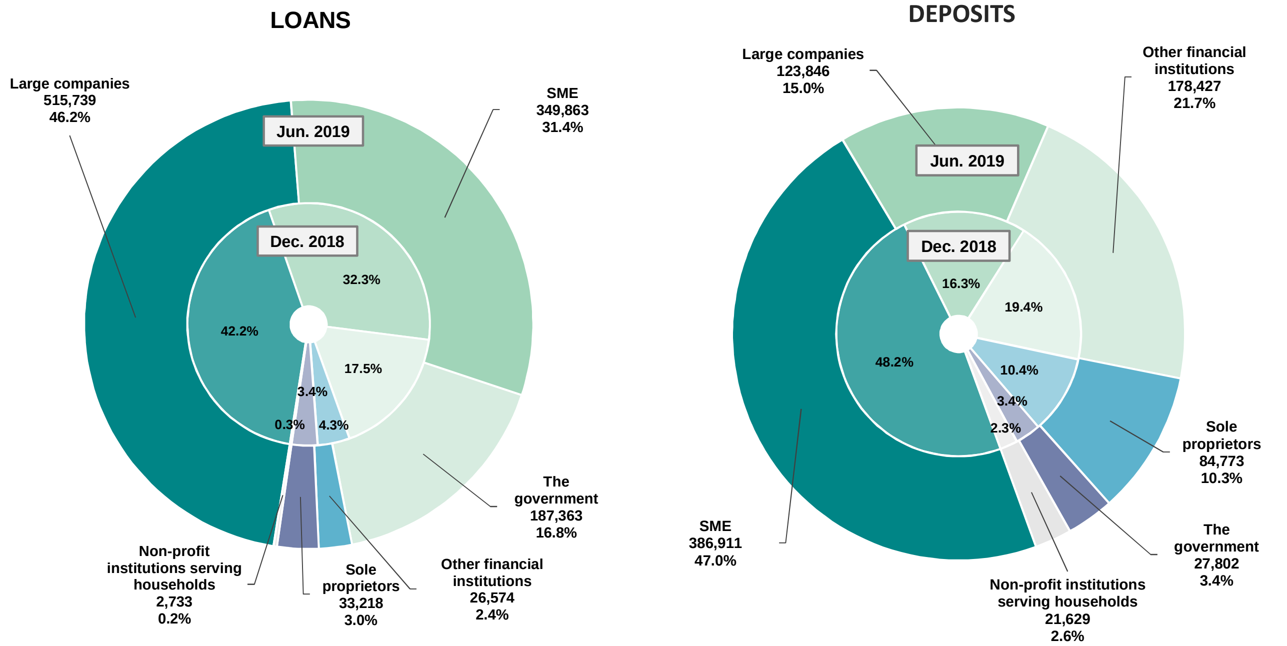
Microenterprises and sole proprietors were specifically addressed through cooperation with selected regional chambers of craft and through several business and social events. The Bank also participated in business events organised by partners, such as the Chamber of Commerce and Industry of Slovenia, the Slovenian Business Club, which potential customers were invited to cooperate with Abanka. In order to enhance customer satisfaction, corporate customers were given the opportunity to borrow short-term and long-term loans at more favourable terms from own sources and other sources obtained through business cooperation – municipalities, SID Bank and the Slovenian Enterprise Fund. This year, a number of small and medium-sized enterprises applied for bank loans with interest rate subsidy of the Slovenian Enterprise Fund. The selection process by the SEF is pending, while the drawing on the loans will mostly take place over the next twelve months. For new customers, a welcome package was designed, which includes price-adjusted services needed by businesses in their day-to-day operations.

The trend of increasing volume and value of trade finance transactions, which has been observed for several years, continued in the first half of 2019. This can be attributed to high economic growth and increased export-import economic activities of Slovene businesses.

The higher volume of trade finance transactions was also influenced by the increased awareness of businesses about the importance of individual trade finance products, which provide additional hedging against various risks, such as the risks associated with receiving a payment, repayment of the received advance payment, good execution of a transaction, elimination of defects in the guarantee period, etc., arising from doing business with domestic and foreign business partners. Abanka provides a comprehensive range of trade finance products with the most professional and timely execution and a personalised customer service. Based on the needs of individual customers, the Bank is considered an important and recognisable business partner in this field of banking services.

In early June, a major annual business meeting was held for corporate customers to discuss the impact of artificial intelligence on our life and work. With its range of advanced digital banking services for corporate customers, such as Abamobi com, Abanet com, Abasms com and the Abadenarnica mobile wallet, to which business payment cards can be uploaded, Abanka was featured in various business magazines and special issues published by regional chambers of craft and small business as well as by the Chamber of Commerce and Industry of Slovenia.

LOANS AND DEPOSITS OF ABANKA BY SEGMENT AS AT 30 JUNE 2019 AND 31 DECEMBER 2018 (amounts in EUR thousand)



As at the reporting date, **Abanka's loans to corporate customers and sole proprietors** totalled EUR 1,115,490 thousand, up by 5.9% or nominally EUR 61,905 thousand compared to the 2018 year-end. They accounted for 29.7% in total balance sheet assets (vs. 2018 year-end: 28.3%). The market share of loans to corporate customers and sole proprietors stood at 8.4% as at 30 June 2019 (vs. 2018 year-end 8.3%).

Deposits and loans from corporate customers and sole proprietors in Abanka amounted to EUR 825,968 thousand as at 30 June 2019, down by 2.6% or EUR 21,637 thousand compared with the 2018 year-end; deposits decreased by EUR 24,212 thousand to EUR 823,388 thousand, while loans from customers were up by EUR 2,575 thousand to EUR 2,580 thousand. Deposits from corporate customers and sole proprietors accounted for 21.9% in total balance sheet liabilities as at 30 June 2019 (vs. 2018 year-end: 22.7%). The market share of deposits from corporate customers and sole proprietors stood at 8.2% as at 30 June 2019 (vs. 2018 year-end: 8.3%).

Retail Banking

Abanka's most important mission is to provide its customers with quality, technologically advanced services, which are customer-tailored, easy-to-use and accessible anytime and anyplace. Good user experience is most valuable, therefore effective, high-quality communication of information to the customers is very important. In 2019, the Bank continues to pursue the strategy focused on the digitalisation of services and processes, while further improving user experience and seeking alternative ways to reach customers in order to achieve the goals and to be known as a bank of friendly people. A great deal of energy is being channelled towards simplifying the main processes, as well as into a number of minor improvements, which also have an impact on service quality. In the first half of the year, most attention was paid to the development of digital channels and new forms of payment.

In the process of providing customer services, the Bank follows modern guidelines by upgrading personal selling with a modern marketing approach, placing a strong emphasis on the use of customer relationship management (CRM) software. The CRM application provides not only an analytical approach to finding potential customers and an optimal approach to the marketing of services, but also uniform customer management with an overview of bank-to-customer and customer-to-bank activities. Uniform customer management helps to enhance user experience and consequently customer satisfaction.

By striving to accommodate its customers, innovative services that satisfy each and every user are provided. Any customer feedback is welcome, as this is the only way to effectively improve the user experience and develop staff. Using the Contact Centre and branch offices, customer responses and their initiatives are monitored, which are then forwarded to consideration in line with the given possibilities.

The highly-qualified private bankers in Abanka are in charge of high-net-worth individuals. In collaboration with the customer, the best decisions for accumulating their assets are sought. The employees of the Private Banking Department are spread across entire Slovenia so that they are even closer to their customers and readily available. With their vision and professionalism, their reputation among customers is growing. Their professionalism is complemented by Abanka's modern products, which enhance customer satisfaction with good user experience. Private banking is a segment where personal contact, trust and technologically advanced products are key for customer loyalty and recommendation to new customers.

In the first half of 2019, the Contact Centre saw a decline in the number of calls and an increase in emails and online chats. A knowledge database was created, where users can ask a question and the system offers them the most appropriate answer.

The Bank regularly upgrades and updates its mobile and online banking services, in addition to providing a modern payment method through Abadenarnica. The Bank is aware that the key to using the services is their ease of use, which was achieved by combining Abamobi, Abadenarnica and Abaklub into one application. As a result, the customers have access to all Abanka's mobile services through a single, user-friendly application. If a customer wants to visit a branch office or an ATM, they can use the application to find their nearest location.

In April, advanced users were offered the functionality to change the limit on their Ba Maestro and Visa debit cards via the Abamobi mobile bank and Abanet online bank applications. In the segment of cashless transactions, the Bank provides a range of card services, which last year gradually began to be provided as a digital service via the Abadenarnica mobile wallet. In 2019, Abadenarnica was upgraded with the option to withdraw cash and check the balance on contactless ATMs as well as the option of paying with a Visa card. The Abadenarnica mobile wallet enables contactless payment with all Abanka payment cards.

Apart from traditional deposits, alternative forms of saving were offered to savers. For several years, Abanka has been selling insurance products and services of Zavarovalnica Triglav, with whom the Bank jointly provides high quality and competitive insurance services to its customers, while in cooperation with Triglav Skladi it sells mutual funds. A special bundled product was maintained to deepening cooperation with the strategic business partners. Customers were offered the possibility of diversifying their investment either by choosing a non-purpose deposit and investing in a selected mutual fund or by insurance payment. In the reporting period, the Bank continued to design special offers of consumer and housing loans from its own and municipal sources – participation in the public tender of municipalities for interest rate subsidy. For new customers of Aračun and Aračun Senior, a welcome package was designed, which includes price-adjusted services needed by businesses in their day-to-day operations.

Despite modern technology, the Bank is aware of the importance of personal contact and giving advice to customers, especially when making major investment decisions, therefore its key approach to the customer remains via a branch, where qualified staff advise them based on their existing personal situation and experience. The branch network extends across entire Slovenia, which further increases the visibility of the Bank, enables the representation of customers from all over Slovenia and ensures a high market share in all regions of Slovenia. A branch office together with technology (Abamobi and Abanet) completes the modern and quality range of services provided to the customers so as to meet their requirements regarding the role of the Bank in managing their personal finances.

Through a wide range of services, it is even easier to satisfy the needs of the customers who are able to choose a saving product that most meets their wishes and expectations.

To maintain customer loyalty and increase the number of users of the loyalty programme, Abaklub is available. This service still includes a possibility of inviting a friend. In the framework of the Abanka's loyalty programme, loyal customers receive rewards and numerous benefits from the loyalty programme partners.

The introduction of e-pen in the processes of product approval for retail customers continued. The Bank is aware of its social responsibility and care for the environment at every step, thus it embraces every technological upgrade that helps it to achieve this. In addition to using e-pen for signing, the Bank encourages its customers to receive bank statements via electronic and mobile channels or by email.

In marketing communication, numerous marketing activities implemented in the first half of 2019 targeted key segments.

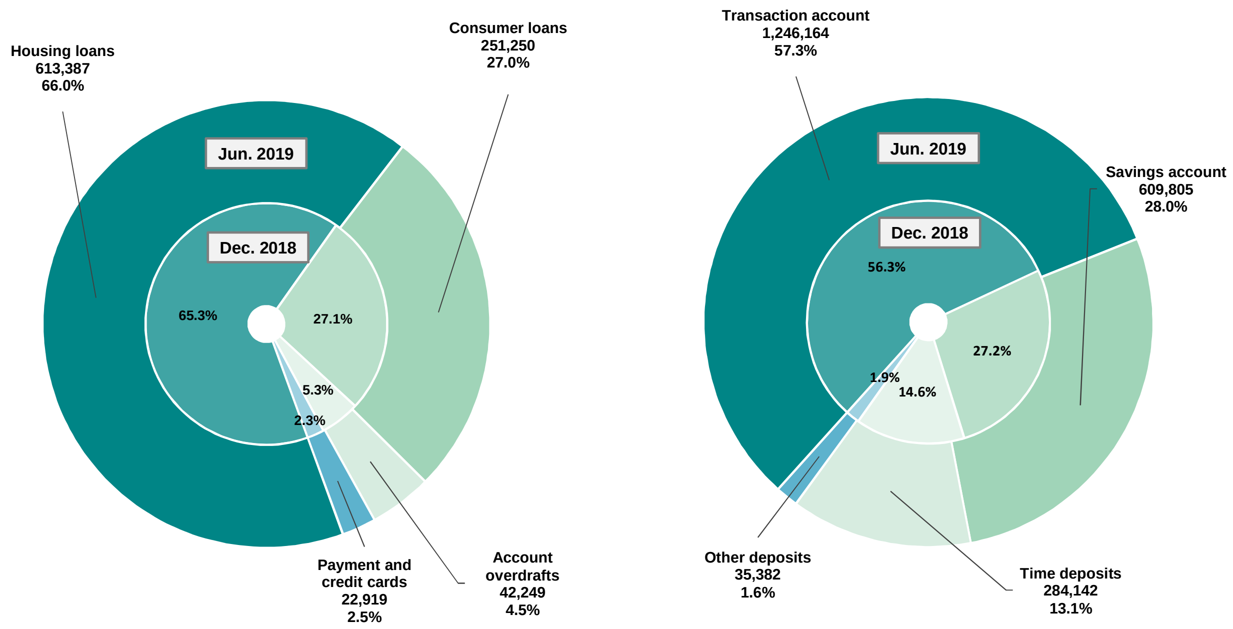
The majority of marketing activities was directed to the segment of the working-age population. This segment was addressed through numerous marketing activities to promote the sale and use of payment cards, both physical and digital via the Abadenarnica mobile wallet. A significant part of marketing communication was devoted to the promotion of consumer and housing loans at affordable rates and the use of the Abamobi mobile bank application. An online marketing campaign was launched to promote the opening of personal accounts and switching banks online. Furthermore, before the May Day holiday and the summer holiday period, the focus was on promoting those Abanka's services that are wise to choose before going on holidays (payment cards, Abamobi, Abadenarnica, card insurance, travel insurance). Relationships with Abanka's existing customers are also maintained through the Abaklub loyalty programme, whose range of benefits is being constantly expanded. Promotional activities aimed at promoting retail lending were also organised by participating in trade fairs and directly at the points of sale, for which a special offering of consumer loans was prepared.

Pre-school children were addressed with the hedgehog mascot "Abanka ježek", elementary school pupils with the Akeš junior brand and high school and university students with the Akeš brand. The youngest savers and their parents were addressed through promotional activities in the context of Cici Vesela šola sponsorship, via current topics published on Abanka's website and at the events held for children, e.g. the Magic Day and the puppet shows "Ježek" ("Hedgehog") which were organised in Slovene kindergartens in March and April 2019. The activities for the elementary school children were implemented in the context of Vesela šola project and via the content published on Abanka's website. The Bank was present in various high school and university student newsletters, while most marketing communication activities targeting this segment were carried out on social networks. In this segment, the leading Facebook banking profile continues to be actively managed, while in the segment of young people Abanka continues to maintain the highest net promoter score (NPS).

Marketing communication activities were mostly implemented at a national level, while some focused on the regional or local specificities at the level of individual selected branch offices, where potential was identified, i.e. when closing down branches of competitive banks and similar.

Marketing communication activities are regularly performed on key social networks; in June, Abanka's Instagram profile was launched, in addition to its presence on Facebook, YouTube and LinkedIn. Communication is regularly carried out on all Abanka's internal communication channels. In early 2019, Abanovičnik, the monthly internal newsletter for customers, was redesigned. It provides useful and informative content and advice relating to finance and everyday living.

RETAIL LOANS AND DEPOSITS OF ABANKA AS AT 30 JUNE 2019 AND 31 DECEMBER 2018 (amounts in EUR thousand)



As at the reporting date, **Abanka's retail loans** amounted to EUR 929,805 thousand, up by 2.7% or EUR 24,107 thousand nominally compared to the 2018 year-end, whilst their share in balance sheet assets rose by 0.4 percentage point to 24.7% as at 30 June 2019. The market share of retail loans remained unchanged, accounting for 9.5% both as at 30 June 2019 and as at the 2018 year-end.

In the reporting period, **Abanka's retail deposits** amounted to EUR 2,175,493 thousand, having increased by 4.2% or EUR 87,875 thousand nominally compared to the 2018 year-end, whilst their share in balance sheet liabilities rose from 56.0% as at the 2018 year-end to 57.9% as at 30 June 2019. The market share of retail deposits stood at 11.4% as at the reporting date, which equals the figure of the 2018 year-end.

Situation on the financial markets and management of the debt securities portfolio

At the beginning of the year, the growth of economic activity in the euro area continued, but then it gradually cooled down, resulting, resulting in slightly more prudent forecasts. The most uncertainty is seen in exports as exports are expected to slow down, mainly due to fears of further escalation of trade war between the largest economies and slowdown in international economic growth. An upward trend in the growth of private consumption continues, as it is influenced by accelerated growth in salaries and social transfers. In addition, employment growth will remain relatively high.

In the first half of 2019, Slovenia continued with the borrowing on international markets without difficulty. In January 2019, as the first in Europe, Slovenia issued a new 10-year bond at a coupon rate of 1.1875% in the total amount of EUR 1.5 billion. The issue was widely dispersed, both in terms of geographic area and institution type: geographically, the largest portion was allocated to United Kingdom and Ireland and Germany, while by institution type to banks and fund managers.

The macroeconomic situation in the euro area is stable; the pressing problem remains the uncertain geopolitical situation, which has a major impact on the euro. the threat of an outbreak of trade war and the real consequences of additional tariffs, uncertainty over the Brexit, political instability, the threat of war around the Strait of Hormuz, etc. The ECB ended its government bond-buying programme at the end of 2018, however, the uncertain international environment and global economic downturn have forced the ECB to consider re-launching this programme.

The management of the debt securities portfolio included in the trading and banking books demanded the Bank to continue to apply a conservative and prudent investment policy, i.e. investing in safe and liquid investments.

Abanka remains an important primary dealer in Slovene government bond issues and participates as a market maker in MTS Slovenija as an official liquidity provider. Through different activities, it has been steadily increasing the trading volume on the primary and secondary markets of Slovene government bonds, thus becoming an important player in both the local and the international market. In the most recent international issues of government bonds and the domestic issues of RS treasury bills, Abanka played an active role as a co-lead manager and achieved a high market share in the local market. In January 2019, Abanka and several other renowned foreign banking groups (Barclays, BNP Paribas, Credit Agricole CIB, Commerzbank and HSBC) were selected to participate in a syndicate of banks (lead managers) in charge of issuing a new 10-year bond in the amount of EUR 1.5 billion. This is confirmed by the fact that Abanka is recognised by domestic and foreign institutional investors as an important partner in ensuring the liquidity of the Slovene government securities.

Payment transactions

As regards domestic and cross-border payment transactions in the first six months of 2019, Abanka processed 9.2 million orders through the Target payment systems, the small-value payment system (SIMP) and the correspondence network in the total value of EUR 11,294.3 million. In terms of the number of orders, domestic and cross-border payments increased by 3.4% compared to the corresponding period last year. Moreover, the Bank internally processed 5.2 million transactions worth EUR 6,257.3 million in H1 2019.

Abanka is an important operator in the direct debit scheme (SEPA DD). In the reporting period, Abanka processed 3.6 million transactions worth EUR 186.9 million through this payment system, accounting for a 23.3% market share.

Card and ATM Operations

As at the reporting date, the Bank issued 484,782 payment cards, with which 17.8 million transactions (11% more than in H1 2018) were executed in the total amount of EUR 831.2 million, up by 8% compared to the same period last year.

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. In the reporting period, 17 million transactions (10.4% more than in the respective period of the previous year) in the total amount of EUR 687.8 million were recorded, up by 8% compared to the same period last year.

One of Abanka's modern distribution channels is its extensive ATM network. As at the reporting date, Abanka operated 246 ATMs. Its ATM network was ranked the third largest with a 16% market share despite the fact that the number of bank-owned ATMs fell by 13 compared to the 2018 year-end. At Abanka's ATMs, 4.4 million transactions involving cash withdrawal were recorded, down by 4.3% compared to the same period last year. This nominally amounted to EUR 504.1 million or 2.3% more than in the first half of 2018.

Custody and Administrative Services

Abanka maintains the leading position in custody services for investment and pension funds. In exercising the oversight of a fund's assets and safekeeping of financial instruments, the Bank adheres to the principles of safe and prudent business practices and ensuring the safety of assets of investors and/or the insured.

In Slovenia, Abanka has the longest tradition in the provision of administrative services for investment funds. Its range of services includes custody services under the Market in Financial Instruments Act (ZTFI), which enables the Bank to provide management services for custodial accounts for securities to domestic institutional customers.

Custody and administrative services are also provided to alternative investment funds with broader investment policies, demand for which is increasing in the Slovene financial sector.

Total equity and ownership structure

As at 30 June 2019, the total equity of the Abanka Group amounted to EUR 544,672 thousand, whilst that of Abanka equalled EUR 544,499 thousand.

The unaudited share book value was EUR 36.06 as at the reporting date based on 15,100,000 shares (vs. 2018 year-end: EUR 38.63). 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.

At the 40th regular General Meeting of Shareholders held on 16 May 2019, the General Meeting of Shareholders took note that the accumulated profit for 2018 was EUR 88,208,003.31. The General Meeting of Shareholders decided that a part of accumulated profit for 2018 in the amount of EUR 66,736,886.53 shall be allocated for dividend payments, whereas the remaining part of the profit amounting to EUR 21,471,116.80 remains undistributed (shall be allocated to profit brought forward).

The Bank's share capital amounted to EUR 151,000 thousand as at 30 June 2019. 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 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 ABKS shares, wholly owned by the Republic of Slovenia. 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 2018 year-end and remained unchanged in the first six months of 2019.

As at the reporting date, Abanka's **accumulated other comprehensive income** amounted to EUR 4,923 thousand (an increase of EUR 1,590 thousand in H1 2019), **reserves from profit** equalled EUR 58,384 thousand (the same as at the 2018 year-end) and **retained profit** totalled EUR 47,733 thousand (an increase for net profit in the amount of EUR 26,175 thousand and EUR 87 thousand for other changes and a decrease for dividend payment in the amount of EUR 66,737 thousand).

The corresponding amount per no-par value share in the share capital was EUR 10.00 as at the reporting date.

RISK MANAGEMENT

RISK MANAGEMENT SYSTEM

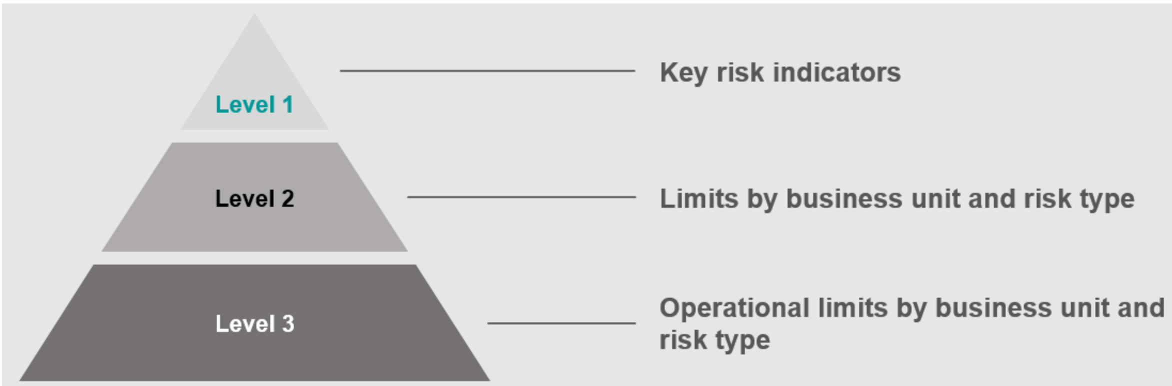
The Bank sharpened its view on risks in the revised risk appetite framework, which represents the substantive, process and organisational aspects of risk management of the Bank and ensures that its risk taking complies with its risk appetite at all times. The key elements of Abanka's risk appetite framework are as follows:

- the risk-bearing capacity, which defines how much risk the Bank is able to take with regard to its current and planned level of resources, without exceeding the regulatory limits of capital and liquidity requirements;
- the risk appetite, with which the Bank specifies how much risk it is willing to take in order to achieve its strategic and business objectives;
- the process of identifying material risks;
- the processes of limiting exposure to risks.

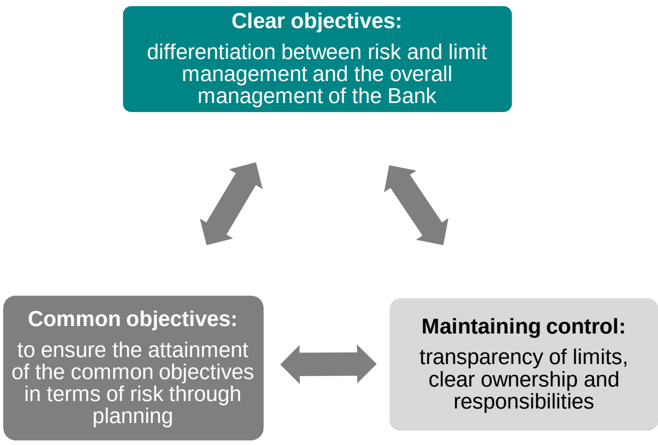
The risk appetite framework and the business strategy are interconnected via:

- the available capital,
- the wishes and opportunities for growth,
- the portfolio structure,
- the structure of the statement of financial position,
- the limit systems affecting business growth,
- the asset quality,
- the relevant deposit management regulations.

The limit system of the Bank is set up in levels as shown in the figure below. This ensures the robustness of the limit system, which is reflected in various ratios and indicators at different levels and the key elements for the day-to-day decision-making at the operational level.



The key principles presented below further contribute to the robustness of the limit system.



RISK MANAGEMENT IN THE FIRST HALF OF 2019

Economic growth in the euro area was somewhat above expectations in the first quarter of 2019, but remained low. The increase was underpinned primarily by private consumption and gross fixed capital formation, given the significant increase in construction sector and further growth in retail trade in the first three months. After a temporary standstill in the car industry, positive growth was again also recorded in manufacturing sector. The continuation of low euro area growth in the second quarter is also indicated by economic sentiment indicators, which – with the announcement of anti-trade measures – remain similarly low as in previous months.

The period of higher GDP growth in Slovenia than the EU average continues in 2019. According to the SORS announcement[2], in the first quarter of 2019 GDP was 3.2% higher than in the first quarter of 2018. Growth was primarily driven by export and domestic consumption. After two quarters of slightly lower growth of export, in the first quarter of 2019 a higher growth of export (7.6%) was observed. External trade surplus contributed a half or 1.6 percentage point to GDP growth. However, there are also signs of cooling down. Year-on-year growth in domestic spending was 1.8%, the lowest in the last three years. Gross fixed capital formation with a negative year-on-year growth of 1.3% contributed most to the slowdown, mainly due to changes in inventories, while growth in gross fixed capital formation with a 9.3% year on year remains high. Growth in construction, including trade, accommodation and food service activities and transportation, remains very high, while growth in manufacturing is slowing down. According to IMAD forecast (Spring Forecast of Economic Trends), economic growth will decline from 4.5% in 2018 to 3.4% in 2019 and it will continue to slow down in the coming years to 2.8% in 2021. Export growth will ease faster than domestic consumption growth, boosting the contribution of domestic consumption in the economic growth structure, which will be driven by still high investment growth of around 7% and private consumption growth.

The quality of bank assets continued to improve in the first quarter of 2019. Volume of housing loans is rising at a moderate pace; somewhat higher growth rates are recorded for consumer loans. This is a consequence of both the improvement in households' creditworthiness and higher household demand for loans amid low indebtedness and favourable labour market conditions.

Growth in domestic non-banking sectors' deposits has strengthened further this year due to growth in household deposits as well as deposits of the government, which increased deposits at domestic banks amid favourable public finance conditions. As a consequence of good business results, deposits of non-financial corporations are also on the rise.

In the first half of 2019, the Bank upgraded its internal capital and liquidity adequacy assessment processes (hereinafter: ICAAP and ILAAP), thereby making important steps towards improving risk management, both at a strategic level and at the level of individual (sub)systems and methodologies. By upgrading the ICAAP and ILAAP, which addresses the normative and economic perspective of capital and liquidity adequacy in accordance with the Guides to the ICAAP and ILAAP, the Bank established clear and mutually consistent indicators for assessing internal capital and liquidity requirements for all material risks. Furthermore, the ICAAP and ILAAP have become more closely integrated into the risk appetite framework (hereinafter: RAF) and thereby into the decision-making processes at the bank level. In doing so, the Bank also strengthened the robustness of the assessment support systems. In the reporting period, the Bank also updated risk reporting and monitoring as well as revised other limit subsystems in accordance with the RAF.

In the first six months of 2019, the Bank continued with the development activities in other risk management areas. The methods/models for the assessment of credit parameters were evaluated, while the methodology for assessing expected credit losses was updated in line with the new regulatory requirements for non-performing exposures (hereinafter: NPEs). The Bank continued with the activities aimed at strengthening the recovery framework in the context of its recovery plan. Because of the increased demand for quantity, quality and automated processes of data collection, the Bank paid special attention to implementing the relevant upgrades, which has continued in 2019. The Bank also focused on operational risk, where, in addition to the regulatory requirements, it continued to strengthen the operational risk management system and, most of all, to develop outsourcing management. In line with the new requirements of the Single Resolution Board (hereinafter: SRB), the Bank began to define an appropriate governance structure and activities to meet the requirements.

In the first half of 2019, the Bank updated the Methodology for the Valuation of Real Property Pledged as Collateral for Exposures of Abanka d.d. and the Rules on Collateral for Exposures in Abanka d.d. Furthermore, it continued its activities

[2] Source: Statistical Office of the Republic of Slovenia, 31 May 2019, https://www.stat.si/StatWeb/News/Index/8145

to upgrade application software for collateral and its integration into other application software. Additional activities are carried out in connection with the preparation of reports on collateral.

In the first half of 2019, the Bank continued with the management of NPEs. By doing so, the Bank complied with its main goal set in Abanka d.d.'s NPL Management Strategy for 2019–2021, which is to reduce the share of its NPEs to below 4%.

The table below shows the amount of NPLs, the share of NPLs in total loans, the coverage ratio of NPLs with impairments and the coverage ratio of NPLs with impairments of NPLs under the EBA methodology[3] as at 30 June 2019 and as at 31 December 2018 (data on consolidated basis).

The calculation in accordance with the EBA methodology (based on the FINREP report-Table F-18)	30 June 2019	31 Dec. 2018
Non-performing loans (in EUR thousand)	104,562	119,572
Share of NPLs in total loans (in %)	4.0	4.6
NPL coverage ratio (in %)	93.0	78.1
Coverage ratio of NPLs with impairments of NLPs (in %)	51.9	43.6

In the reporting period, the amount of NPLs decreased by EUR 15 million and the share of NPLs in total loans by 0.6 percentage point, whereas the coverage ratio of NPLs with impairments increased by 14.9 percentage points and the coverage ratio of NPLs with impairments of NPLs by 8.3 percentage points.

The decrease in NPLs was the result of repayments, write-offs, recovery (collection of collateral) and reclassification of debtors into higher credit rating groups due to the improvement of their financial position.

Due to the decrease in NPLs and the increase in impairments, the coverage ratio of NPLs with impairments and the coverage ratio of NPLs with impairments of NPLs increased. The reasons for the increase in impairments were the compliance with the ECB requirements on minimum loss coverage for non-performing exposures[4], recalibration of credit parameters (probability of default and loss given default) by taking into account new macroeconomic forecasts and an increase in performing loans.

Temporary write-offs of Abanka's NPLs in the first half of 2019 went down by EUR 1.4 million and amounted to EUR 70.6 million as at 30 June 2019.

Throughout the reporting period, Abanka's liquidity position remained good, as the Bank significantly exceeded the recommended Category 1 and Category 2 liquidity ratios and maintained the liquidity coverage ratio (LCR) at a very high level. The Bank maintained a diversified funding structure and implemented measures to stimulate long-term deposits in the environment characterised by the unfavourable changing of the maturity structure of funding sources.

In the first half of 2019, the Bank participated in the ECB's liquidity stress tests, which confirmed the Bank's sound liquidity position and its high level of liquidity coverage ratio even under stress conditions. The Bank upgraded the internal liquidity adequacy assessment process (ILAAP), thereby ensuring ongoing updates of methodologies and models for ensuring an adequate liquidity position and/or liquidity risk measurement.

In the reporting period, the European Central Bank maintained the interest rate on the main refinancing operations at 0% and the deposit facility rate at –0.40%. The European Central Bank ended its asset purchase programme (APP) in December 2018, but maturing securities purchased under the APP will continue to be reinvested. Despite ending these non-standard measures, the ECB expects interest rates to remain at similarly low or even lower levels for a longer period of time. Particularly in June 2019, Euribor interest rates again fell as a result of expectations of a decrease in the deposit interest rate in the coming months.

Therefore, the Bank continuously adapted its interest rate policy to market developments. With respect to the interest rate risk, Abanka adjusted its interest rate positions within individual time bucket. The Bank managed foreign exchange risk by carefully monitoring the changes in foreign exchange rates and by closing positions according to a particular currency or currency group. The foreign exchange risk is low due to a relatively low share of foreign currencies in total assets.

[3] Under the EBA methodology, the following items are included in gross loans in addition to loans: "cash and balances with the central bank", "demand deposits with banks" and "other financial assets". Impairments also include the item "impairments – other financial assets".

[4] On 26 April 2019, Regulation (EU) 2019/630 of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards minimum loss coverage for non-performing exposures entered into force.

In the first six months of 2019, Abanka continued its policy of limited trading in financial instruments. Trading in equity financial instruments was banned, whilst trading in debt instruments was carried out primarily for the purpose of actively maintaining the market of domestic government securities, where Abanka acts as a primary dealer and official liquidity provider, and to a limited extent with the aim of generating short-term profit. 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 Bank closes such positions with back-to-back transactions so as to limit its market risk exposures. The Bank does not trade in more complex financial instruments.

In the reporting period, the trading portfolio of debt financial instruments totalled EUR 2 million on average. The banking book equity portfolio includes only the strategic investments of the Bank and investments 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, increased in the first six months of 2019 by 0.31%, amounting to EUR 1,082.4 million as at 30 June 2019.

The structure of the debt securities portfolio of the banking book did not change significantly in the first half of 2019 compared with the same period in 2018. As at 30 June 2019, the share of debt securities issued in the Republic of Slovenia stood at 34.6% compared with 38.6% as at 30 June 2018. The debt securities portfolio of the banking book consisted of mainly domestic and foreign government debt instruments and the bonds of European banks and corporates eligible to be pledged as collateral to the European Central Bank.

In the first half of 2019, the value at risk (VaR) of the banking book of debt financial instruments at the 95% confidence level increased to nearly EUR 3 million as at 30 June 2019.

In operational risk management, the Bank updated its database of occurred incidents. Furthermore, it carried out regular preventive activities aimed at limiting the occurrence of incidents and other loss events, as well as corrective activities designed to reduce the probability of their re-occurrence. Special attention was paid to the management of model risk, conduct risk, legal risk, outsourcing risk and compliance risks, which are monitored as the subtypes of operational risk. Moreover, additional risk analyses for several key services were prepared and contingency management plans were revised.

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 or will be exposed.

In the framework of the ICAAP, the Group upgraded the existing methods for calculating the internal capital requirement assessment, continued to regularly monitor its risk profile, assessed its risk-bearing capacity, designed and developed the methods to calculate the effects of stress tests, and checked the appropriateness of the calculated amount of its internal capital assessment and internal capital requirement assessment for all material risk types. The findings of the ICAAP are included in risk reports, which are communicated to the members of the Risk Management and Asset-Liability Committee, consisting of senior management of the Bank, the Management Board members, the members of the Risk Monitoring and Asset Liability Management Committee and the Supervisory Board members.

As at the reporting date, the Bank disclosed higher consolidated total capital ratio and consolidated Common Equity Tier 1 capital ratio than required by the supervisor. For details see *Note 13 – Capital, capital adequacy and leverage ratio* in the Financial Report of the Abanka Group for the First Half of 2019. Despite high capital ratios, the Bank continues to implement its prudent capital management policy.

SIGNIFICANT TYPES OF RISKS AND UNCERTAINTIES IN THE SECOND HALF OF 2019

In the second half of 2019, the Bank will focus on further development of credit parameter assessment methodologies and continue to ensure the quality of the data for the assessment of said parameters based on the evaluation results. Significant activities will be undertaken as part of the implementation of changes to the NPE definition, which will be effective from the beginning of 2021. The Bank will upgrade technological support for calculating expected credit losses (hereinafter: ECL) by implementing new modules and amending the ECL assessment methodology. An important part of the tasks will be upgrading the stress test framework, both internal and regulatory (EBA stress tests). In doing so, the Bank plans to establish a framework that will be consistently integrated into the key elements of risk management, such as RAF, ICAAP, ILAAP, NSSA and ECL, as well as into business planning. Great emphasis will be placed on updating the recovery plan. In the second half of the year, the Bank will continue with the activities of reducing the NPE portfolio in line with the NPE strategy despite the significant fall in the share of NPEs resulting from the package sale.

The Bank plans to maintain a low appetite for market risk in the future. A potential increased exposure to market risk can 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.

The Bank foresees that good liquidity conditions will continue in the second half of 2019. Irrespective of the above, the Bank will further upgrade its liquidity management processes or the ILAAP. Furthermore, in the second half of 2019, it will continue not only to actively manage interest rate risk but also to upgrade interest rate risk measurement and management. The relevant software in this area is also being upgraded.

The Bank will continue with the activities related to meeting the minimum requirement for own funds and eligible liabilities (MREL). Meeting the MREL is being incorporated into the process of regular planning and internal reporting, while software continues to be developed so as to enable automation of data intended for reporting to the regulator as well as for internal needs.

The Bank will continue to pay due attention to operational risk management. The Bank will upgrade and continue to conduct risk analysis. Apart from that, the business continuity management system will continue to be maintained and upgraded. The Bank will continue with the establishment of a system for regular updating of business continuity plans and the preparation of a testing plan.

CHANGES TO THE SUPERVISORY BOARD AND TO THE MANAGEMENT BOARD

CHANGES TO THE SUPERVISORY BOARD

In the first half of 2019, the composition of Supervisory Board remained unchanged.

As at the reporting date, the Supervisory Board was composed of Marko Garbajs as Chairman of the Supervisory Board, Melita Malgaj as its Vice Chair, and Alenka Vrhovnik Težak, Rok Pivk, Dejan Kaisersberger, Varja Dolenc and Miha Košak as its members, the same as at the 2018 year-end.

CHANGES TO THE MANAGEMENT BOARD

As at 30 June 2019, Abanka was governed by a three-member Management Board, composed of Jože Lenič as its President and Matevž Slapničar and Matej Golob Matzele as its members, the same as at the 2018 year-end.

The member of the Management Board Matevž Slapničar served on the Board until 30 June 2019. As a result, the Supervisory Board appointed Nada Mertik a new member of the Management Board, whose term of office commenced after having obtained the authorisation of the regulator. On 23 July 2019, the European Central Bank issued an authorisation to Nada Mertik to serve on the Management Board of Abanka. Thus, as of 24 July 2019 the Abanka's Management Board was composed of Jože Lenič as its President and Nada Mertik and Matej Golob Matzele as its members.

FINANCIAL REPORT

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 half-year ended 30 June 2019 (pages 32 to 45 of the Interim Report), the applied accounting policies, and the notes to the financial statements (pages 46 to 72 of the Interim Report).

The Management Board is responsible for preparing the financial statements for the half-year 2019 and 2018, which gives a true and fair representation of the financial position of the Bank and the Group as at 30 June 2019, and the results of their operations for the period then ended.

The Management Board confirms that accepted accounting policies adopted for the half year ended 30 June 2019 are consistent with those of the annual financial statements for the year ended 31 December 2018. The Management Board also confirms that the condensed interim 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 Accounting Standard 34.

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 period ended 30 June 2019, Abanka d.d. did not start any related party transactions under unusual market conditions.

Ljubljana, 5 August 2019

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Nada MERTIK
Member of the Management Board

Jože LENIČ
President of the Management Board

CONTENT

NOTE PAGE

(All amounts in EUR thousand unless otherwise stated)

CONDENSED INTERIM FINANCIAL STATEMENTS OF ABANKA D.D. AND THE ABANKA GROUP

UNAUDITED INCOME STATEMENT OF ABANKA D.D.

Item No.	ITEM DESCRIPTION	AMOUNT Period ended 30 June 2019	2018
1	**2**	**3**	**4**
1	Interest income (Note 3)	33,335	32,807
2	Interest expenses (Note 3)	(3,584)	(3,341)
3	**Net interest income (1+2)**	**29,751**	**29,466**
4	Dividend income	394	898
5	Fee and commission income (Note 4)	27,787	25,617
6	Fee and commission expenses (Note 4)	(7,542)	(7,077)
7	**Net fee and commission income (5+6)**	**20,245**	**18,540**
8	Net gains on financial assets and liabilities not measured at fair value through profit or loss (Note 5)	1,044	13,650
9	Net gains on financial assets and liabilities held for trading	981	1,804
10	Net gains on non-trading financial assets mandatorily at fair value through profit or loss	2,700	2,975
11	Net gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	1,748	(538)
12	Exchange differences	78	(489)
13	Net gains on derecognition of non-financial assets	2	6
14	Net other operating expenses	(1,019)	(2,029)
15	Administrative expenses (Note 6)	(28,990)	(30,049)
16	Depreciation and amortisation	(3,781)	(3,563)
17	Net gains/(losses) on modification of financial assets	12	(46)
18	Provisions (Note 7)	8,117	1,123
19	Impairment (Note 8)	(2,574)	12,234
20	Total profit from non-current assets held for sale	187	307
21	TOTAL PROFIT BEFORE TAX FROM CONTINUING OPERATIONS (3+4+7 to 20)	28,895	44,289
22	Tax expense related to profit from continuing operations	(2,720)	(3,875)
23	TOTAL PROFIT AFTER TAX FROM CONTINUING OPERATIONS (21+22)	26,175	40,414
24	**NET PROFIT for the financial year (23)**	**26,175**	**40,414**

These interim financial statements were approved for issue by the Management Board on 5 August 2019.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Nada MERTIK
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 46 to 72 are an integral part of these interim financial statements.

(All amounts in EUR thousand unless otherwise stated)

UNAUDITED STATEMENT OF COMPREHENSIVE INCOME OF ABANKA D.D.

Item No.	ITEM DESCRIPTION	AMOUNT Period ended 30 June 2019	2018
1	2	3	4
1	**NET PROFIT FOR THE FINANCIAL YEAR AFTER TAX**	**26,175**	**40,414**
2	**OTHER COMPREHENSIVE INCOME/(LOSS) AFTER TAX (3+4)**	**1,590**	**(110)**
3	**ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS (3.1 + 3.2)**	**972**	**400**
3.1	Fair value changes of equity instruments measured at fair value through other comprehensive income	1,200	494
3.2	Income tax relating to items that will not be reclassified to profit or loss	(228)	(94)
4	**ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS (4.1 + 4.2)**	**618**	**(510)**
4.1	Debt instruments at fair value through other comprehensive income (4.1.1 + 4.1.2)	763	(630)
4.1.1	Net valuation gains/(losses) taken to equity	822	(650)
4.1.2	Net (gains)/losses transferred to profit or loss	(59)	20
4.2	Income tax relating to items that may be reclassified to profit or loss	(145)	120
5	**TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX (1+2)**	**27,765**	**40,304**

These interim financial statements were approved for issue by the Management Board on 5 August 2019.

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Matej GOLOB MATZELE
Member of the Management Board

Nada MERTIK
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 46 to 72 are an integral part of these interim financial statements.

(All amounts in EUR thousand unless otherwise stated)

UNAUDITED STATEMENT OF FINANCIAL POSITION OF ABANKA D.D.

Item No.	ITEM DESCRIPTION	AMOUNT As at 30 June 2019	As at 31 December 2018
1	**2**	**3**	**4**
1	Cash, cash balances with the central bank and other demand deposits with banks (Note 12)	437,829	537,269
2	Financial assets held for trading	14,155	3,837
3	Non-trading financial assets mandatorily at fair value through profit or loss (Note 12)	19,437	36,587
4	Financial assets at fair value through other comprehensive income	158,681	163,466
5	Financial assets at amortised cost	3,062,492	2,924,518
	– debt securities	955,932	946,334
	– loans to banks	38,669	30,784
	– loans to non-bank customers	2,028,003	1,934,862
	– other financial assets	39,888	12,538
6	Investments in subsidiaries (Note 9)	8,278	8,278
7	Tangible assets	34,002	33,033
	– property and equipment	33,811	32,832
	– investment property	191	201
8	Intangible assets	8,294	8,930
9	Tax assets	10,225	10,225
	– deferred tax assets	10,225	10,225
10	Other assets	3,021	2,082
11	Non-current assets held for sale	468	488
12	**TOTAL ASSETS (from 1 to 11)**	**3,756,882**	**3,728,713**

(All amounts in EUR thousand unless otherwise stated)

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

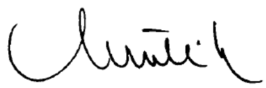
Item No.	ITEM DESCRIPTION	AMOUNT As at 30 June 2019	As at 31 December 2018
1	**2**	**3**	**4**
13	Financial liabilities held for trading	4,455	3,044
14	Financial liabilities designated at fair value through profit or loss	533	2,281
15	Financial liabilities at amortised cost	3,166,878	3,089,588
	– deposits from banks and the central bank	15,381	16,335
	– deposits from non-bank customers	2,998,881	2,935,218
	– loans from banks and the central bank	94,948	102,788
	– loans from non-bank customers	2,580	5
	– debt securities issued (Note 11)	14,035	13,644
	– other financial liabilities	41,053	21,598
16	Provisions	37,495	46,059
17	Tax liabilities	1,545	2,732
	– current tax liabilities	320	1,897
	– deferred tax liabilities	1,225	835
18	Other liabilities	1,477	1,625
19	TOTAL LIABILITIES (from 13 to 18)	3,212,383	3,145,329
20	Share capital	151,000	151,000
21	Share premium	282,459	282,459
22	Accumulated other comprehensive income	4,923	3,333
23	Reserves from profit	58,384	58,384
24	Retained earnings (including income from the current year) (Note 12)	47,733	88,208
25	TOTAL EQUITY (from 20 to 24)	544,499	583,384
26	**TOTAL LIABILITIES AND EQUITY (19+25)**	**3,756,882**	**3,728,713**

These interim financial statements were approved for issue by the Management Board on 5 August 2019.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Nada MERTIK
Member of the Management Board



Jože LENIČ
President of the Management Board

The notes on pages 46 to 72 are an integral part of these interim financial statements.

(All amounts in EUR thousand unless otherwise stated)

UNAUDITED STATEMENT OF CHANGES IN EQUITY OF ABANKA D.D. FOR THE REPORTING PERIOD ENDED 30 JUNE 2019

Item No.	ITEM DESCRIPTION	Share capital	Share premium	Accumu-lated other comprehen-sive 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**	**3,333**	**58,384**	**88,208**	**583,384**
2	**Comprehensive income for the financial year after tax**	**–**	**–**	**1,590**	**–**	**26,175**	**27,765**
3	Dividends (Note 12)	–	–	–	–	(66,737)	**(66,737)**
4	Other	–	–	–	–	87	**87**
5	**CLOSING BALANCE FOR THE REPORTING PERIOD (1+2+3+4)**	**151,000**	**282,459**	**4,923**	**58,384**	**47,733**	**544,499**

UNAUDITED STATEMENT OF CHANGES IN EQUITY OF ABANKA D.D. FOR THE REPORTING PERIOD ENDED 30 JUNE 2018

Item No.	ITEM DESCRIPTION	Share capital	Share premium	Accumu-lated other comprehen-sive 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** (before adjustments)	**151,000**	**282,459**	**33,317**	**51,710**	**60,457**	**578,943**
2	Transition to IFRS 9	–	–	(29,486)	–	10,937	**(18,549)**
3	Transition to IFRS 9 - correction (spin-off)	–	–	–	–	(646)	**(646)**
4	**OPENING BALANCE FOR THE REPORTING PERIOD (1+2+3)**	**151,000**	**282,459**	**3,831**	**51,710**	**70,748**	**559,748**
5	**Comprehensive income for the financial year after tax**	**–**	**–**	**(110)**	**–**	**40,414**	**40,304**
6	Dividends	–	–	–	–	(42,620)	**(42,620)**
7	Other	–	–	–	–	16	**16**
8	**CLOSING BALANCE FOR THE REPORTING PERIOD (4+5+6+7)**	**151,000**	**282,459**	**3,721**	**51,710**	**68,558**	**557,448**

These interim financial statements were approved for issue by the Management Board on 5 August 2019.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Nada MERTIK
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 46 to 72 are an integral part of these interim financial statements.

(All amounts in EUR thousand unless otherwise stated)

UNAUDITED CASH FLOW STATEMENT OF ABANKA D.D.

Desig-nation	ITEM DESCRIPTION	AMOUNT Period ended 30 June 2019	2018
1	2	3	4
A	**CASH FLOWS FROM OPERATING ACTIVITIES**		
a)	Total profit before tax	28,895	44,289
	Depreciation and amortisation	3,781	3,563
	(Reversal of impairments)/impairments of investments in debt securities measured at fair value through other comprehensive income (Note 8)	(89)	18
	Impairments/(reversal of impairments) of loans and other financial assets measured at amortised cost (Note 8)	2,763	(12,330)
	Impairments of other assets (Note 8)	1	44
	Net (gains)/losses from exchange differences	(78)	489
	Net (gains) from sale of tangible assets	(2)	(6)
	Other (gains) from investing activities (Note 14)	(4,309)	(4,485)
	Net (gains) from sale of investment in a subsidiary	–	(307)
	Other adjustments to total profit or loss before tax (Note 14)	(12,515)	(1,122)
	Cash flows from operating activities before changes in operating assets and liabilities	**18,447**	**30,153**
b)	**(Increases)/decreases in operating assets (excluding cash & cash equivalents)**	**(133,429)**	**181**
	Net (increase) in financial assets held for trading	(10,325)	(192)
	Net decrease in non-trading financial assets mandatorily at fair value through profit or loss	8,715	2,094
	Net decrease in financial assets measured at fair value through other comprehensive income	15,037	1,103
	Net (increase) in loans and other financial assets measured at amortised cost	(146,353)	(2,102)
	Net decrease in non-current assets held for sale	437	–
	Net (increase) in other assets	(940)	(722)
c)	**Increases in operating liabilities**	**73,922**	**75,845**
	Net increase in financial liabilities held for trading	1,411	170
	Net increase in financial liabilities designated at fair value through profit or loss	–	538
	Net increase in received deposits and loans measured at amortised cost	72,268	74,610
	Net increase in debt securities issued measured at amortised cost	391	373
	Net (decrease)/increase in other liabilities	(148)	154
d)	**Cash flows from operating activities (a+b+c)**	**(41,060)**	**106,179**
e)	**Income taxes (paid)/refunded**	**(4,271)**	**1,664**
f)	**Net cash flows from operating activities (d+e)**	**(45,331)**	**107,843**

(All amounts in EUR thousand unless otherwise stated)

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

Desig-nation	ITEM DESCRIPTION	AMOUNT Period ended 30 June 2019	2018
1	2	3	4
B	**CASH FLOWS FROM INVESTING ACTIVITIES**		
a)	**Receipts from investing activities**	**182,088**	**123,417**
	Receipts from the sale of tangible assets	23	67
	Receipts from the disposal of a subsidiary	–	831
	Receipts from the disposal and maturity of investments in debt securities measured at amortised cost	182,065	122,519
b)	**Cash payments on investing activities**	**(188,889)**	**(179,250)**
	(Cash payments to acquire tangible assets)	(408)	(787)
	(Cash payments to acquire intangible assets)	(1,110)	(3,287)
	(Cash payments to acquire debt securities measured at amortised cost)	(187,371)	(175,176)
c)	**Net cash flows from investing activities (a+b)**	**(6,801)**	**(55,833)**
C	**CASH FLOWS FROM FINANCING ACTIVITIES**		
a)	**Cash proceeds from financing activities**	**–**	**–**
b)	**Cash payments on financing activities**	**(55,602)**	**(42,620)**
	(Dividends paid) (Note 12)	(55,602)	(42,620)
c)	**Net cash flows from financing activities (a+b)**	**(55,602)**	**(42,620)**
D	Effects of change in exchange rates on cash and cash equivalents	872	2,220
E	**Net (decrease)/increase in cash and cash equivalents (Af+Bc+Cc)**	**(107,734)**	**9,390**
F	**Opening balance of cash and cash equivalents**	**557,003**	**459,907**
G	**Closing balance of cash and cash equivalents (D+E+F)**	**450,141**	**471,517**

These interim financial statements were approved for issue by the Management Board on 5 August 2019.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Nada MERTIK
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 46 to 72 are an integral part of these interim financial statements.

(All amounts in EUR thousand unless otherwise stated)

UNAUDITED CONSOLIDATED INCOME STATEMENT OF THE ABANKA GROUP

Item No.	ITEM DESCRIPTION	AMOUNT Period ended 30 June 2019	2018
1	**2**	**3**	**4**
1	Interest income (Note 3)	33,332	33,244
2	Interest expenses (Note 3)	(3,585)	(3,345)
3	**Net interest income (1+2)**	**29,747**	**29,899**
4	Dividend income	394	898
5	Fee and commission income (Note 4)	27,780	25,608
6	Fee and commission expenses (Note 4)	(7,551)	(7,120)
7	**Net fee and commission income (5+6)**	**20,229**	**18,488**
8	Net gains on financial assets and liabilities not measured at fair value through profit or loss (Note 5)	1,044	13,650
9	Net gains on financial assets and liabilities held for trading	981	1,804
10	Net gains on non-trading financial assets mandatorily at fair value through profit or loss	2,700	2,975
11	Net gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	1,748	(538)
12	Exchange differences	78	(489)
13	Net gains on derecognition of non-financial assets	2	28
14	Net other operating expenses	(605)	(1,801)
15	Administrative expenses (Note 6)	(29,545)	(30,868)
16	Depreciation and amortisation	(3,930)	(3,948)
17	Net gains/(losses) on modification of financial assets	12	(46)
18	Provisions (Note 7)	8,117	1,123
19	Impairment (Note 8)	(2,554)	12,702
20	Total profit/(loss) from non-current assets held for sale	662	(1,115)
21	TOTAL PROFIT BEFORE TAX FROM CONTINUING OPERATIONS (3+4+7 to 20)	29,080	42,762
22	Tax expense related to profit from continuing operations	(2,755)	(3,889)
23	TOTAL PROFIT AFTER TAX FROM CONTINUING OPERATIONS (21+22)	26,325	38,873
24	**NET PROFIT for the financial year (23)**	**26,325**	**38,873**

These interim financial statements were approved for issue by the Management Board on 5 August 2019.

Management Board

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Member of the Management Board

Nada MERTIK
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 46 to 72 are an integral part of these interim financial statements.

(All amounts in EUR thousand unless otherwise stated)

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE ABANKA GROUP

Item No.	ITEM DESCRIPTION	AMOUNT Period ended 30 June 2019	2018
1	2	3	4
1	**NET PROFIT FOR THE FINANCIAL YEAR AFTER TAX**	**26,325**	**38,873**
2	**OTHER COMPREHENSIVE INCOME/(LOSS) AFTER TAX (3+4)**	**1,590**	**(110)**
3	**ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS (3.1 + 3.2)**	**972**	**400**
3.1	Fair value changes of equity instruments measured at fair value through other comprehensive income	1,200	494
3.2	Income tax relating to items that will not be reclassified to profit or loss	(228)	(94)
4	**ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS (4.1 + 4.2)**	**618**	**(510)**
4.1	Debt instruments at fair value through other comprehensive income (4.1.1 + 4.1.2)	763	(630)
4.1.1	Net valuation gains/(losses) taken to equity	822	(650)
4.1.2	Net (gains)/losses transferred to profit or loss	(59)	20
4.2	Income tax relating to items that may be reclassified to profit or loss	(145)	120
5	**TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX (1+2)**	**27,915**	**38,763**

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(All amounts in EUR thousand unless otherwise stated)

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ABANKA GROUP

Item No.	ITEM DESCRIPTION	AMOUNT As at 30 June 2019	As at 31 December 2018
1	**2**	**3**	**4**
1	Cash, cash balances with the central bank and other demand deposits with banks (Note 12)	437,829	538,234
2	Financial assets held for trading	14,155	3,837
3	Non-trading financial assets mandatorily at fair value through profit or loss (Note 12)	19,437	36,587
4	Financial assets at fair value through other comprehensive income	158,681	163,466
5	Financial assets at amortised cost	3,057,383	2,918,162
	– debt securities	955,932	946,334
	– loans to banks	38,669	30,784
	– loans to non-bank customers	2,022,689	1,928,338
	– other financial assets	40,093	12,706
6	Tangible assets	38,051	37,496
	– property and equipment	34,043	33,072
	– investment property	4,008	4,424
7	Intangible assets	8,427	9,074
8	Tax assets	10,225	10,225
	– deferred tax assets	10,225	10,225
9	Other assets	10,769	9,459
10	Non-current assets held for sale	468	5,002
11	**TOTAL ASSETS (from 1 to 10)**	**3,755,425**	**3,731,542**

(All amounts in EUR thousand unless otherwise stated)

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

Item No.	ITEM DESCRIPTION	AMOUNT As at 30 June 2019	As at 31 December 2018
1	2	3	4
12	Financial liabilities held for trading	4,455	3,044
13	Financial liabilities designated at fair value through profit or loss	533	2,281
14	Financial liabilities at amortised cost	3,164,979	3,089,052
	– deposits from banks and the central bank	15,381	16,335
	– deposits from non-bank customers	2,996,748	2,934,448
	– loans from banks and the central bank	94,948	102,788
	– loans from non-bank customers	2,580	5
	– debt securities issued (Note 11)	14,035	13,644
	– other financial liabilities	41,287	21,832
15	Provisions	37,545	46,109
16	Tax liabilities	1,542	2,550
	– current tax liabilities	317	1,715
	– deferred tax liabilities	1,225	835
17	Other liabilities	1,699	5,099
18	TOTAL LIABILITIES (from 12 to 17)	3,210,753	3,148,135
19	Share capital	151,000	151,000
20	Share premium	282,459	282,459
21	Accumulated other comprehensive income	4,922	3,332
22	Reserves from profit	58,401	58,401
23	Retained earnings (including income from the current year) (Note 12)	47,890	88,215
24	TOTAL EQUITY (from 19 to 23)	544,672	583,407
25	**TOTAL LIABILITIES AND EQUITY (18+24)**	**3,755,425**	**3,731,542**

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(All amounts in EUR thousand unless otherwise stated)

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE ABANKA GROUP FOR THE REPORTING PERIOD ENDED 30 JUNE 2019

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**	**3,332**	**58,401**	**88,215**	**583,407**
2	**Comprehensive income for the financial year after tax**	**–**	**–**	**1,590**	**–**	**26,325**	**27,915**
3	Dividends (Note 12)	–	–	–	–	(66,737)	**(66,737)**
4	Other	–	–	–	–	87	**87**
5	**CLOSING BALANCE FOR THE REPORTING PERIOD (1+2+3+4)**	**151,000**	**282,459**	**4,922**	**58,401**	**47,890**	**544,672**

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE ABANKA GROUP FOR THE REPORTING PERIOD ENDED 30 JUNE 2018

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** (before adjustments)	**151,000**	**282,459**	**33,284**	**51,760**	**61,780**	**580,283**
2	Transition to IFRS 9	–	–	(29,486)	–	10,763	**(18,723)**
3	Transition to IFRS 9 - correction (spin-off)	–	–	–	–	(646)	**(646)**
4	**OPENING BALANCE FOR THE REPORTING PERIOD (1+2+3)**	**151,000**	**282,459**	**3,798**	**51,760**	**71,897**	**560,914**
5	**Comprehensive income for the financial year after tax**	**–**	**–**	**(110)**	**–**	**38,873**	**38,763**
6	Dividends	–	–	–	–	(42,620)	**(42,620)**
7	Other	–	–	30	(43)	29	**16**
8	**CLOSING BALANCE FOR THE REPORTING PERIOD (4+5+6+7)**	**151,000**	**282,459**	**3,718**	**51,717**	**68,179**	**557,073**

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(All amounts in EUR thousand unless otherwise stated)

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT OF THE ABANKA GROUP

Desig-nation	ITEM DESCRIPTION	AMOUNT Period ended 30 June 2019	2018
1	2	3	4
A	**CASH FLOWS FROM OPERATING ACTIVITIES**		
a)	Total profit before tax	29,080	42,762
	Depreciation and amortisation	3,930	3,948
	(Reversal of impairments)/impairments of investments in debt securities measured at fair value through other comprehensive income (Note 8)	(89)	18
	Impairments/(reversal of impairments) of loans and other financial assets measured at amortised cost (Note 8)	2,743	(12,314)
	Impairments/(reversal of impairments) of other assets (Note 8)	1	(440)
	Net (gains)/losses from exchange differences	(78)	489
	Net (gains) from sale of tangible assets	(2)	(28)
	Other (gains) from investing activities (Note 14)	(4,773)	(4,485)
	Net (gains)/losses from sale of investment in a subsidiary	(11)	1,115
	Other adjustments to total profit or loss before tax (Note 14)	(12,515)	(1,122)
	Cash flows from operating activities before changes in operating assets and liabilities	**18,286**	**29,943**
b)	**(Increases) in operating assets (excluding cash & cash equivalents)**	**(134,937)**	**(2,074)**
	Net (increase) in financial assets held for trading	(10,325)	(192)
	Net decrease in non-trading financial assets mandatorily at fair value through profit or loss	8,715	2,094
	Net decrease in financial assets measured at fair value through other comprehensive income	15,037	1,103
	Net (increase) in loans and other financial assets measured at amortised cost	(147,868)	(5,712)
	Net decrease in non-current assets held for sale	437	–
	Net (increase)/decrease in other assets	(933)	633
c)	**Increases in operating liabilities**	**69,305**	**78,599**
	Net increase in financial liabilities held for trading	1,411	170
	Net increase in financial liabilities designated at fair value through profit or loss	–	538
	Net increase in received deposits and loans measured at amortised cost	70,903	76,997
	Net increase in debt securities issued measured at amortised cost	391	373
	Net (decrease)/increase in other liabilities	(3,400)	521
d)	**Cash flows from operating activities (a+b+c)**	**(47,346)**	**106,468**
e)	**Income taxes (paid)/refunded**	**(4,089)**	**1,366**
f)	**Net cash flows from operating activities (d+e)**	**(51,435)**	**107,834**

(All amounts in EUR thousand unless otherwise stated)

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT OF THE ABANKA GROUP (continued)

Desig-nation	ITEM DESCRIPTION	AMOUNT Period ended 30 June 2019	2018
1	2	3	4
B	CASH FLOWS FROM INVESTING ACTIVITIES		
a)	**Receipts from investing activities**	**187,228**	**123,731**
	Receipts from the sale of tangible assets	168	381
	Receipts from the disposal of a subsidiary	262	831
	Receipts from the disposal and maturity of investments in debt securities measured at amortised cost	182,065	122,519
	Receipts from non-current assets held for sale	4,733	–
b)	**Cash payments on investing activities**	**(188,890)**	**(179,966)**
	(Cash payments to acquire tangible assets)	(409)	(1,480)
	(Cash payments to acquire intangible assets)	(1,110)	(3,310)
	(Cash payments to acquire debt securities measured at amortised cost)	(187,371)	(175,176)
c)	**Net cash flows from investing activities (a+b)**	**(1,662)**	**(56,235)**
C	CASH FLOWS FROM FINANCING ACTIVITIES		
a)	**Cash proceeds from financing activities**	**–**	**–**
b)	**Cash payments on financing activities**	**(55,602)**	**(42,620)**
	(Dividends paid) (Note 12)	(55,602)	(42,620)
c)	**Net cash flows from financing activities (a+b)**	**(55,602)**	**(42,620)**
D	Effects of change in exchange rates on cash and cash equivalents	872	2,220
E	**Net (decrease)/increase in cash and cash equivalents (Af+Bc+Cc)**	**(108,699)**	**8,979**
F	**Opening balance of cash and cash equivalents**	**557,968**	**460,410**
G	**Closing balance of cash and cash equivalents (D+E+F)**	**450,141**	**471,609**

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NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Separate and consolidated interim 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 half year ended 30 June 2019 comprise the Bank and its subsidiary (together referred to as the "Group" and individually as "Group entities").

1.1 Basis of preparation

a) Basis of preparation
Accepted accounting policies, applied in the preparation of the financial statements for the half year ended 30 June 2019, are consistent with those used for the preparation of the annual report for the year ended 31 December 2018. Accepted accounted 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 condensed interim 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 interim financial statements and in compliance with the relevant legislation and International Financial Reporting Standards, as adopted by the EU.

b) Statement of compliance
The condensed interim financial statements of the Bank and the consolidated financial statements for the half-year ended 30 June 2019 have been compiled in accordance with IAS 34 "Interim Financial Reporting". Annual financial statements of the Bank and of the Group have been compiled in accordance with the International Financial Reporting Standards as adopted by the European Union. The interim half-yearly financial statements contain less comprehensive explanatory notes and disclosures than the financial statements that form part of the Annual Report. The half-yearly financial statements have been compiled in condensed form, and must therefore be read in conjunction with the annual financial statements for the 2018 financial year.

c) Functional and presentation currency
The condensed interim 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. Due to rounding, minor differences may occur.

d) Standards, interpretations and amendments effective for the financial year beginning on 1 January 2019
Among the standards effective on 1 January 2019 in smaller extend on the Group in terms of financial statements impacted mostly IFRS 16 (adopted by the EU on 31 October 2017).

IFRS 16 – Leases, which was issued on 13 January 2016 by the International Accounting Standards Board (IASB), replaced IAS 17 – Leases. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. In accordance with IFRS 16, as at the date of commencement of the lease, the lessee is required to recognise an asset representing its right to use and a lease liability. A right-of-use asset is treated in a similar way as other non-financial assets and is depreciated accordingly. A lease liability is initially valued at the present value of lease payments payable over the lease term, discounted at the rate implicit in the lease.

In 2018, the Group examined the existing lease agreements and identified which leases correspond to the definition of a lease in accordance with the new standard. In accordance with the new standard, lease of business premises and certain leases of computer equipment are recognised as fixed assets. Other leases either do not meet the criteria for recognition under IFRS 16 or they fall under possible exemptions – which the standard permits and the Group decided to use – short-term leases or leases of low-value assets. In the case of the agreements concluded for an indefinite period, the Group assumed a lease term, which coincides with the long-term planning period (strategy). As a discount rate, the Group used an opportunity interest rate (Note 18) that reflects both the market conditions and the credit risk of the Bank.

The Group also used some other practical solutions such as:
- non-lease components that are part of a lease are not separated from the lease components, but each lease component and the related non-lease components are accounted for as one single lease component;
- the standard does not apply to the leases of intangible assets.

Upon the transition to the new standard, the Group chose the option where the effects are recognised retrospectively with the cumulative effect of the initial application of the standard recognised as at the date of initial application (January 2019) in the amount equal to the lease liability adjusted for the amount of prepaid or accrued interest:
- the lease liability is measured at the present value of the remaining lease payments, discounted using the opportunity interest rate at the date of application (January 2019);
- a right-to-use an asset is measured in the amount equal to the calculated lease liability.

In accordance with the selected transition policy, the Bank does not state comparative information in its financial statements.

As at 1 January 2019, from the transition to IFRS 16, the Group recognised right-of-use assets in the amount of EUR 2,862 thousand and lease liabilities in the same amount. As at 30 June 2019, right-of-use assets totalled EUR 2,552 thousand and lease liabilities EUR 2,578 thousand. In the first half of 2019, the Group recognised depreciation expenses for right-of-use assets of EUR 312 thousand and interest expenses of EUR 11 thousand.

Other standards, interpretations and amendments effective for the financial year beginning on 1 January 2019 are as follows:

- Amendments to IFRS 9 "Financial Instruments" – Prepayment Features with Negative Compensation - adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019);
- IFRIC 23 "Uncertainty over Income Tax Treatments" - adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" – Long-term Interests in Associates and Joint Ventures - adopted by the EU on 8 February 2019 (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 19 "Employee Benefits" – Plan Amendment, Curtailment or Settlement - adopted by the EU on 13 March 2019 (effective for annual periods beginning on or after 1 January 2019);
- Amendments to various standards "Improvements to IFRSs (cycle 2015-2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019).

The application of these standards does not have a material impact on the Group's financial statements.

e) New standards and amendments to the existing standards issued by International Accounting Standards Board (IASB) but not yet adopted by the EU

- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021);
- Amendments to "References to the Conceptual Framework in IFRS Standards" (effective for annual periods beginning on or after 1 January 2020);
- Amendments to IFRS 3 "Business Combinations" – Definition of a Business (effective for annual periods beginning on or after 1 January 2020);
- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" – Definition of Material (effective for annual periods beginning on or after 1 January 2020).

The Group estimates that the introduction of these new standards and amendments 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.

f) Information in the selected 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 and 18 are prepared on a consolidated basis, as there are no significant differences between the Bank and the Group.

2 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 reporting period. 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) Credit losses due to impairment of financial assets and provisions for guarantees and commitments

In calculating expected credit losses due to the impairment of financial assets and provisions for guarantees and commitments in the first half of 2019, the Group used the same accounting policies and valuation techniques as those used in the annual financial statements for 2018.

In accordance with IFRS 9, the Group makes a distinction in the recognition of loss between 12-month expected credit losses and full lifetime expected credit losses of financial assets or provisions for guarantees and commitments (hereinafter: financial assets). In view of the above, the Group classifies financial assets subject to impairment into the following four stages:

- stage 1: an ECL estimate on the basis of possible losses expected within 12 months. A financial asset is classified into stage 1 when approved (unless the financial asset is restructured or impaired at the time of its approval) and remains there until the increased credit risk is identified;
- stage 2: an ECL estimate on the basis of full lifetime expected credit losses of a non-impaired financial asset. A financial asset that is restructured upon initial recognition or a financial asset of which credit risk has significantly increased since its initial recognition is classified into stage 2;
- stage 3: an ECL estimate on the basis of full lifetime expected credit losses of an impaired financial asset. A financial asset is reclassified into stage 3 when a default event or a non-performing exposure pursuant to Article 178 of the CRR has occurred;
- POCI: purchased or originated credit-impaired financial assets.

The key credit risk parameters on which an ECL estimate is based are as follows:

- probability of default (PD), which is the probability of the occurrence of a default event;
- loss given default (LGD), which is an estimate of the loss upon the occurrence of a default event,
- exposure at default (EAD), which is the expected exposure upon the occurrence of a default event,
- conversion factor (CCF), which states the amount of undrawn commitment that could be drawn and would remain outstanding in the event of a default, which means that it affects the amount of off-balance sheet EAD.

Credit risk parameters are typically designed in the form of models and vary depending on the type of debtor; that is PD for retail customers, LGD for corporates and CCF depending on the type of financial instrument. Models are based on historical data, PD and LGD models also take into account future prospects.

Described below are the critical judgements used in the calculation of expected credit losses:

- definition of default

  In accordance with Article 178 of the CRR, the Group defined that a financial asset is in default when the following applies:
  - unlikely to pay; the Group assessed that the debtor is unlikely to pay their credit obligations in full without realisation of collateral (loans to D- and E-rated debtors according to the internal credit rating);
  - the debtor is over 90 days past due with the payment of a significant obligation.

  In assessing whether the debtor is in default, the Group takes into account the following factors:
  - qualitative: e.g. breach of loan commitments,
  - quantitative: e.g. the status of past-due and defaulted other obligations of the same debtor, and
  - the data obtained from internal and external sources.

- a significant increase in credit risk

  A financial asset is reclassified into Stage 2 when there is a significant increase in credit risk by using judgement. In using judgement to determine whether there has been a significant increase in credit risk, both qualitative and quantitative forward-looking information is used. The criteria that may reflect a significant increase in credit risk are as follows:

- the credit rating or changes in the credit rating as a result of early identification of an increased credit risk (the Early Warning System),
- the debtor has been added to the watch list,
- change in the repayment terms of the financial asset because of the debtor's failure to pay their debt under the initially agreed terms and conditions (restructuring of the financial asset),
- a significant loan obligation is over 30 days past due.

- definition of segments with similar credit risk characteristics
  When expected credit loss is measured on the basis of collective assessment, financial assets are classified into individual segments based on similar credit risk characteristics.
  For the purpose of collective assessment of expected credit losses, the credit portfolio is divided into exposure classes in accordance with the following types of debtors:
  - central government,
  - corporates,
  - sole proprietors,
  - retail customers,
  - banks.

- assessment models and the assumptions used
  The Group uses the corresponding credit parameter assessment models in the estimation of expected credit losses. Judgement is needed to determine which models are appropriate for a particular financial asset or group of financial assets as well as the definition of the relevant assumptions used in these models.

- the selection of the appropriate number of macroeconomic scenarios and used weights as well as forward-looking information relevant for each scenario
  Expected credit loss is estimated by using reasonable and supportable forward-looking information, which is based on the assumptions about future developments of various economic indicators and the interaction among these indicators. In addition, sensitivity analyses are used to provide additional information on potential credit risk losses.

The table below shows the impact of changes in macroeconomic variables on the level of the average probability of default, the average loss given default and the average expected loss.

SENSITIVITY ANALYSIS - IMPACT OF CHANGES IN MACROECONOMIC VARIABLES ON THE LEVEL OF THE PROBABILITY OF DEFAULT, LOSS GIVEN DEFAULT AND EXPECTED CREDIT LOSS

	Average change in macroeconimic variable against the base scenario (in percentage points)
GDP growth	
- Base scenario	–
- Upside scenario	1.41
- Downside scenario	(2.68)
Unemployment rate	
- Base scenario	–
- Upside scenario	(0.65)
- Downside scenario	0.80

SCENARIO	Average PD	Average LGD	ECL (in EUR thousand)
Base scenario	4.55%	53.90%	57,091
Upside scenario	4.34%	48.85%	46,969
Downside scenario	4.78%	59.28%	68,156

The average change in any individual macroeconomic variable for the optimistic or the pessimistic scenario is calculated as the average of changes in the individual macroeconomic variable by optimistic or pessimistic scenario against the expected scenario in the 2019–2022 period.

The average probability of default and the average loss given default for each scenario are calculated based on the average probability of default and/or average loss given default, weighted with the average exposure at default.

The sensitivity analysis is based on the portfolio of loans and guarantees, where the expected loss is calculated collectively.

The sensitivity analysis of credit parameters to the change in macroeconomic indicators shows that in the optimistic scenario, with an increase in GDP growth by 1.4 percentage point and a decline in the unemployment rate by 0.7 percentage point, the average probability of default was lower by 0.2 percentage point, the average loss given default by 5.1 percentage points and the expected loss by EUR 10.1 million. In the pessimistic scenario, with a decrease in GDP growth by 2.7 percentage points and an increase in the unemployment rate by 0.8 percentage point, the average probability of default was higher by 0.2 percentage point, the average loss given default by 5.4 percentage points and the expected loss by EUR 11.1 million.

(All amounts in EUR thousand unless otherwise stated)

(b) Fair value of financial assets and liabilities

Financial instruments carried at fair value

The accepted accounting policies used at measuring fair value in the half year ended 30 June 2019 are consistent with those of the annual financial statements for the year ended 31 December 2018. 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.

Valuation techniques and fair value hierarchy are more detailed presented in Annual Report 2018.

When measuring the fair value of loans given, the Group uses the income approach with the net present value method or transaction prices for purchased credit impaired assets.

VALUATION METHODOLOGY FOR FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

As at 30 June 2019	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	–	13,931	224	**14,155**
– shares	–	–	224	**224**
– debt securities	–	8,987	–	**8,987**
– derivatives	–	4,941	–	**4,941**
– other	–	3	–	**3**
Non-trading financial assets mandatorily at fair value through profit or loss	2,017	–	17,420	**19,437**
– shares and equity holdings	2,017	–	128	**2,145**
– loans and other financial assets	–	–	17,292	**17,292**
Financial assets at fair value through other comprehensive income	70,247	81,056	7,378	**158,681**
– shares and equity holdings	–	–	7,378	**7,378**
– debt securities	70,247	56,161	–	**126,408**
– Bank Resolution Fund	–	24,895	–	**24,895**
Total financial assets	**72,264**	**94,987**	**25,022**	**192,273**

Financial liabilities measured at fair value				
Financial liabilities held for trading	–	4,455	–	**4,455**
– derivatives	–	4,450	–	**4,450**
– spot transactions	–	5	–	**5**
Financial liabilities designated at fair value through profit or loss	–	–	533	**533**
Total financial liabilities	**–**	**4,455**	**533**	**4,988**

(All amounts in EUR thousand unless otherwise stated)

As at 31 December 2018	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	–	3,613	224	**3,837**
– shares	–	–	224	**224**
– derivatives	–	3,609	–	**3,609**
– other	–	4	–	**4**
Non-trading financial assets mandatorily at fair value through profit or loss	11,963	–	24,624	**36,587**
– shares and equity holdings	11,963	–	203	**12,166**
– loans and other financial assets	–	–	24,421	**24,421**
Financial assets at fair value through other comprehensive income	97,701	59,409	6,356	**163,466**
– shares and equity holdings	–	–	6,356	**6,356**
– debt securities	97,701	34,692	–	**132,393**
– Bank Resolution Fund	–	24,717	–	**24,717**
Total financial assets	**109,664**	**63,022**	**31,204**	**203,890**

Financial liabilities measured at fair value				
Financial liabilities held for trading	–	3,044	–	**3,044**
– derivatives	–	3,041	–	**3,041**
– spot transactions	–	3	–	**3**
Financial liabilities designated at fair value through profit or loss	–	–	2,281	**2,281**
Total financial liabilities	**–**	**3,044**	**2,281**	**5,325**

In the first half of 2019 there were no transfers between levels.

(All amounts in EUR thousand unless otherwise stated)

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE AT LEVEL 3 OF THE FAIR VALUE HIERARCHY

	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehen-sive income	Total
	Shares			
As at 1 January 2019	**224**	**24,624**	**6,356**	**31,204**
Total gains	–	1,498	1,022	**2,520**
– profit or loss	–	1,498	–	**1,498**
– other comprehensive income	–	–	1,022	**1,022**
Change in balance that is not the result of transfers between levels or valuation (repayments and similar)	–	(8,702)	–	**(8,702)**
As at 30 June 2019	**224**	**17,420**	**7,378**	**25,022**
Gains in profit or loss for financial instruments held as at 30 June 2019	**–**	**1,498**	**–**	**1,498**

	Financial assets held for trading	Available-for-sale financial assets	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehen-sive income	Total
	Shares	Equity holdings			
As at 31 December 2017	**217**	**6,296**	**/**	**/**	**6,513**
Transition to IFRS 9	–	(6,296)	26,641	6,058	**26,403**
As at 1 January 2018	**217**	**–**	**26,641**	**6,058**	**32,916**
Total gains	–	–	1,290	504	**1,794**
– profit or loss	–	–	1,290	–	**1,290**
– other comprehensive income	–	–	–	504	**504**
Change in balance that is not the result of transfers between levels or valuation	–	–	(5,127)	(27)	**(5,154)**
As at 30 June 2018	**217**	**–**	**22,804**	**6,535**	**29,556**
Gains in profit or loss for financial instruments held as at 30 June 2018	**–**	**–**	**1,290**	**–**	**1,290**

(All amounts in EUR thousand unless otherwise stated)

	Financial liabilities designated at fair value through profit or loss	Total
As at 1 January 2019	**2,281**	**2,281**
Total (gains) – profit or loss	(1,748)	(1,748)
As at 30 June 2019	**533**	**533**
(Gains) in profit or loss for financial instruments held as at 30 June 2019	**(1,748)**	**(1,748)**

	Financial liabilities designated at fair value through profit or loss	Total
As at 31 December 2017	**/**	**/**
Transition to IFRS 9	1,871	1,871
As at 1 January 2018	**1,871**	**1,871**
Total losses – profit or loss	538	538
As at 30 June 2018	**2,409**	**2,409**
Losses in profit or loss for financial instruments held as at 30 June 2018	**538**	**538**

(All amounts in EUR thousand unless otherwise stated)

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 30 June 2019	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	437,829	437,829	–	–	437,829
Financial assets at amortised cost	3,057,383	112,970	951,821	2,106,089	3,170,880
– debt securities	955,932	112,970	873,100	–	986,070
– loans to banks	38,669	–	38,628	–	38,628
– loans to non-bank customers	2,022,689	–	–	2,106,089	2,106,089
– corporate entities	1,092,845	–	–	1,116,599	1,116,599
– retail customers	929,844	–	–	989,490	989,490
– other financial assets	40,093	–	40,093	–	40,093
Financial liabilities					
Financial liabilities at amortised cost	3,164,979	–	3,163,918	–	3,163,918
– deposits from banks and the central bank	15,381	–	15,380	–	15,380
– deposits from non-bank customers	2,996,748	–	3,006,546	–	3,006,546
– corporate entities	821,255	–	821,332	–	821,332
– retail customers	2,175,493	–	2,185,214	–	2,185,214
– loans from banks and the central bank	94,948	–	98,124	–	98,124
– loans from non-bank customers	2,580	–	2,580	–	2,580
– debt securities issued	14,035	–	14,035	–	14,035
– other financial liabilities	41,287	–	41,288	–	41,288

(All amounts in EUR thousand unless otherwise stated)

As at 31 December 2018	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	538,234	538,234	–	–	538,234
Financial assets at amortised cost	2,918,162	189,497	819,933	1,985,370	2,994,800
– debt securities	946,334	189,497	776,602	–	966,099
– loans to banks	30,784	–	30,625	–	30,625
– loans to non-bank customers	1,928,338	–	–	1,985,370	1,985,370
– corporate entities	1,022,599	–	–	1,034,028	1,034,028
– retail customers	905,739	–	–	951,342	951,342
– other financial assets	12,706	–	12,706	–	12,706
Financial liabilities					
Financial liabilities at amortised cost	3,089,052	–	3,032,464	–	3,032,464
– deposits from banks and the central bank	16,335	–	15,670	–	15,670
– deposits from non-bank customers	2,934,448	–	2,889,209	–	2,889,209
– corporate entities	846,831	–	830,131	–	830,131
– retail customers	2,087,617	–	2,059,078	–	2,059,078
– loans from banks and the central bank	102,788	–	105,748	–	105,748
– loans from non-bank customers	5	–	5	–	5
– debt securities issued	13,644	–	13,644	–	13,644
– other financial liabilities	21,832	–	21,832	–	21,832

The major methods and assumptions used in estimating the fair values of financial instruments carried at other than fair value in the financial statements were presented in Annual Report 2018.

(All amounts in EUR thousand unless otherwise stated)

3 NET INTEREST INCOME

	Abanka		Group	
	1 January – 30 June 2019	1 January – 30 June 2018	1 January – 30 June 2019	1 January – 30 June 2018
Interest income				
Financial assets at amortised cost	31,727	31,556	31,724	31,993
– debt securities	4,254	4,733	4,254	4,733
– loans to banks	34	225	34	225
– loans to non-bank customers	27,439	26,598	27,436	27,035
Financial assets held for trading	416	201	416	201
Non-trading financial assets mandatorily at fair value through profit or loss	618	309	618	309
Financial assets at fair value through other comprehensive income	283	491	283	491
Other assets	291	250	291	250
	33,335	**32,807**	**33,332**	**33,244**
Interest expenses				
Deposits	1,109	1,429	1,109	1,429
– from banks	44	111	44	111
– from non-bank customers	1,065	1,318	1,065	1,318
Debt securities issued	391	373	391	373
Financial liabilities held for trading	359	155	359	155
Loans from banks and the central bank	399	376	400	380
Other liabilities	1,326	1,008	1,326	1,008
	3,584	**3,341**	**3,585**	**3,345**
Net interest income	**29,751**	**29,466**	**29,747**	**29,899**

In the first half of 2019 net interest income was slightly higher than in the first half of 2018, mainly due higher interest income from loans to non-bank customers, that compensated lower income from debt securities and higher expenses from negative interest rates on excess balances in the Bank of Slovenia settlement account.

(All amounts in EUR thousand unless otherwise stated)

4 NET FEE AND COMMISSION INCOME

BREAKDOWN BY TYPE OF TRANSACTION:

	Abanka		Group	
	1 January – 30 June 2019	1 January – 30 June 2018	1 January – 30 June 2019	1 January – 30 June 2018
Fee and commission income				
Payment transactions	9,348	9,056	9,348	9,056
Transaction account management	3,518	3,246	3,514	3,240
Card and ATM operations	10,329	9,341	10,329	9,341
Lending operations and guarantees granted	2,072	1,874	2,069	1,871
Other services	2,520	2,100	2,520	2,100
	27,787	**25,617**	**27,780**	**25,608**
Fee and commission expenses				
Payment transactions	919	968	928	973
Card and ATM operations	6,297	5,722	6,297	5,722
Other services	326	387	326	425
	7,542	**7,077**	**7,551**	**7,120**
Net fee and commission income	**20,245**	**18,540**	**20,229**	**18,488**

5 NET GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	1 January – 30 June 2019	1 January – 30 June 2018
Net gains from financial assets and liabilities at amortised cost	1,098	13,653
Net losses from financial assets and liabilities at amortised cost	(54)	(3)
	1,044	**13,650**

Net gains realised in the first half of 2018 primarily resulted from the gains on the sale of the NPL portfolio.

(All amounts in EUR thousand unless otherwise stated)

6 ADMINISTRATIVE EXPENSES

	Abanka		Group	
	1 January – 30 June 2019	1 January – 30 June 2018	1 January – 30 June 2019	1 January – 30 June 2018
Staff costs	18,990	18,553	19,293	18,976
– gross salaries	16,132	15,749	16,391	16,105
– social security costs	1,005	990	1,021	1,012
– pension costs	1,853	1,814	1,881	1,859
Professional services	5,979	7,279	6,142	7,547
Advertising and marketing	651	677	660	687
Other administrative expenses	1,011	874	1,033	903
IT and software costs	1,903	1,987	1,903	1,987
Rent payable	343	528	349	553
Other costs	113	151	165	215
	28,990	**30,049**	**29,545**	**30,868**

Within the administrative expenses in the first half of 2019, EUR 162 thousand referred to costs of restructuring (first half of 2018: EUR 271 thousand). The residual restructuring cost in the amount of EUR 178 thousand are included in depreciation and amortisation cost (first half of 2018: 320 thousand).

7 PROVISIONS

	Group	
	1 January – 30 June 2019	1 January – 30 June 2018
Provisions for legal proceedings	(9,036)	973
Provisions for guarantees and commitments	919	(2,096)
Net (release) of provisions	**(8,117)**	**(1,123)**

Income arising from released provisions for legal proceedings in the first half of 2019 largely relates to a legal proceeding that has been finally resolved.

A significant part of expenses from provisions for guarantees and commitments of the Group in the first half of 2019 is a result of the recalibration of loan parameters with new macroeconomic forecasts.

(All amounts in EUR thousand unless otherwise stated)

8 IMPAIRMENT

	Abanka		Group	
	1 January – 30 June 2019	1 January – 30 June 2018	1 January – 30 June 2019	1 January – 30 June 2018
Impairment/(reversal of impairment) of financial assets:				
– debt securities at fair value through other comprehensive income	(89)	18	(89)	18
– loans and receivables at amortised cost	2,763	(12,330)	2,743	(12,314)
– loans to banks	95	–	95	–
– loans to non-bank customers	2,696	(12,550)	2,666	(12,534)
– other financial assets	(28)	220	(18)	220
– debt securities at amortised cost	(101)	34	(101)	34
Impairment/(reversal of impairment) of non-financial assets:				
– other non-financial assets	1	44	1	(440)
	2,574	**(12,234)**	**2,554**	**(12,702)**

Increased impairments in the first half of 2019 primarily resulted from ensuring the portfolio's required minimum provisioning for non-performing exposures of the Bank in accordance with the applicable regulations.

The reversal of impairment for loans at amortised cost in the first half of 2018 was primarily the result of an improved financial position of the companies, regular and early loan repayment and income from debt collection.

9 INVESTMENTS IN SUBSIDIARIES

	Abanka	
Subsidiaries	2019	2018
As at 1 January	**8,278**	**9,448**
Additions	–	–
Disposals	–	(1,170)
Impairment	–	–
Closing balance (30 June or 31 December)	**8,278**	**8,278**

On 28 June 2019, the subsidiary Anepremičnine d.o.o. signed a contract with the purchaser on the sale of the 100% shareholding in the subsidiary Anekretnine d.o.o. Podgorica, Montenegro and received the purchasing price for the shareholding at the same time. The company Anekretnine is therefore no longer part of the Abanka Group as of the end of June.

ASSETS AND LIABILITIES OVER WHICH CONTROL WAS LOST

2019	Anekretnine d.o.o.
Total assets	295
Total liabilities	44
Net assets disposed of	**251**

GAIN ON DISPOSAL OF A SUBSIDIARY

2019	Group
Consideration received	262
Net assets disposed of	(251)
Gain on disposal	**11**

(All amounts in EUR thousand unless otherwise stated)

10 PLEDGED ASSETS

	Group	
	30 June 2019	31 December 2018
Loans to banks	6,414	7,697
Financial assets at amortised cost	17,927	17,985
Financial assets at fair value through other comprehensive income	4,271	4,320
Obligatory reserve	27,570	27,309
Financial assets of the Bank pledged for Bank's liabilities	12,312	16,491
Other financial assets	–	89
Total pledged assets	**68,494**	**73,891**

Assets are pledged as collateral for Eurosystem (ECB) claims, claims from Mastercard card transactions, claims by counterparties arising from derivatives, to provide liquid assets of the Bank Resolution Fund (pursuant to the Bank Resolution Authority and Fund Act – ZOSRB), to ensure obligatory reserves on the cash account with the Bank of Slovenia and for collateral paid to clearing systems (SEPA EKP, SEPA IDD CORE and SEPA IDD B2B).

11 DEBT SECURITIES ISSUED

	Interest rate on 30 June	Group	
		30 June 2019	31 December 2018
Certificates of deposit (falling due: 2019 to 2020)	5.95%	14,035	13,644
Total debt securities issued		**14,035**	**13,644**

Fair value is disclosed in Note 2(b).

12 DIVIDEND PAYMENT

The share capital of Abanka is divided into 15,100,000 ordinary no-par value shares. The total number of shares with voting rights attached is 15,100,000, accounting for a 100% share of the issuer Abanka d.d.; there are no shares without voting rights attached.

Based on the resolution adopted by the General Meeting of Shareholders, a part of the accumulated profit for 2018 in the amount of EUR 66,737 thousand was used for the payment of dividends (EUR 11,135 thousand through the transfer of shares of the issuer Sava Re d.d., the difference in the amount of EUR 55,602 thousand in cash), the remaining part of the profit for 2018 in the amount EUR 21,471 thousand is allocated to retained earnings.

The dividends were paid out to the sole shareholder, i.e. the Republic of Slovenia, on 24 May 2019.

13 CAPITAL, CAPITAL ADEQUACY AND LEVERAGE RATIO

As at 30 June 2019, the regulatory capital of Abanka totalled EUR 500,481 thousand, which is EUR 11,905 thousand more than at the end of 2018. Within this impact, EUR 10,291 thousand is due to the effect of the transition to IFRS 9 after the approval of the allocation of distributable profit for the financial year 2018 by the General Meeting of Shareholders. As at 30 June 2019, the total risk exposure amount of Abanka totalled EUR 2,158,082 thousand, which is EUR 89,991 thousand more than at the end of 2018. At the same date, the total capital ratio, Tier 1 capital ratio and Common Equity Tier 1 capital ratio of Abanka were 23.19% or 43 basis points less than at the end of 2018.

As at 30 June 2019, the regulatory capital of the Group totalled EUR 500,376 thousand, which is EUR 10,591 thousand more than at the end of 2018. Within this impact, EUR 10,116 thousand is due to the effect of the transition to IFRS 9 after the approval of the allocation of distributable profit for the financial year 2018 by the General Meeting of Shareholders. As at 30 June 2019, the total risk exposure amount of the Group totalled EUR 2,156,204 thousand, which is EUR 87,321 thousand more than at the end of 2018. At the same date, the total capital ratio, Tier 1 capital ratio and Common Equity Tier 1 capital ratio of the Group were 23.21% or 47 basis points less than at the end of 2018.

In accordance with Regulation (EU) No 575/2013 credit institutions shall apply the following own funds requirements from 1 January 2015 further: 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 30 June 2019, the Group's capital adequacy ratios were above the legally required levels. Based on the SREP decision 2018 prepared by the European Central Bank (ECB) in 2019, the Group is required to maintain the overall capital requirement (OCR) for total capital ratio of at least 14.52% and OCR and Pillar 2 guidance for Common Equity Tier 1 capital ratio of at least 13.02%. As at 30 June 2019, the Group exceeded the ECB's minimum capital requirements.

In accordance with Regulation (EU) No 575/2013 credit institutions disclosures related to the leverage ratio shall apply from 1 January 2015 further. The leverage ratio is calculated as a Tier 1 capital measure divided by a total exposure measure and is expressed as a percentage.

As at 30 June 2019, the Tier 1 capital measure of Abanka is the same as the regulatory capital of Abanka. As at 30 June 2019, the total exposure measure of Abanka totalled EUR 4,050,108 thousand, which is EUR 33,397 thousand more than at the end of 2018. At the same date, the leverage ratio of Abanka was 12.36% or 19 basis points more than at the end of 2018.

As at 30 June 2019, the Tier 1 capital measure of the Group is the same as the regulatory capital of the Group. As at 30 June 2019, the total exposure measure of the Group totalled EUR 4,048,312 thousand, which is EUR 29,281 thousand more than at the end of 2018. At the same date, the leverage ratio of the Group was 12.36% or 17 basis points more than at the end of 2018.

(All amounts in EUR thousand unless otherwise stated)

14 CASH FLOW STATEMENT

The indirect method was used to prepare the cash flow statement.

CASH AND CASH EQUIVALENTS

	Abanka		Group	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018
Cash, cash balances with the central bank and other demand deposits with banks	437,829	439,953	437,829	440,045
Treasury bills	8,001	–	8,001	–
Loans to banks	4,311	31,564	4,311	31,564
	450,141	**471,517**	**450,141**	**471,609**

CASH FLOWS FROM INTEREST AND DIVIDENDS

	Abanka		Group	
	1 January – 30 June 2019	1 January – 30 June 2018	1 January – 30 June 2019	1 January – 30 June 2018
Interest paid	2,498	2,425	2,498	2,425
Interest received	48,335	50,322	48,405	51,013
Dividends received	394	898	394	898

OTHER ITEMS IN THE CASH FLOW STATEMENT

In the first half of 2019, other gains from investing activities of the Bank totalling EUR 4,309 thousand and of the Group totalling EUR 4,773 thousand relate to debt securities measured at amortised cost (EUR 4,122 thousand) and non-current assets held for sale (the Bank EUR 187 thousand, the Group EUR 651 thousand).

Other adjustments to total profit or loss before tax of the Group in the first half of 2019 related to net provisions (EUR 8,117 thousand), gains on non-trading financial assets mandatorily at fair value through profit or loss (EUR 2,700 thousand), gains on financial assets and liabilities designated at fair value through profit or loss (EUR 1,748 thousand) and realised losses on derecognition of financial assets at amortised cost (EUR 50 thousand).

Other adjustments to total profit or loss before tax of the Group in the first half of 2018 related to net provisions (EUR 1,123 thousand) and realised losses on derecognition of financial assets at amortised cost (EUR 1 thousand). Other gains from investing activities totalling EUR 4,485 thousand in the first half of 2018 related to financial assets at amortised cost.

15 INCOME TAX

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. The last tax inspection, the subject of which was the corporate income tax for the period 1 January 2009 to 31 December 2014, was completed in January 2018.

The total unused tax loss of the Bank as at 30 June 2019 amounts to EUR 766,288 thousand and for the Group EUR 774,430 thousand. The tax loss can be carried forward indefinitely.

(All amounts in EUR thousand unless otherwise stated)

16 COMMITMENTS AND CONTINGENCIES

a) Capital expenditure commitments

As at 30 June 2019 the Group had capital expenditure commitments in the amount of EUR 718 thousand. In the first half of 2019 there were no significant additions or disposals of property and equipment.

b) Legal proceedings

As at 30 June 2019, 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 15,204 thousand excluding default interest (as at 31 December 2018: EUR 21,712 thousand). Based on the assessment of the likely outcome of disputes, respective provisions were made. Lower provisions for pending legal proceedings are the result of a dispute resolved in favour of the Bank.

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, Austria, France, the United Kingdom, Germany, Switzerland, Croatia, Hungary and Portugal, with the claimant opposing the use of the abovementioned brands in these countries. Proceedings are at various stages and are pending; the Bank is pursuing legal remedies in order to protect its interests. The proceedings in Switzerland, Spain, Germany and Hungary have been concluded, with the court ruling in favour of Abanca Corporacion Bancaria S.A.

c) Credit-related commitments

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	
	30 June 2019	31 December 2018	30 June 2019	31 December 2018
Service guarantees	215,953	215,422	215,545	215,014
Financial guarantees	72,681	50,371	72,680	50,371
Letters of credit	–	34	–	34
Loan commitments	425,575	436,056	425,571	435,251
Derivatives	4,941	3,610	4,941	3,610
Other	1,398	1,673	1,398	1,673
	720,548	**707,166**	**720,135**	**705,953**
Provisions for guarantees and commitments and other provisions:				
– provisions for guarantees and commitments (Note 7)	(15,842)	(14,923)	(15,842)	(14,923)
– provisions for undrawn portion of loans measured at fair value	(533)	(2,281)	(533)	(2,281)
	704,173	**689,962**	**703,760**	**688,749**

(All amounts in EUR thousand unless otherwise stated)

17 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: 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).

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 reported period and related expenses and income for the reported period are as follows:

TRANSACTIONS WITH RELATED PARTIES OF THE BANK

	Subsidiaries		Key management personnel		Other related companies	
Type of related party	**30 June 2019**	**31 December 2018**	**30 June 2019**	**31 December 2018**	**30 June 2019**	**31 December 2018**
Financial assets						
Loans	7,323	8,832	344	243	–	–
Equity securities						
– investments in subsidiaries	8,278	8,278	–	–	–	–
Financial liabilities						
Deposits	2,133	769	1,258	1,056	220	7
Loans from non-bank customers	–	–	–	–	–	–
Other financial liabilities	44	–	–	–	–	–
Off-balance sheet records						
Nominal amount of loan commitments and financial guarantees issued	413	1,213	53	51	–	–
Allowances for impairment losses on financial assets	–	–	–	–	–	–
Provisions for guarantees and commitments	–	–	–	–	–	–

Type of related party	Subsidiaries		Key management personnel		Other related companies	
	1 January – 30 June 2019	1 January – 30 June 2018	1 January – 30 June 2019	1 January – 30 June 2018	1 January – 30 June 2019	1 January – 30 June 2018
Interest income	74	337	3	2	–	–
Interest expenses	–	–	–	1	–	–
Fee and commission income	6	3	1	1	–	–
Net other operating income	25	56	–	–	–	–
Administrative expenses	146	192	–	–	–	–
(Impairment)/reversal of impairment of financial assets	(8)	43	–	–	–	–
Income on provisions for guarantees and commitments	–	–	–	–	–	–

TRANSACTIONS WITH RELATED PARTIES OF THE GROUP

Type of related party	Key management personnel		Other related companies	
	30 June 2019	31 December 2018	30 June 2019	31 December 2018
Financial assets				
Loans	346	245	–	–
Financial liabilities				
Deposits	1,368	1,155	220	7
Off-balance sheet records				
Nominal amount of loan commitments and financial guarantees issued	55	53	–	–

Type of related party	Key management personnel		Other related companies	
	1 January – 30 June 2019	1 January – 30 June 2018	1 January – 30 June 2019	1 January – 30 June 2018
Interest income	3	2	–	–
Interest expenses	–	1	–	–
Fee and commission income	1	1	–	–

As at 30 June 2019, the Bank's financial assets at amortised cost included debt securities of the Republic of Slovenia in the amount of EUR 346,029 thousand (31 December 2018: EUR 350,344 thousand) and other financial assets in the amount of EUR 19 thousand (31 December 2018: –), while the Bank's financial assets at fair value through other comprehensive income included debt securities of the Republic of Slovenia in the amount of EUR 17,443 thousand (31 December 2018: EUR 29,550 thousand).

Interest income from the above transactions totalled EUR 2,664 thousand in the first half of 2019 (first half of 2018: EUR 3,649 thousand), while fee and commission income totalled EUR 80 thousand in the same period (first half of 2018: EUR 40 thousand). In the first half of 2019, net gains from trading with debt securities reached EUR 21 thousand (first half of 2018: EUR 331 thousand).

The Bank also has contractual relations with state-related companies.

Individually significant transactions with state-related companies include given and received long-term loans and deposits. As at 30 June 2019, individually significant given long-term loans totalled EUR 208,354 thousand (4 contracts) (31 December 2018: 3 contracts amounting to EUR 211,248 thousand), received long-term loans EUR 55,128 thousand (4 contracts) (31

December 2018: 5 contracts amounting to EUR 68,718 thousand) and received deposits EUR 68,986 thousand (3 contracts) (31 December 2018: 1 contract amounting to EUR 40,168 thousand).

As at 30 June 2019, the remaining (individually insignificant) given long-term loans totalled EUR 29,208 thousand (31 December 2018: EUR 39,605 thousand), received long-term loans EUR 38,803 thousand (31 December 2018: EUR 32,211 thousand) and received deposits EUR 17,662 thousand (31 December 2018: EUR 26,943 thousand).

In the first half of 2019, interest income from transactions with state-related companies amounted to EUR 947 thousand (first half of 2018: EUR 1,269 thousand), while interest expenses totalled EUR 856 thousand (first half of 2018: EUR 815 thousand).

18 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 and the impact of inter-company transactions.

The results by business segment are affected by the opportunity interest rate system. The system is based on alternative/opportunity interest rates, which are determined for all material interest-bearing assets and liabilities items at a contract level. Opportunity interest rates are the basis for calculating opportunity interest margins, both for the individual segments of assets as the difference between earned income and opportunity income as well as for the individual segments of liabilities as the difference between opportunity expenses and incurred expenses. Positive or negative opportunity interest margins are the basis for determining positive and negative contributions to the performance results of individual business segments. Maturity transformation as the difference between opportunity income and expenses is disclosed in the “other” segment (as the result of asset-liability maturity mismatch).

The results of the business segments are also affected by the transactions between the business segments for the purpose of intra-company accounting of income effects. These transactions are made on the basis of an agreed and harmonised set of instruments to account for the transfer of various effects (internal transfers/allocation of indirect costs by business segment, debiting overheads to commercial segments, internal transfers of income effects among 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 segments are reported to the Management Board of the Bank.

(All amounts in EUR thousand unless otherwise stated)

PRIMARY SEGMENT INFORMATION OF THE GROUP

As at 30 June 2019	Retail banking (retail customers and sole proprietors)	Corporate banking	Financial markets	Other[3]	Total
External net income[1]	25,997	19,453	3,814	1,106	50,370
Revenues from other segments	–	–	–	–	–
Segment result	5,175	5,140	1,661	17,104	29,080
Operating profit					29,080
Profit before tax					29,080
Income tax					(2,755)
Net profit for the period					**26,325**
Segment assets	964,161	1,114,106	1,558,441	118,717	3,755,425
Investment in a subsidiary	–	–	8,278	(8,278)	–
Total assets					**3,755,425**
Segment liabilities	2,255,945	729,774	179,395	45,639	3,210,753
Total liabilities					**3,210,753**
Other segment items					
Capital expenditure[2]	103	8	23	1,385	1,519
Depreciation and amortisation	816	119	23	2,972	3,930
Net release/(charge) of impairments and provisions	1,326	(4,938)	94	9,081	5,563
[1]Including:					
– interest income	15,824	12,253	5,258	(3)	33,332
– interest expenses	(857)	(220)	(2,501)	(7)	(3,585)
– dividend income	–	–	394	–	394
– fee and commission income	14,119	10,653	926	2,082	27,780
– fee and commission expenses	(3,089)	(3,233)	(263)	(966)	(7,551)

[2] Capital expenditure relates to the purchases of tangible and intangible assets in the current business year.
[3] The result of the “Other” segment is largely represented by maturity transformation, which is not divided among profit segments.

(All amounts in EUR thousand unless otherwise stated)

PRIMARY SEGMENT INFORMATION OF THE GROUP

As at 30 June 2018	**Retail banking** (retail customers and sole proprietors)	**Corporate banking**	**Financial markets**	**Other**[3]	**Total**
External net income[1]	23,635	19,443	4,972	1,235	49,285
Revenues from other segments	–	–	–	–	–
Segment result	445	32,512	2,573	7,232	42,762
Operating profit					42,762
Profit before tax					42,762
Income tax					(3,889)
Net profit for the period					**38,873**
Segment assets	917,700	1,106,048	1,635,641	48,175	3,707,564
Investment in a subsidiary	–	–	8,278	(8,278)	–
Total assets					**3,707,564**
Segment liabilities	2,120,981	759,692	234,953	34,219	3,149,845
Total liabilities					**3,149,845**
Other segment items					
Capital expenditure[2]	112	12	1	4,665	4,790
Depreciation and amortisation	995	149	25	2,779	3,948
Net release/(charge) of impairments and provisions	516	13,917	(57)	(551)	13,825
[1]**Including:**					
– interest income	14,297	12,615	5,895	437	33,244
– interest expenses	(1,047)	(234)	(2,051)	(13)	(3,345)
– dividend income	–	–	898	–	898
– fee and commission income	13,985	10,164	594	865	25,608
– fee and commission expenses	(3,600)	(3,102)	(364)	(54)	(7,120)

[2] Capital expenditure relates to the purchases of tangible and intangible assets in the current business year.
[3] The result of the “Other” segment is largely represented by maturity transformation, which is not divided among profit segments.

19 SEASONALITY OR CYCLICALITY OF INTERIM OPERATIONS

The Group does not generate any seasonal or cyclical income, nor does it usually have any significant one-off income. The interim financial statement are prepared using the same accounting policy for deferring expenses that will be used at the year end.

20 THE NATURE AND AMOUNT OF UNUSUAL ITEMS

In the first half of 2019 there were no unusual items that, in terms of their nature, scope or occurrence, could have an impact on assets, debts, capital, net profit or loss or cash flow.

21 EVENTS AFTER THE REPORTING DATE

No material events occurred after the reporting date that would require additional disclosures or corrections of the presented condensed financial statements.